



Annual Report and Accounts  
for the year ended 30 June 2019

# SUSTAINING GROWTH THROUGH EXPERTISE

Company Number: 3369634



# About Dechra Pharmaceuticals PLC

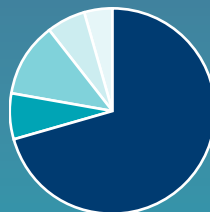
Dechra is a global **specialist** veterinary pharmaceuticals and related products business. Our expertise is in the **development, manufacture, and sales and marketing** of **high quality products** exclusively for veterinarians worldwide.

It is our mission to develop products sustainably to **improve the welfare of animals globally**.

## Our Products

Our products can be divided into four categories: Companion Animal Products (CAP), Food producing Animal Products (FAP), Equine, and Nutrition. All are targeted at providing veterinary professionals with solutions for their customers' needs.

## Revenue Split by Product



● CAP	70.7%
● Equine	7.1%
● FAP	11.9%
● Nutrition	6.0%
● Other	4.3%

### Companion Animal Products (CAP)

**Species:** Dogs and cats.

#### Key therapeutic sectors:

Endocrinology, dermatology, analgesia and anaesthesia, antibiotics, cardiovascular and critical care.



### Food producing Animal Products (FAP)

**Species:** Poultry, pigs and an increasing presence in cattle.

**Key therapeutic sectors:** Water soluble antibiotics, poultry vaccines, locomotion (lameness) and pain management.



### Equine

**Species:** Horses and ponies.

**Key therapeutic sectors:** Lameness and pain management.



### Nutrition

**Species:** Dogs and cats.

**Key therapeutic sectors:** Supporting the wellbeing of cats and dogs with numerous therapeutic conditions, such as allergies, obesity, heart and kidney disease.



## Our Product Pipeline

A key strategic priority for the Group is the delivery and strength of the pipeline. We currently have 56 projects in the product development process.

① Feasibility 12



② Research 16



③ Development 19



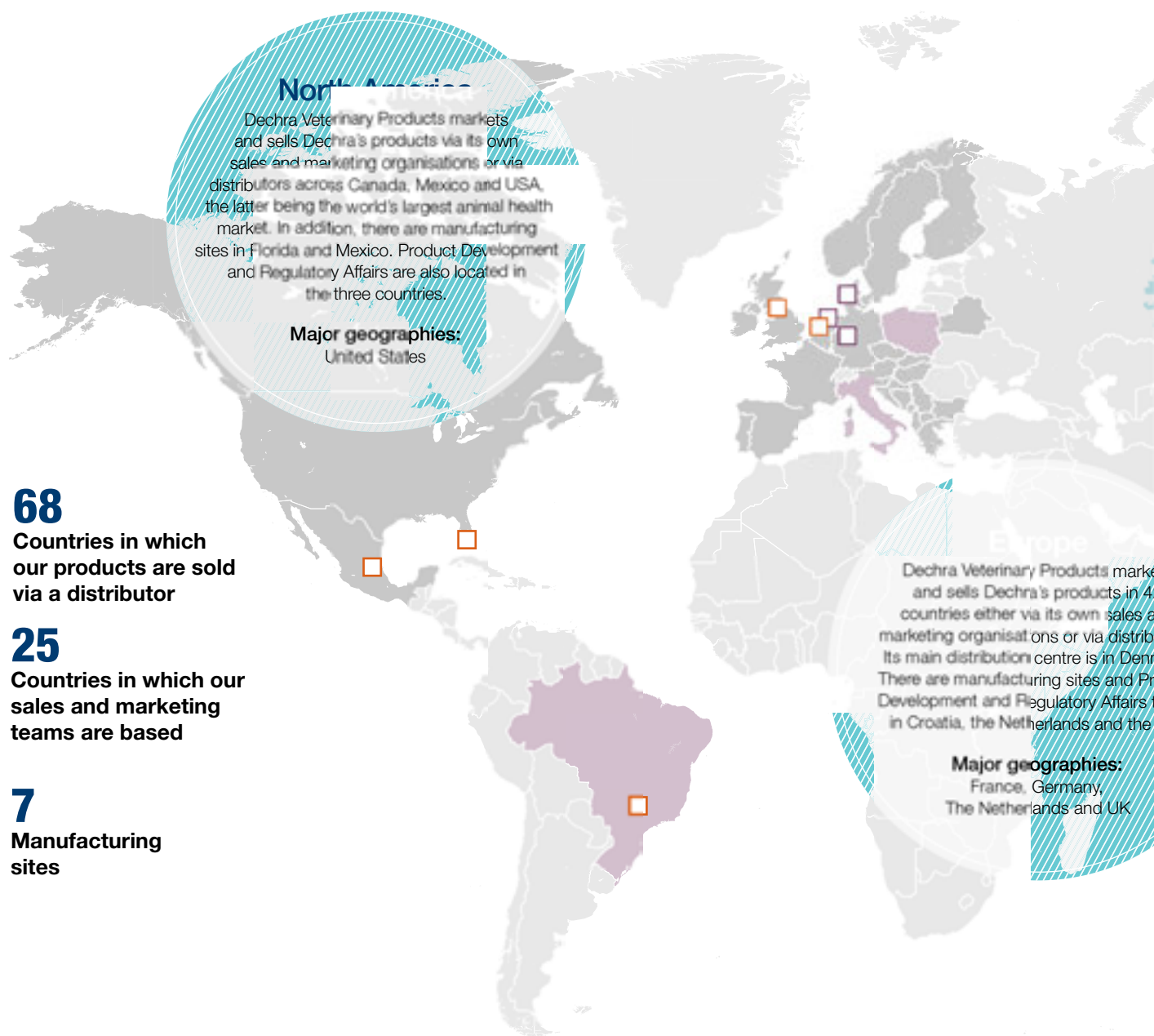
④ Registration 9



➔ Read more about our **Product Development** on pages 40 to 43

# Growing Our Geographical Footprint

We currently have sales and marketing organisations in 25 countries and market our products in 68 other countries worldwide through distributors or marketing partners.



**68**

**Countries in which our products are sold via a distributor**

**25**

**Countries in which our sales and marketing teams are based**

**7**

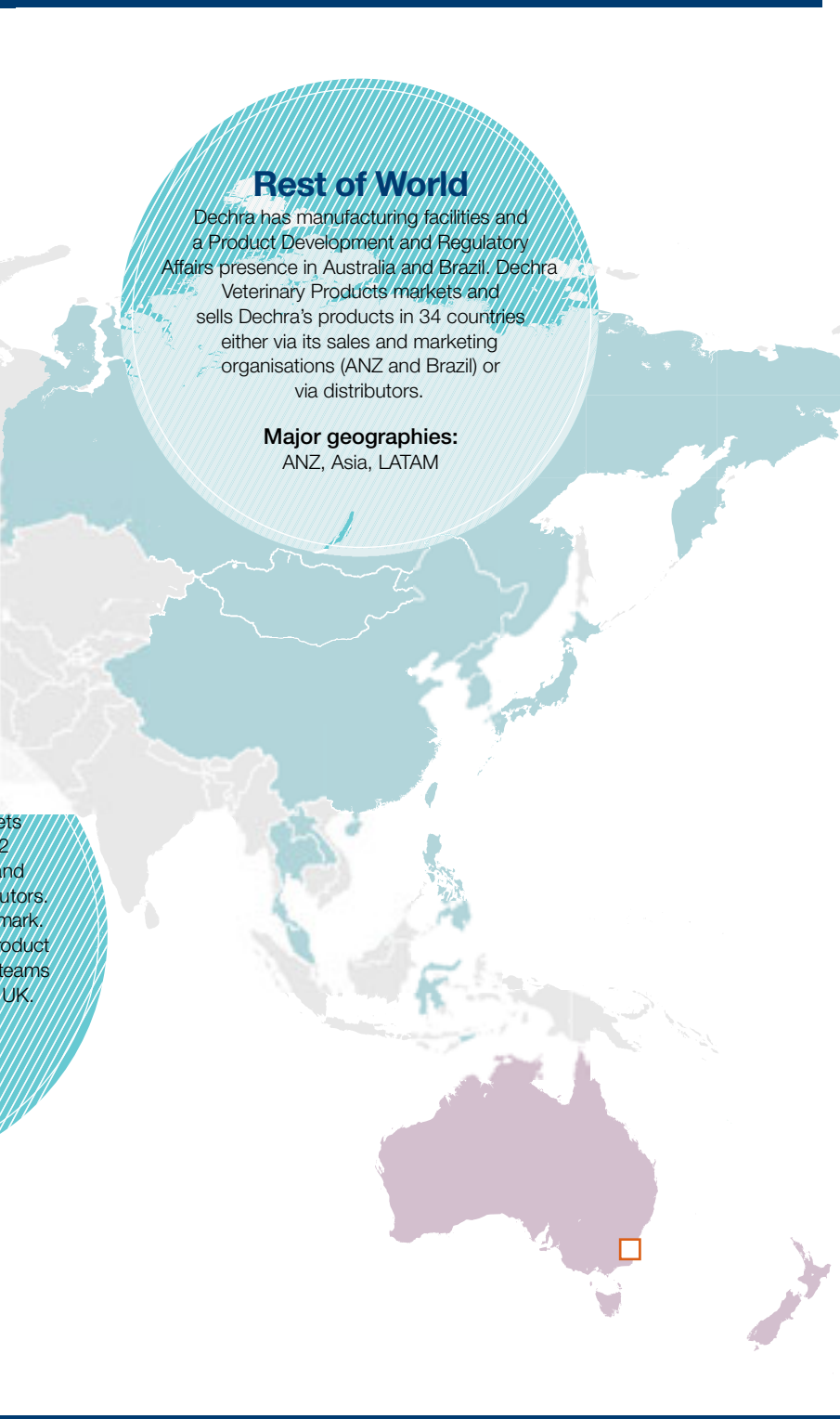
**Manufacturing sites**

## Key to Map

- |   |   |
|---|---|
|  Manufacturing Sites |  Established Markets (Sales and Marketing) |
|  Logistics Sites     |  Developing Markets (Sales and Marketing)  |
|   |  Emerging Markets (Distribution Partners)  |

## Forward-Looking Statements

This document contains certain forward-looking statements. The forward-looking statements reflect the knowledge and information available to the Company during preparation and up to the publication of this document. By their very nature, these statements depend upon circumstances and relate to events that may occur in the future and thereby involve a degree of uncertainty. Therefore, nothing in this document should be construed as a profit forecast by the Company.



### Rest of World

Dechra has manufacturing facilities and a Product Development and Regulatory Affairs presence in Australia and Brazil. Dechra Veterinary Products markets and sells Dechra's products in 34 countries either via its sales and marketing organisations (ANZ and Brazil) or via distributors.

**Major geographies:**  
ANZ, Asia, LATAM

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2  
and  
utors.  
mark.  
product  
teams  
UK.

### Global Market Opportunity

Dechra is underweight in geographical diversity compared to the wider market.

### Dechra – Group Revenue by Region



Revenue  
**£481.8m**

Growth  
**18.3%**

2018 to 2019

- North America 36.3%
- Europe 55.6%
- Rest of World 8.1%

### Our strategic growth drivers ensure sustainable growth

Pipeline  
Delivery



Portfolio  
Focus



Geographical  
Expansion



Acquisition



➔ Read more about **Our Strategy** on pages 16 to 19

➔ Read more about **Our Marketplace** on pages 8 to 10

# Dechra's Strengths

# 1

## Market Leading Positions

We are a global leader in veterinary endocrinology and topical dermatology, have the broadest portfolio of pain and analgesia pharmaceuticals, and we are also recognised as innovators in other specialisations such as equine lameness, nutrition and differentiated generics (generic plus).

# 2

## Well Recognised Brand

We are recognised as a global animal healthcare company with a strong and growing reputation as a provider of high quality, specialist veterinary medicines and related products.

# 3

## Expertise in Key Therapeutic Areas

We support our customers in our key therapeutic areas with technical helplines, continued education through online learning, webinars and lectures by key opinion leaders.

→ Read more in the **Corporate Social Responsibility** report on pages 46 to 61

# 4

## Balance Sheet Strength/Group's Cash Generative Power

The Group targets 100% cash generation and this strong cash generation allows us to pay down debt quickly, resulting in a strong balance sheet which enables us to fund internally the majority of our strategic opportunities.

# 5

## Successful Acquisition History

In January 2008 we made our first major acquisition which, at the time, was transformational to our EU Pharmaceuticals business. We have successfully replicated the model since then on several occasions and have consistently delivered pre-acquisition strategic and financial expectations on significant transactions.

# 6

## New Product Development Pipeline

We have a strong pipeline of novel pharmaceuticals, generic pharmaceuticals and a specialist nutrition range with a track record of pipeline delivery. We are proactive in recognising and bringing new development opportunities into the portfolio.

→ Read more on **New Product Development** on pages 42 and 43

# 7

## Manufacturing

Our manufacturing sites offer a wide range of dosage forms and packaging capabilities which can be produced in small to large-scale production batches. This flexibility is a key requirement in producing our varied product portfolio.

# 8

## Skilled People

We have attracted and retained a qualified and skilled workforce throughout the organisation. This stable and motivated team has many years' experience within the markets we serve. Our people strategy is underpinned by the Dechra Values.

→ Read more in **Our Business Model** on pages 12 to 14

# 9

## Key Relationships

Our relationships with all key stakeholders are very important to the Group. Our sales approach revolves around partnership with key practice groups, individual veterinarians, key opinion leaders and distributors. The relationship with our supply chain partners is also important to establish continuity of supply. Furthermore, our networking within the industry is a key driver in finding new product development and acquisition opportunities.

# 10

## Our Global Footprint

Our historic strength was developing a strong position in the key companion animal markets of Western Europe and North America. However, over recent years we have extended our geographical footprint through greenfield start ups and acquisition in targeted new countries. We are also looking to further extend our footprint, as international expansion is one of our four key strategic objectives.

# Highlights

## Financial Performance

- Revenue growth of 17.5% to £481.8 million.
- Underlying operating profit growth of 27.3% to £127.4 million.
- Underlying EBIT margin expansion of 200 bps to 26.4%.
- Underlying diluted EPS increased by 16.6% to 90.01 pence.
- Reported operating profit growth of 13.5%.
- Full year dividend increased by 23.9% to 31.60 pence.

All of the above measures are at CER unless otherwise stated.

→ Read the **Financial Review** on pages 25 to 31

## Strategic Progress

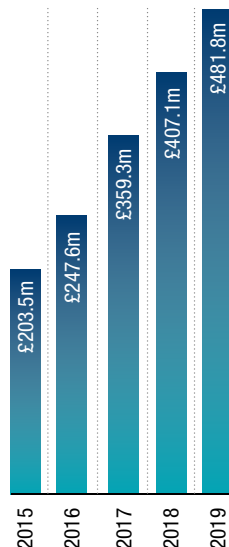
- Recent acquisitions performing ahead of expectations.
- CAP outperformance in all key markets;
- FAP growth continuing.
- Numerous product registrations achieved, and new development opportunities secured.

→ Read about **Our Strategy** on pages 16 to 19

### Total Revenue

**£481.8m**

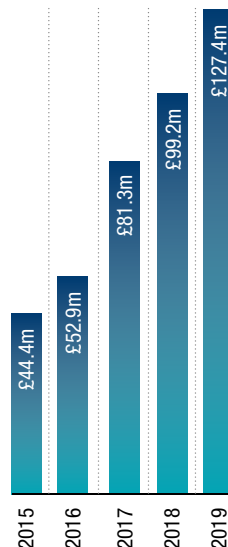
2018: £407.1m  
AER: +18.3% CER: +17.5%



### Underlying Operating Profit

**£127.4m**

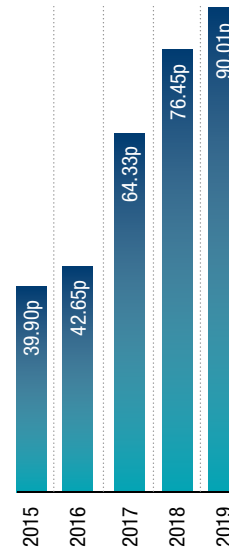
2018: £99.2m  
AER: +28.4% CER: +27.3%



### Underlying Diluted Earnings Per Share

**90.01p**

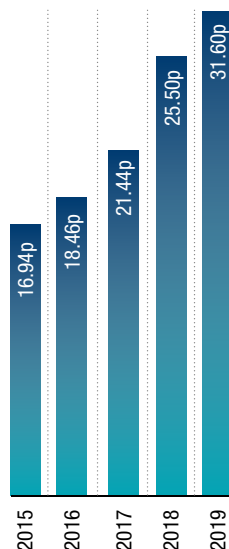
2018: 76.45p  
AER: +17.7% CER: +16.6%



### Dividend Per Share

**31.60p**

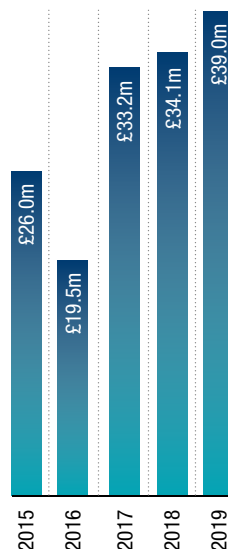
2018: 25.50p  
AER: +23.9% CER: +23.9%



### Reported Operating Profit

**£39.0m**

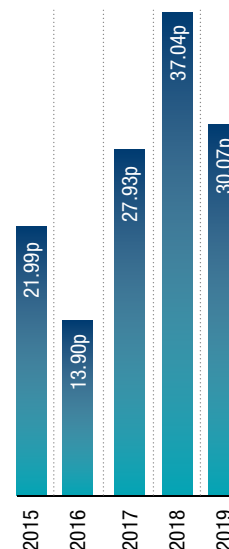
2018: £34.1m  
AER: +14.4% CER: +13.5%



### Reported Diluted Earnings Per Share

**30.07p**

2018: 37.04p  
AER: (18.8%) CER: (19.6%)



CER is defined as Constant Exchange Rate against prior year, whilst £ is at reported, Actual Exchange Rate (AER). A reconciliation of underlying to reported measures can be found on page 26.

# Chairman's View



“

We continued to execute our strategy in relation to our pipeline delivery, portfolio focus, geographic expansion and acquisition.

”

**Tony Rice**  
Non-Executive Chairman

Welcome to the 2019 Annual Report in which you will read about another year of strategic and financial progress across the business.

Summarising the year, I can report that the business has delivered a strong performance as we continued to execute our strategy in relation to our pipeline delivery, portfolio focus, geographic expansion and acquisition.

The Board is confident in the long term prospects of the global animal health market. We see Companion Animal Products (CAP) continuing to be the main driver of growth, although we are encouraged by the opportunity that Equine and Food producing Animal Products (FAP) offer. We have strengthened our product development portfolio to which we expect to add further products to and global registrations over the coming years.

As the Group continues to go from strength to strength, I take this opportunity on behalf of all stakeholders, to sincerely thank all our people (who now total 1,753 working across 25 countries) for their ongoing commitment and dedication which continues to underpin the success of Dechra.

More detail can be read as part of the Strategic Report that follows my letter. I hope that you will find this document interesting and informative and, as always, we welcome feedback or questions from shareholders.

We look forward to keeping you and the market updated on our positive progress over the coming year.

**Tony Rice**  
Non-Executive Chairman

→ Read about our **Corporate Governance** on pages 70 to 82

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# STRATEGIC REPORT

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**CLEAR  
STRATEGIC  
FOCUS AND  
CONSISTENT  
DELIVERY**

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# Our Marketplace

## Global Market Dynamics

### The Animal Health Market

Animal health is generally described as comprising two segments: Food producing Animal Products (FAP) and Companion Animal Products (CAP). FAP continues to show global growth due to an increased demand for high quality protein production, whereas CAP growth (a sector in which horses are generally included) is driven by the pet owners' compassion for their animals, improved nutrition and a wider range of medical products and treatments.

**c.£33.5bn**      **+3%**

Market Size

Real Market Growth

Source: Vetnosis Health for Animals (2018)

### The Animal Health Market by Species



● CAP/Other      38%  
● FAP              62%

Source: Vetnosis Health for Animals (2018)

### Market Share by Competitor



● Zoetis              17.39%      ● Bayer Animal Health      5.29%  
● Boehringer Ingelheim      13.96%      ● Ceva Sante Animal      4.05%  
● Merck              12.57%      ● Virbac              3.06%  
● Elanco              9.16%      ● Phibro Animal Health      2.45%  
● Idexx Laboratories      16.17%      ● Dechra              1.64%

### Our Position in the Animal Health Market

There are few international businesses in our market, five of which have 59.2% of the world's market share. Dechra's objective is to continue to outperform the market, increasing its market share, through the execution of its strategy.

### Animal Pharmaceuticals vs. Human Pharmaceuticals

The business of developing and marketing animal pharmaceuticals shares a number of characteristics with human pharmaceutical businesses. These similarities include the need to conduct clinical trials to prove product safety and efficacy, obtain regulatory approval for new products, adhere to complex and highly regulated product manufacturing, and market products based on approved clinical claims. However, there are also significant differences between animal and human pharmaceutical businesses, including:

- **Product development is generally faster, cheaper, more predictable and sustainable:** Development of animal medicines typically requires fewer clinical studies with fewer subjects and is conducted directly in the target species. Decisions on product safety, efficacy and likelihood of success can therefore be made more quickly.
- **Diversified product portfolios:** Animal pharmaceutical 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.
- **Stronger customer relationships and brand loyalty:** Companion Animal Products are directly prescribed and often dispensed and sold by veterinarians helping to build brand loyalty, which often continues after the loss of patent protection or regulatory exclusivity.
- **Lower pricing pressure:** Livestock producers and pet owners generally pay for animal healthcare themselves. Pricing decisions are not influenced by government payors that are involved in product and pricing decisions for human medicines.
- **Less price erosion by generic competition:** Generic competition in animal healthcare, whilst playing an important role, has a lower impact on prices compared to human pharmaceuticals because of the smaller average market size of each product opportunity, stronger customer relationships and brand loyalty.



### Types of veterinary practices

The majority of our sales are made into veterinary practices that tend to specialise in either companion animal or food producing animal treatment; however, there are numerous practices that are classified as mixed and who service all species.

There is also an increasing number of equine practices and referral hospitals that provide high levels of specialisation.

The veterinary profession is going through huge change as incorporated practice groups are consolidating practices at an increasing rate.

With the ongoing integration of professional farming units, our FAP sales efforts are now often focused on these major integrators; however, the integrators themselves employ veterinarians who remain responsible for the prescribing and administration of our products.

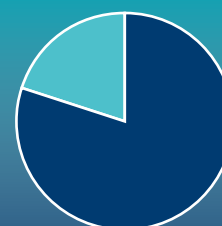
### Veterinary practices – Europe



○ Independents	58%
○ Buying Groups	27%
○ Corporates	15%

Source: DVP EU Sales Data March 2019

### Veterinary practices – North America



○ Independents	80%
○ Corporates	20%

Source: Cleveland Research 30 June 2019

## Key Trends and Our Response

**1 Recent market trend:** The development of Covetrus in the USA reflects the recent trend of the distributors looking to change their historic veterinary supply route to provide a direct to consumer (dog and cat owner) model.

### Our response

The final route to the pet owner is not a major issue to Dechra. Our products are predominantly Prescription Only Medicines (POMs), so our ultimate partner in the supply chain will remain the veterinarian who will continue to write a prescription. Through education, technical support and innovation we endeavour to ensure that the prescription continues to be for a Dechra brand.

**2 Ongoing market trend:** The veterinary profession has been going through a period of change for several years as incorporated practice groups are consolidating practices at an increasing rate.

### Our response

Our relationship with these groups is very important; we are increasingly focused on key account management. We have modified our sales and marketing approach to focus on building relationships with our corporate and buying group customers and to understand better their needs and expectations. We have dedicated corporate account teams in Europe and North America.

**3 Ongoing market trend:** We have seen growth in the companion animal market for many years due to veterinarians' capabilities, improved nutrition, increased longevity of pets and the owner's willingness to continue to increase spending on pets. This trend has historically been in Western Europe, North America and other selected markets; however, in the developing world we are now seeing the status of pets increase, creating new markets.

### Our response

We will continue to innovate in specialist medicine and increase our portfolio in our key areas of therapeutic specialisations. We are also expanding our geographical footprint and investing money in product registration in new developing markets.

**4 Long term market trend:** With the global increase in the population and the improvement in developing countries' economies, there is a huge increase in demand for high quality poultry and fish protein.

### Our response

We are consistently strengthening our FAP business both with new products and by international expansion. We are enhancing our range which includes our market leading pig and poultry water soluble antibiotics with vaccines and are increasing our registration activity to obtain marketing authorisations in new markets. We also own the global marketing rights to Animal Ethics' ethical pain treatment for farm animals, Tri-Solfer®, which we are registering for sheep, cattle and pigs in numerous global markets.

# Our Marketplace

continued

## Product Market Dynamics

Our products can be divided into four categories: Companion Animal Products (CAP), Food producing Animal Products (FAP), Equine, and Nutrition. All are targeted at providing veterinary professionals with solutions for their customers' needs.

### CAP

# 70.7%

% of Group Revenue

**Species:** Dogs and cats

**Key therapeutic sectors:** Endocrinology, dermatology, analgesia and anaesthesia, cardiovascular and critical care.

**Products:** The majority of products in our portfolio are Prescription Only Medicines (POMs); prescribed, administered and dispensed by veterinarians working in companion animal practices. We also have a range of associated non-prescription products which complement the licensed pharmaceuticals, such as ear cleaners, dermatologically active shampoos and other topical and nutritional supplements.

#### Market Description

The principal driver of growth in companion animal markets is the pet owners' compassion for their animals. The market has historically been orientated around developed countries such as Western Europe, North America, Australia and Japan. However, with increasing wealth in several developing regions, the companion animal market is now also expanding.

#### Key Trends Shaping our Markets

Expenditure on companion animals continues to grow due to increasing pet ownership, advances in better nutrition, increased competence in managing complex conditions

by veterinarians, preventative healthcare and wellness and by increasing availability of more specialist pharmaceuticals.

#### Our Market Position

This is the basis upon which Dechra established its market position and continues to be our strongest sector. Dechra has developed a strong position in providing specialist and clinically necessary novel products. We also supply a range of products which complement these products in key therapeutic sectors where we are seen as the company of choice by many veterinarians.



### FAP

# 11.9%

% of Group Revenue

**Species:** Poultry, pigs and an increasing presence in cattle.

**Key therapeutic sectors:** Water soluble antibiotics, poultry vaccines, locomotion (lameness) and pain management.

**Products:** Our products are predominately POMs that are prescribed by veterinarians who work in either specialist veterinary practices or professional farming units.

#### Market Description

As over 60% of all global animal health sales are FAP, Dechra is underweight relative to the market and our competitors and it is an increasing area of focus.

#### Key Trends Shaping our Markets

The key driver for growth in this sector is a huge increase in the global demand for high quality animal protein and dairy products. Vaccines are the biggest growth sector of the veterinary market and are anticipated to continue to outgrow therapeutic treatments.

There is also a growing awareness to the need for better animal welfare standards, including pain control during procedures such as pig castration and tail docking.

#### Our Market Position

Dechra entered the FAP sector through the acquisition of Eurovet in 2012; it currently represents 11.9% of revenue. The majority of our sales are currently antibiotics which are sold mainly into Western Europe. This market has been extremely proactive over the last five years in reducing antibiotic use due to concerns over antimicrobial resistance and 'super bugs'.

Dechra's portfolio is positioned to match current best practice prescribing habits; additionally, our recent move into poultry vaccines should provide growth opportunities in future years as we seek global registrations.



## Equine

# 7.1%

% of Group Revenue

**Species:** Horses and ponies.

**Key therapeutic sectors:** Lameness and pain management.

**Products:** Dechra offers a wide range of products supporting the equine veterinarian, from pain management to products for anaesthesia, dermatology, critical care, reproduction and euthanasia.

### Market Description

Veterinarians that specialise in horses operate out of either mixed practices or, increasingly, specialist equine centres. The horse is classed as a minor species as there are relatively few of them, even in major countries such as the USA where current estimates are only seven million and the UK at approximately one million. The market can be divided roughly into performance sports horses and leisure horses and ponies.

### Key Trends Shaping our Markets

The market is variable and can be linked to the economy; however, high value sports horses will be treated at almost any cost.

### Our Market Position

This is a sector in which few animal health companies specialise due to the relatively small number of horses in the world and the fact that in the majority of European countries the horse is classed as a food producing species which adds complexity to the licensing process.

Dechra has developed a strong position in lameness and pain management with unique products that have superior efficacy compared to historic treatments.



## Nutrition

# 6.0%

% of Group Revenue

**Species:** Dogs and cats.

**Key therapeutic sectors:** Our pet diets are available to support the wellbeing of cats and dogs with numerous therapeutic conditions.

**Products:** Our range of pet foods is predominantly focused on high quality nutrition to support therapeutic conditions in dogs and cats such as allergies, joint disorders, obesity, heart and kidney disease.

### Market Description

Premium quality products for both everyday pet nutrition and special therapy needs sold through veterinary channels.

### Key Trends Shaping our Markets

Expenditure on companion animals continues to grow due to increasing pet ownership, advances in nutrition, increased competence in managing complex conditions by veterinarians, preventative healthcare and wellness and by increasing availability of more specialist diets.

### Our Market Position

Dechra's focus is predominantly therapeutic diets which are not available for self-selection through supermarkets, and require advice from the veterinarian. There are very few competitors in this specialist sector of the pet food market and although we compete with huge global multinational companies, we are able to differentiate our position through the use of higher quality ingredients and through innovation.

The ability to offer our wide range of products, branded Specific®, is necessary to remain competitive in this sector.



# Our Business Model

Our objectives are to innovate, develop, register, manufacture, sell and market high quality products to the veterinary profession worldwide. We also offer high levels of service, technical support and educational training to promote the Dechra brand and to develop a strong relationship with, and be recognised as an important partner to, veterinarians.

## 1 Our Key Resources and Relationships

### Values

Our culture and Values are important and have helped drive the Group's success.



### People

Our people strategy underpins everything we do in the business. We have a well defined plan to build talent, develop people and strengthen the Dechra culture.

### Relationships and Partnerships

Our sales approach revolves around partnerships with key practice groups, individual veterinarians, key opinion leaders and distributors. The relationship with our supply chain partners is also important to establish continuity of supply.

### Financial Resources

Our strong cash generation allows us to pay down debt quickly, resulting in a strong balance sheet which allows us to fund internally the majority of our strategic opportunities.



### Technology

We are implementing a strong technology platform to enable us to operate efficiently. We also offer CPD training via our e-learning system to veterinarians and veterinary nurses.

→ Read **Corporate Social Responsibility** on pages 46 to 61

### Strategic Enablers



Technology



People



Manufacturing and Supply Chain

→ Read **Delivering Our Strategy** on pages 16 to 19

## 2 Innovation, Development and Registration

### Product Development Portfolio



→ Read more about our **Product Development** on pages 40 to 43

Product development ideas are generated in numerous ways, including:

- regular cross functional meetings where all senior staff are encouraged to bring new ideas from their experience in the marketplace;
- networking with key opinion leaders, especially in our focus therapeutic areas, to identify and develop ideas; and
- employing talented veterinary scientists who extensively screen scientific papers looking for new technologies that might have an application in our marketplace.

In addition, our profile gives us exposure to human pharmaceutical and biotech companies that are developing technologies, usually for human medicine, but often with a veterinary application. We spread our development portfolio across novel entities, differentiated generics, generics and lifecycle management projects across multiple species.

Our formulation and development laboratories are located at our manufacturing sites which allows manufacturing and product development to work closely together to scale up to commercial production, which is a key expertise for in-house product development. After opportunities have been identified we have an evaluation phase where we assess opportunities and ideas to determine whether we can technically manufacture the product and whether it is commercially viable to do so. Once a product has been classed as suitable for development it will be allocated to an internal development team who will be responsible for taking the product all the way through feasibility, research and development to regulatory submission. Once all the studies are concluded, if the product reaches the required safety, efficacy and stable chemical criteria, regulatory dossiers are prepared for registration and filing with the relevant regulatory authorities.

→ Read **Pipeline Delivery Case Study** on page 35

### 3 Manufacturing →

#### Range of competencies

Tablets and Capsules	Creams	Liquids	Ointments
Powders	Vaccines	Sterile Injections	



Manufacturing is a key competency of the Group; the prime objective is to deliver safe, efficacious, cost-effective, quality products. Veterinary products come in many dosage forms, and often, batch runs for veterinary medicines are relatively small compared to human production; therefore outsourcing can prove difficult and expensive. We have a wide range of competencies across our seven sites including tablets, creams, liquids, ointments, powders, vaccines and sterile injections that can be packed in a multitude of different presentations.

We do however outsource approximately 50% of our products. There are numerous active pharmaceutical ingredient types and dosage forms that we are unable to manufacture in-house and we also have numerous historical long term supply agreements with contract manufacturing organisations (CMO) which have been evolved due to historic agreements with businesses we have acquired. Therefore our CMO network is an important part of our business.



### 4 Supply Chain →



Our products are distributed to wholesalers and distributors through two major logistics sites. Our European and International markets are serviced from our own logistics facility based in Uldum, Denmark, and North America is supplied out of a third party logistics supplier in Kentucky. The principal objective is to deliver a customer's order on time and in full every time.

The majority of veterinary practices are supplied through specialised veterinary distribution companies that operate as one-stop shops. They stock the majority of items veterinary practices need and offer high levels of service, often with a next day delivery. These distributors, on the whole, are not proactive in selling product; they predominantly supply to demand where the demand is driven by Dechra's own sales activities within veterinary practices. There are a few markets where we offer direct supply, such as Germany and the Netherlands that are not fully supported by veterinary distributors or where legislation enforces all pharmaceuticals to be sold through pharmacies, such as Denmark, Italy, Norway and Sweden.



## 5 — Our Customers



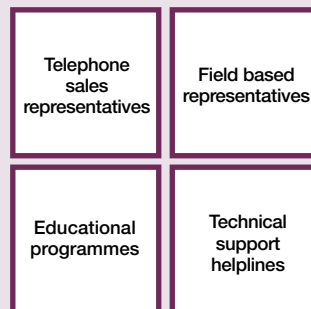
All of our products and sales and marketing activities are targeted at veterinary professionals. The majority of veterinarians prescribe and dispense the drugs, although there are a few territories in the world where the veterinarian writes a prescription and the drugs are purchased by the animal owner at a pharmacy.

The majority of our products are POMs, however we have a range of complementary non-prescription products. Our product range includes both novel and generic products in key therapeutic areas, in particular endocrinology, and anaesthesia and analgesia.



## ← Sales and Marketing — 6

### Generating Demand for our Customers



Dechra operates its own sales force and provides in-house marketing and technical support in 25 countries, predominantly in Europe and North America. In almost all these countries we have highly skilled field based representatives who make regular calls with all major veterinary practices. The representatives' brief is to sell the product on a technical basis, outlining the beneficial aspects of our products and to provide educational support on how best to treat animals in our key therapeutic areas. We also provide high levels of technical support and pharmacovigilance through helplines in every country in which we operate. These helplines provide veterinarians with support on how best to use our products and with free advice on any difficult or complex cases that may be encountered.

The relationship with veterinarians is key and, to this end, we provide added value services. We offer high level educational programmes focused on the treatment of conditions in our key therapeutic areas. We deliver this education through many channels, including major conferences, regional groups, individual practices and increasingly through digital channels.

These programmes are certified to offer veterinarians and veterinary nurses the continuing professional education hours they require to maintain their professional qualification.



# Creating Value for Our Stakeholders

The Board appreciates that wider engagement with stakeholders is a key component of long term sustainability and success and believes that by engaging effectively with stakeholders, it will in turn strengthen the business, promoting long term success to the benefit of stakeholders and shareholders alike. Some examples of the ways in which the Board and/or the Group have engaged with stakeholders are detailed below:

## Shareholders

The Board's principal role is to promote the long term success of the Company on behalf of its shareholders.

- A rolling programme of meetings between institutional shareholders and the Chief Executive Officer and Chief Financial Officer have been held throughout the year.
- The Board reviewed and considered feedback, collated by the Company's brokers, after Investor Presentations by the Board.
- The Board is provided with market summary reports which detail share price and share register movements.
- All members of the Board attended the 2018 Annual General Meeting. This provided an opportunity for informal communications between shareholders and Directors.
- Board approval of significant announcements.

## Employees

The Board believes that the Group's employees are its greatest asset. Our ongoing objective is to continue to be a high performing business driven by highly skilled and committed teams. A key element of our People Plan is that we want Dechra to be a great and safe place to work.

- Results of the employee engagement survey have been presented and action planning sessions have taken place with employee groups to determine areas of focus to maintain and improve employee engagement.
- The Group HR Director provided an update to the Board in June 2019 on the actions taken by teams throughout the Group on the agreed key areas of focus from the 2018 employee engagement survey.
- Three scheduled Board meetings were held at business units, which provided the Board the opportunity to walk around the facilities with senior employees, to engage with employees at the sites and to experience the values and culture of the Company. In addition, they attended dinner with senior managers from the sites.
- The Board met formally and informally with the Senior Executive Team (SET).
- Twice a year a comprehensive health and safety report is provided to the Board for its review.
- Senior Leaders held regular functional and cross functional Town Hall meetings to keep employees informed and updated.
- Formal communications with Works Council employee representatives.
- Group-wide newsletter published twice a year along with other Group news via the Company intranet.
- 16 new courses added to our e-learning platform and 1,803 courses have been completed by our employees.
- The appointment of Lisa Bright as the Non-Executive Director designated for employee engagement.

## Suppliers

The Company is committed to acting responsibly and with integrity, respecting the laws, regulations, traditions and cultures of the countries within which it operates. It expects its suppliers to trade with honesty and integrity.

- The Board reviewed and approved the Anti-Bribery and Anti-Corruption (ABC) training course for Dechra's third party network, which has been rolled out, and the updated internal ABC policies and procedures.
- The Board reviewed and approved the Modern Slavery Statement.
- The Manufacturing and Supply Director presented to the Board and this included a discussion on the contract manufacturing organisation strategy.

## Customers

Our objectives are to innovate, develop, register, manufacture, supply and market high quality products to the veterinary profession worldwide. We provide high levels of service, technical support and educational training to develop a strong relationship with, and be recognised as an important partner to, veterinarians.

- Each of the SET members for DVP EU, NA, and International have provided in-depth presentations on their markets, customer requirements and customer consolidation.
- Approval of licensing arrangements which will bring new technologies and products into our pipeline and product portfolios.
- A presentation from the DVP International Managing Director which included a distribution strategy discussion.
- Launch of Dechra Cat and Dog App, an anaesthesia education and support tool.
- 40 new courses have been created this year in the strategic therapy areas of Endocrinology and Dermatology in the Dechra Academy, our continuous professional development platform.
- A total of 676 CPD presentations to an aggregate total of 18,680 attendees in North America and Mexico.

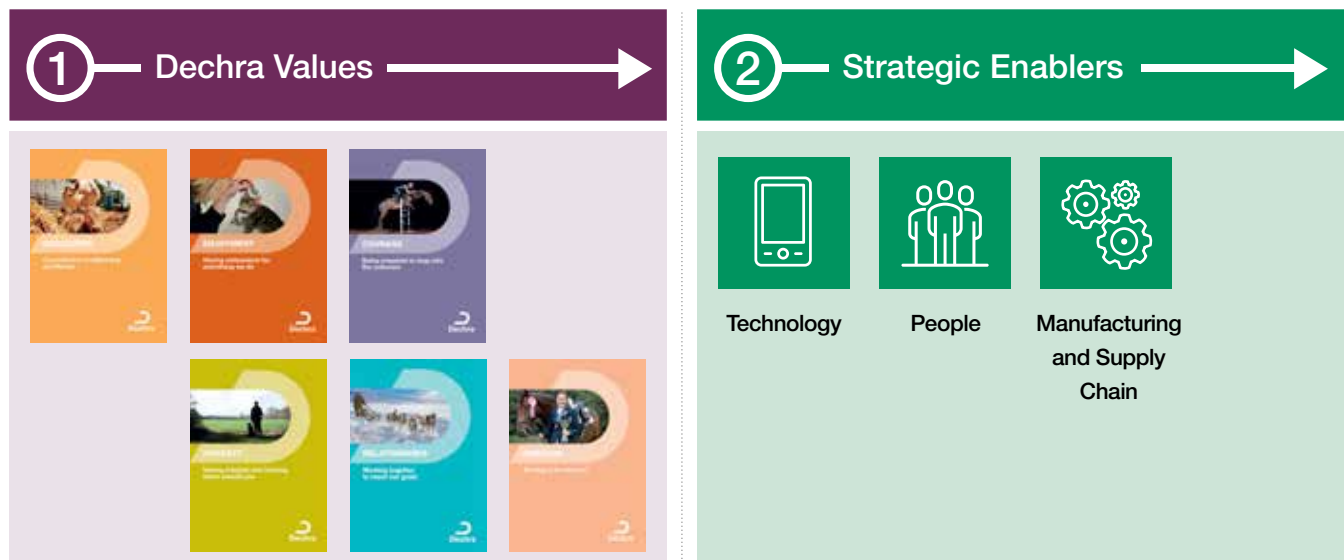
## Communities

The Board encourages the business units to contribute to the social and economic welfare of the local communities in which they operate. It recognises that by taking voluntary action in this area it is helping to protect and develop its own business.

- 878 hours in the Community, working on a variety of projects, including beach clean ups in the Netherlands and supporting animal shelters in the US.
- The lease of land, free of charge, in Zagreb for use by the local community as a children's playground.
- The provision of training to local residents and students in Denmark and Brazil.

# Delivering Our Strategy

Since 2013, our priorities for each Strategic Growth Driver and Enabler have been clearly defined and communicated and are outlined in the table on pages 18 and 19. In this section of the Annual Report we describe the progress we have made towards achieving our strategic objectives.



## 2013



Number of product registrations

**1,327**



Number of countries distributed to

**40**



Number of countries with own sales and marketing organisations

**13**



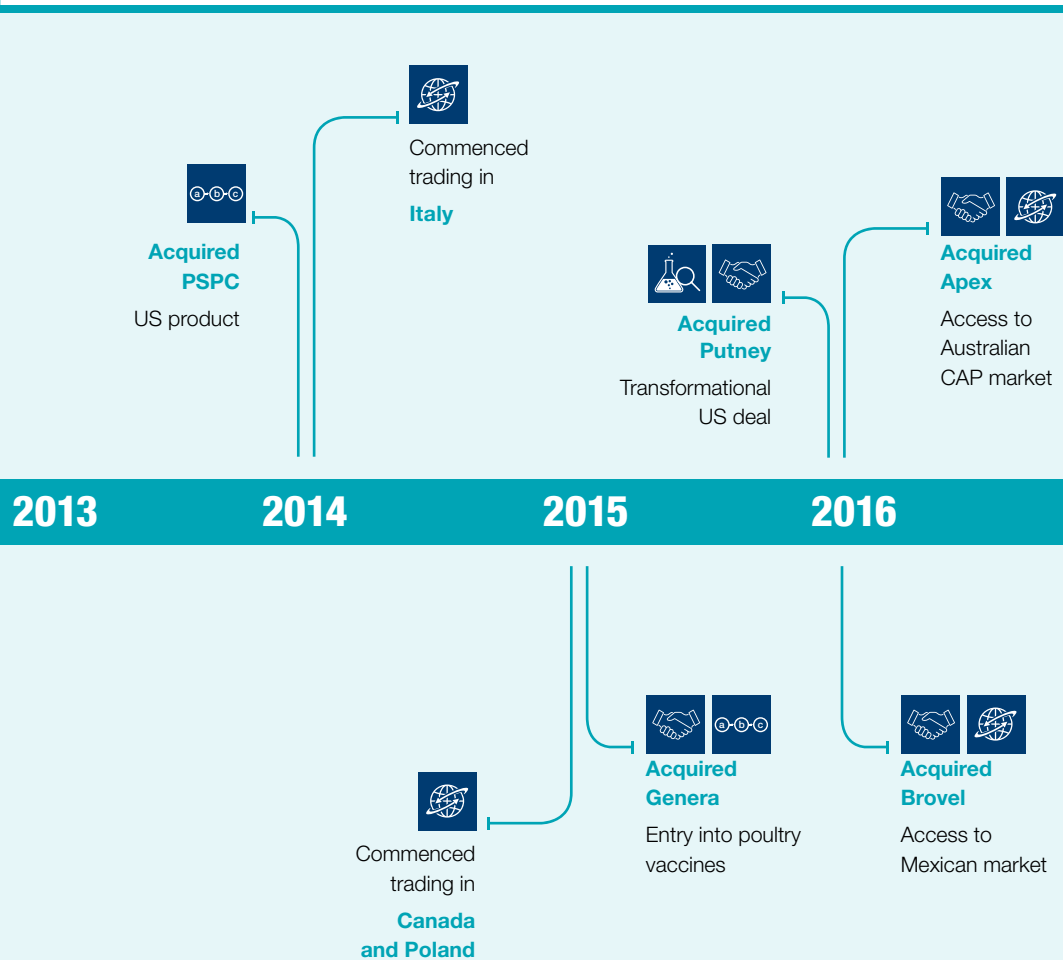
Number of manufacturing sites

**3**



Number of employees

**1,287**



### 3 Strategic Growth Drivers



**Pipeline Delivery**



**Portfolio Focus**

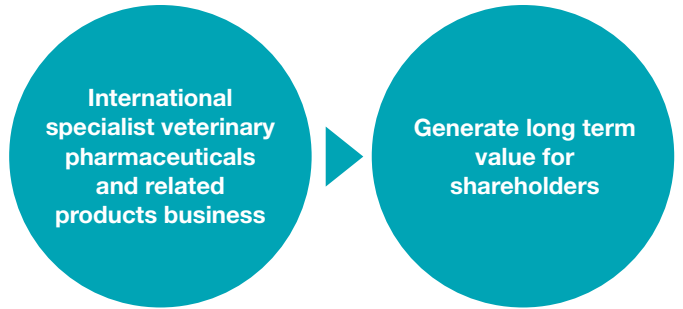


**Geographical Expansion**




**Acquisition**


→ Read about our **Strategic Growth Drivers** on page 34 to 39




## 2017      2018      2019




**Acquired AST Farma**  
Strengthens Dutch market position and provides direct-to-vet relationship




**Acquired Venco**  
Access to Brazil and South American markets




**Acquired Le Vet**  
Adds to EU product portfolio




**Acquired RxVet**  
Access to New Zealand



**Acquired 33% of Medical Ethics**  
Access to novel product development





**Acquired trade and assets of Caledonian**  
Access to equine products





**Acquired a further 15% of Medical Ethics**


### 2019

- 

Number of product registrations  
**5,407**
- 

Number of countries distributed to  
**68**
- 






Number of countries with own sales and marketing organisations  
**25**
- 

Number of manufacturing sites  
**7**
- 

Number of employees  
**1,753**

# Delivering Our Strategy

continued

Our Strategic Growth Drivers		Our Achievements		
	2014	2015	2016	
<b>Pipeline Delivery</b>  Deliver our pipeline on time, at the right costs and with the expected returns. Refill the pipeline so that we get a constant flow of new products in future years	<ul style="list-style-type: none"> <li>Dossiers submitted in USA and EU for a novel canine endocrinology product</li> <li>Pivotal clinical trial commenced for canine endocrinology opportunity</li> <li>Ongoing characterisation studies for canine dermatological and canine ophthalmology products</li> <li>A number of generic and range extension dossiers submitted in EU</li> <li>Osphos® submitted in Australia and Canada</li> </ul>	<ul style="list-style-type: none"> <li>Seven new projects started in Feasibility</li> <li>Two product approvals: <i>Osphos</i> in EU (April 2015) and <i>TAF Spray</i>® (December 2014)</li> <li><i>Osphos</i> launched in the USA in August 2014 and in the UK in September 2014, with dedicated sales representatives recruited to support the launch</li> <li><i>TAF Spray</i> launched in several EU countries</li> </ul>	<ul style="list-style-type: none"> <li><i>Zycortal</i> approved and launched in the USA in March 2016 and in 14 European markets</li> <li><i>Osphos</i> launched in 17 additional European countries</li> <li>Several FAP approved, notably <i>Phenocillin</i>® and <i>Solamocta</i>® (for turkeys and ducks) launched in Germany and launch planned for 17 other territories</li> </ul>	
<b>Portfolio Focus</b>  Maximise our revenue by increasing market penetration, focusing on targeted therapeutic sectors within CAP, Equine, FAP and Nutrition	<ul style="list-style-type: none"> <li>Delivered growth in almost all target therapeutic sectors</li> <li><i>Cardisure</i>® exceptional growth of 32% across European markets, while <i>Comfortan</i>® grew by 40%</li> <li>Brought in house a number of products acquired through Eurovet enabling the Group to retain full margin and enhance sales focus</li> <li>Updated <i>Dechra Online Academy</i> tool, a platform for CPD for all veterinarians</li> </ul>	<ul style="list-style-type: none"> <li><i>Vetoryl</i>® grew by 24% globally</li> <li><i>Dechra Academy</i> was updated and launched successfully in 11 countries with 5,000 new users</li> <li>All core therapeutic areas in CAP, including dermatology, as well as Equine growing at double digit in Europe</li> </ul>	<ul style="list-style-type: none"> <li>Double digit growth in key therapeutic areas</li> <li>Roll out of digital technologies progressed to plan, with the implementation of our Learning Management System, <i>Delta</i>, enabling product training to be disseminated to sales representatives</li> </ul>	
<b>Geographical Expansion</b>  Leverage our product portfolio into new geographic regions through distribution partners, in-country presence and new country product registrations	<ul style="list-style-type: none"> <li>Started trading in Italy – the first greenfield start up since the USA in 2004</li> <li>Sales office established in Canada</li> <li>Recruiting additional regulatory support to accelerate product registrations in other territories</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening of distributor relationships</li> <li>New start up in Poland</li> <li>Commenced trading from Canadian entity</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory approvals were obtained in several countries such as Brazil, Egypt and Sri Lanka</li> <li>New start up in Austria</li> </ul>	
<b>Acquisition</b>  Expand our geographical footprint and/or enhance our product portfolio through acquisition	<ul style="list-style-type: none"> <li>Acquisition of trade and assets of PSPC Inc. and PSPC facility in USA</li> <li>Purchase of new <i>Levothyroxine</i> product to be launched in first half of 2015 financial year</li> </ul>	<ul style="list-style-type: none"> <li>Successful integration of the assets of PSPC with sales exceeding expectations</li> <li>Conditional offer for <i>Genera d.d.</i>, a Croatian animal health company, announced post year end on 3 August 2015</li> </ul>	<ul style="list-style-type: none"> <li>Three acquisitions completed: <i>Genera</i>, <i>Brovel</i> and <i>Putney</i></li> <li><i>Putney</i> integration helped strengthen our USA presence</li> <li><i>Genera</i> integration on plan, new business structure defined</li> <li>Registration process of <i>Dechra</i> products commenced in Mexico</li> </ul>	
<b>Strategic Enablers</b>  Our strategic enablers, Manufacturing and Supply Chain, People and Technology, support the execution of our strategy	<ul style="list-style-type: none"> <li>Significant investments in the liquids, creams and ointments suite, tablet compression machines and the encapsulation production line in Skipton</li> <li>Brought production of <i>Cardisure</i> and <i>Forthyron</i>® in house – improving margin and giving greater flexibility and control over production of these key CAP products</li> <li>€2 million investment in our new enlarged central European distribution centre in Uldum</li> <li>New supplier of <i>Specific</i> pet diets identified and transfer of production started</li> </ul>	<ul style="list-style-type: none"> <li>On time first order delivery to new country operations in Italy and Poland</li> <li>Completed transition of dry diets manufacturing to new third party site</li> <li>Completed investments in <i>Dechra Pharmaceuticals Manufacturing (DPM)</i> to improve yield and capacity</li> <li>Successful FDA pre-approval inspection at Skipton to manufacture <i>Zycortal</i>®</li> <li>Completed implementation of Group Finance Oracle consolidation module</li> <li>Personal Development Review (PDR) rolled out to all <i>Dechra</i> employees</li> </ul>	<ul style="list-style-type: none"> <li>Good progress in our Oracle roll out with DVP US live in April 2016</li> <li>Commencement of a new Group Intranet platform for improved communication and information sharing with all employees</li> <li>HR Cloud based IT system implemented in 16 countries</li> <li>Sales and Operations Planning (S&amp;OP) process implemented in DVP EU and DPM</li> </ul>	

→ See our **Key Performance Indicators** on pages 32 and 33

→ See the **Understanding Our Key Risks** section on pages 64 to 67

Our Achievements		Our Progress	Links
2017	2018	2019	
<ul style="list-style-type: none"> <li>Signed Animal Ethics licensing agreement, and building pipeline of other in-licensing opportunities</li> <li>Vaccines development strategy defined and new opportunities identified</li> <li>Amoxi-Clav tablet development completed</li> <li>A number of minor FAP market authorisations gained</li> </ul>	<ul style="list-style-type: none"> <li>Two further poultry vaccines registered in EU: Avishield® IBH120 and ND B1</li> <li>Launch of further Amoxi-Clav dose sizes to complete range for the USA market</li> <li>In-licensing of major new products including Redonyl® Ultra, Vetradent® and BioEquin®</li> <li>Progress in co-development licensing opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Entered into a number of licensing agreements, including a novel canine sedative and an equine gastric product</li> <li>A number of novel and generic registrations in EU, Mexico and rest of world</li> <li>15 product launches from Le Vet pipeline</li> </ul>	<p><b>Link to KPIs and Risks</b></p> <p>1 2 3 4 5 2 3 4 5 5 9</p> <p>➔ Read about our <b>Pipeline Delivery</b> on page 35</p>
<ul style="list-style-type: none"> <li>Strong CAP and Equine growth continuing across the Group, FAP returned to growth</li> <li>Increased effective use of CRM tools in EU and NA</li> <li>Expanded sales force effectiveness training</li> <li>Unblocking of distribution channels for Putney products in the US opened up market for enlarged NA business growth</li> </ul>	<ul style="list-style-type: none"> <li>Resolution of Nutrition supply and palatability issues, and launch of refreshed cat diets</li> <li>Strong growth in European FAP following antibiotic product alignment and range additions</li> <li>Leveraging CAP product success to increase penetration across Group</li> <li>Continued growth in Equine, with stronger growth in Europe from market penetration and range additions</li> </ul>	<ul style="list-style-type: none"> <li>Moved key Le Vet products from distributors to Dechra marketing companies to generate significant synergies through retention of full margin and enhancing sales focus</li> <li>Development and launch of Dechra Dog &amp; Cat Anaesthesia App</li> <li>FAP growth accelerating against a backdrop of declining antibiotic markets</li> </ul>	<p><b>Link to KPIs and Risks</b></p> <p>1 2 3 4 5 1 3 4 5 5 7 9</p> <p>➔ Read about our <b>Portfolio Focus</b> on page 37</p>
<ul style="list-style-type: none"> <li>Several international product registrations achieved</li> <li>Established Dechra Veterinary Products (DVP) International business</li> <li>Commenced appointment of the DVP International team</li> </ul>	<ul style="list-style-type: none"> <li>Over 80 new country registrations of existing portfolio products</li> <li>Acquisition of RxVet expanded our presence in New Zealand</li> <li>Successful establishment of the DVP International team</li> <li>Development of international registrations strategy and prioritisation plan</li> </ul>	<ul style="list-style-type: none"> <li>Expanded into Latin America via the acquisition of Laboratorios Vencofarma do Brasil Ltda (Venco)</li> <li>43 Product registrations across Israel, South Korea, Macau, Macedonia, Malaysia, Malta, Namibia, Serbia, Ukraine, UAE and Zambia</li> <li>ANZ business leveraged by Caledonian bolt-on</li> </ul>	<p><b>Link to KPIs and Risks</b></p> <p>1 2 3 4 4 5 6 7</p> <p>➔ Read about our <b>Geographical Expansion</b> on page 39</p>
<ul style="list-style-type: none"> <li>Successful integration and operation of Genera, Brovel, Putney and Apex</li> <li>Acquisition of Apex, opening up new bridgehead into Australasia and South East Asia</li> <li>Acquisition of 33.0% of Medical Ethics Pty Ltd provides the Group with secure access to novel therapeutic areas/product development</li> </ul>	<ul style="list-style-type: none"> <li>Acquisition and successful integration of RxVet, expanding our presence in New Zealand</li> <li>First full year of Apex</li> <li>Acquisition and successful initial integration of AST Farma and Le Vet, providing transformation in EU Pharmaceuticals' portfolio and pipeline</li> </ul>	<ul style="list-style-type: none"> <li>Acquisition and successful integration of Venco</li> <li>Acquisition of trade and assets of Caledonian Holdings Ltd in New Zealand strengthening market position in Equine</li> </ul>	<p><b>Link to KPIs and Risks</b></p> <p>1 2 3 5 6 8</p> <p>➔ Read about our <b>Acquisition</b> on page 39</p>
<ul style="list-style-type: none"> <li>Developed new Manufacturing and Supply Chain strategy</li> <li>Ongoing progress in Oracle deployment</li> <li>IT user hardware standardised across the Group</li> </ul>	<ul style="list-style-type: none"> <li>Progress in execution of Manufacturing remodelling strategy, in Zagreb (inbound transfers) and Bladel (FDA)</li> <li>12 months without a lost time accident</li> <li>Completion of employee engagement survey, providing valuable feedback</li> <li>Successful implementation of the European Oracle project and completion of Hyperion suite</li> </ul>	<ul style="list-style-type: none"> <li>Appointment of additional Non-Executive Director and Group Manufacturing and Supply Director</li> <li>Strengthened Manufacturing Leadership team</li> <li>Investments in manufacturing and packing at Skipton, a new solid dose facility in Zagreb and an upgrade to the sterile facility in Bladel</li> <li>Oracle ERP now embedded and Phase II completed in DVP EU</li> </ul>	<p><b>Link to KPIs and Risks</b></p> <p>1 2 3 4 3 6 9 5 6 7</p> <p>➔ Read about our <b>People</b> on pages 49 to 55</p>

**Key to KPIs**

- 1 Revenue Growth
- 2 Underlying Diluted EPS Growth
- 3 Return on Capital Employed
- 4 Cash Conversion
- 5 New Product Revenue
- 6 Lost Time Accident Frequency Rate (LTAFR)
- 7 Employee Turnover

**Key to Risks**

- 1 Market Risk
- 2 Product Development and Launch Risk
- 3 Supply Chain Risk
- 4 Competitor Risk
- 5 Regulatory Risk
- 6 People Risk
- 7 Antibiotic Regulatory Risk
- 8 Acquisition Risk
- 9 Retention of People Risk

# Chief Executive Officer's Statement



“

The Group has delivered another strong performance throughout the financial year. We have continued to outperform in almost all markets in which we operate and strategically it has also been an excellent year.”

”

**Ian Page**  
Chief Executive Officer

I am pleased to report that the Group has delivered another strong performance throughout the financial year (the Period). Financially we have continued to outperform in almost all markets in which we operate, especially in the USA where we have delivered another year of exceptional organic growth. Strategically it has also been an excellent year; our pipeline has delivered new products and has been significantly enhanced with new technology; geographically we have extended our footprint through the acquisition of Laboratorios Vencofarma do Brasil Ltda (Venco) and we have successfully integrated the acquisitions completed in the previous financial year.

## Portfolio Focus

### EU Pharmaceuticals Segment

In the Period our European (EU) Pharmaceuticals Segment reported revenues increased by 18.7% at CER (17.5% at AER). Excluding third party contract manufacturing and acquisitions, revenues increased by 7.8% at CER (6.9% at AER). This growth was partly offset by the ongoing decline in non-core business, such as agrochemicals. Although market growth in European countries has been very slow or flat, all of Dechra's major markets outperformed and delivered solid growth on the previous year.

### International Business

Our Australian, New Zealand and recently acquired Brazilian businesses are outperforming our expectations. Sales through third party marketing partners have been marginally slower than expected; clearly demonstrating our ability to drive products under our control and under the Dechra brand to a higher level. This supports our international expansion strategy which can be demonstrated through the acquisitions in Australia, New Zealand and Brazil over the last few years.

### NA Pharmaceuticals Segment

Total North America (NA) Pharmaceuticals Segment revenues increased by 15.4% at CER (19.8% at AER). This strong performance was driven by further market penetration of our key, unique brands such as *Vetoryl* and *Zycortal* and also by increased market share of our generics portfolio. We continue to benefit from the full year effect of the sales team that was significantly enlarged in the prior financial year. As the team is now the correct scale relative to our size, new headcount will only be added commensurate to growth. The USA is the main driver of this sales growth; however, we have also had a solid performance in Canada. Whilst not material to the Group, the strategic restructuring and repositioning of our Mexican business is behind schedule; however, at

the end of the period we were beginning to see real traction from new, core product introductions and from the additional expertise added through the recently appointed, experienced management team.

### Product Group Performance

In the commentary which follows, all references will be to CER movement unless otherwise stated.

#### CAP

Companion Animal Products (CAP), which represent 70.7% of Group turnover, grew by 23.1% (14.6% organically) in the Period with all therapeutic categories performing well. We have developed a broad portfolio, especially in internal medicine and critical care products such as anaesthesia and analgesia, where we have a wide range providing the veterinarian with an optimal solution for every case. We recently developed a mobile application by which a veterinarian can evaluate the optimum anaesthetic or analgesic protocol for many species of animals in numerous clinical conditions.

#### FAP

Food producing Animal Products (FAP), which represent 11.9% of Group turnover, grew by 19.1% (4.2% organically). This growth was driven by a strong organic performance in our EU business (as we are not in the FAP sector in NA) and by the acquisition of Venco, whose product portfolio is mainly FAP vaccines. Whilst the overall market in Europe is still seeing a decline in antibiotic usage, we are no longer being affected as our range is aligned to best prescribing practice.

## 15.4%

Revenue Growth in NA

## 18.7%

Revenue Growth in EU

→ Read the **Financial Review**  
on pages 25 to 31



## Equine

Equine, which represents 7.1% of Group turnover, grew by 21.1% (3.1% organically). This growth was mainly driven by the EU and by acquisition. Performance in NA was a little disappointing, predominantly due to some concerns about the risk of bisphosphonates (*Osphos*) when administered incorrectly and off-label. We have reinforced the need to use medicines as directed and have run an extensive marketing campaign and believe we have now addressed all concerns.

## Nutrition

Nutrition represents 6.0% of Group turnover. Sales on the year were flat; however, we have arrested the decline seen last year and in the first half of this financial year. We have changed the management structure of this business unit to provide better focus. Following on from the launch of the refreshed cat diets, the dog diets are about to be relaunched in improved livery, new pack sizes and improved formulations.

## Product Development

### Achievements

We have restructured the global clinical department with a new organisational strategy into which we have integrated the vaccine development team and the regulatory control of the recent acquisitions: AST Farma, Le Vet and Venco.

We have implemented and rolled out a new project management software platform utilising Microsoft Project Server which will improve transparency, planning and delivery of our product pipeline.

### Product Approvals

There have been numerous marketing authorisations received throughout the year, which included:

- Carbifusion® Solution for Infusion, an electrolyte solution for cattle and horses, approved in four EU territories;
- *Cardisure* Liquid, a cardiovascular treatment for dogs, approved in 23 EU territories;
- Clindabactin® Flavoured Tablets, an antibiotic for dogs and cats, approved in 28 EU territories;
- Cyclosporine Soft Gel Capsules, for allergic dermatitis in dogs, approved in the US;
- Dormazolam® Injection, a sedative for horses, approved in 18 EU territories;

- Equibactin® Oral Powder, an antibiotic for horses, approved in 20 EU territories;
- EquiShield® EHV Vaccine, a herpes virus vaccine for horses, approved in 15 EU territories;
- Intubeaze® Oromucosal Spray, an anaesthetic pre-treatment for cats, approved in 14 additional EU territories;
- Laxatract® Syrup, a laxative for cats and dogs, approved in 28 EU territories;
- Rominervin Injection, a sedative for horses, approved in 27 EU territories;
- Solacyl® Powder, an antibiotic for cattle and pigs, approved in six additional EU territories;
- Solupam® Solution, for the management of convulsion disorders and skeletal muscle spasm or sedation for dogs and cats, approved in 28 EU territories;
- Sympagesic® Injection, an analgesic and for the treatment of smooth muscle spasms in horses, cattle, pigs and dogs, approved in 28 EU territories;
- Domidine® Solution, a sedative for horses, approved in Canada;
- Sedator® Solution and Atipam® Solution, a sedative and a reversal agent for dogs, *Domidine*, a sedative for horses, HY-50® for equine lameness and Felimazole® for hyperthyroidism, approved in Mexico; and
- Panapex Ear Ointment for dogs, *Intubeaze* Oromucosal Spray an anaesthetic pre-treatment for cats, Meloxicam Oral Suspension an anti-inflammatory for dogs and Pimobendan Oral Solution a cardiovascular treatment for dogs, approved in Australia.

Also, the International Regulatory Affairs team achieved 43 product registrations across Israel, South Korea, Macau, Macedonia, Malaysia, Malta, Namibia, Serbia, Ukraine, United Arab Emirates, and Zambia.

## Glossary

Terms used within this section:

**CER:** Constant Exchange Rates

**AER:** Actual Exchange Rates

**CAP:** Companion Animal Products

**ERP:** Enterprise Resource Planning

**EU Pharmaceuticals:** European Pharmaceuticals Segment comprising DVP EU, DVP International and Dechra Pharmaceuticals Manufacturing

**FAP:** Food producing Animal Products

**NA Pharmaceuticals:** North American Pharmaceuticals Segment comprising DVP US, Canada and Dechra-Brovel

# Chief Executive Officer's Statement

continued



## Filling the Pipeline

We consider that it is important to our market position, as an innovative company, that we retain a balance of both novel and generic products in our portfolio and are conscious that as a consequence of the acquisitions we have made over the last two years, the balance of our pipeline has a greater generic and generic plus weighting than we have had historically. We have therefore increased resources and placed greater emphasis into screening opportunities, and have subsequently secured numerous development agreements for new technologies, the most significant of which are detailed below:

- Post year-end we are delighted to have completed a significant agreement with Akston Biosciences who have developed a unique version of insulin with a sustained duration of activity;
- We have entered into three agreements to evaluate two products for equine lameness and one product for equine gastric ulcers;
- We have signed a licensing agreement with Vetcare Ltd for a combination, novel canine sedative; and
- We have also entered into multiple agreements to evaluate new vaccine technologies against viral and bacterial diseases in pigs; proof of concept studies are commencing with these vaccines.

## Acquisitions

### AST Farma B.V. and Le Vet Beheer B.V.

AST Farma B.V. and Le Vet Beheer B.V., which were acquired in the previous financial year, are both performing well. AST Farma has significantly increased our presence in the Dutch market where we now offer a wider range of products, both existing Dechra and AST Farma, on a direct to vet basis. The commercial teams and product ranges of both Dechra and AST Farma have been combined with both businesses benefiting from the leverage of the enlarged company. Le Vet has started to deliver significant growth to Dechra in the second half of the financial year following the disintermediation of their previous distribution agreements which were held by a number of Dechra's competitors. Significant synergies are now being realised as Dechra branded products are sold through our own sales and marketing organisations

which provide a better focus on sales and we capture the full margin chain. To date we have terminated approximately two thirds of these distribution agreements where there were change of ownership clauses; synergies from the remaining third are expected to be delivered over the next two years.

### Caledonian Holdings Ltd

In October 2018 we acquired the trade and assets of a small bolt-on business, Caledonian Holdings Ltd (Caledonian) for a cash consideration of £4.4 million. The business, which had sales of £1.8 million to the end of June 2017, was entirely equine products, which are sold across Australia and New Zealand and also in Hong Kong. The acquisition was made to strengthen our market position in the equine sector in these territories and to complement our existing equine product portfolio and pipeline.

### Laboratorios Vencofarma do Brasil Ltda

In December 2018 we acquired Laboratorios Vencofarma do Brasil Ltda (Venco) for a consideration of £34.8 million. This acquisition gives us a foothold within the third largest FAP market in the world, Brazil. It is also an important expansion to our FAP vaccine portfolio, the fastest growth sector of the global market. As with all of our acquisitions, we had a clear vision and strategic plan of how to integrate the business into Dechra which we shared with the management team on the first day of ownership. We have subsequently strengthened the team with a new Finance Director, a new HR Manager and a new Regulatory Manager. The team have integrated well with our culture and Values and to date have outperformed our expectations. Over the next two years we will invest in the manufacturing facility and in new product registrations to extend our presence in Brazil and will look at opportunities to increase further our presence in the wider South American market.

### Animal Ethics Pty Ltd

Post the year end we acquired an additional 15% of the shares of Medical Ethics Pty Ltd, the parent company of Animal Ethics Pty Ltd, for a consideration of AUD\$13.5 million (£8.0 million). Following the acquisition of 33% for AUD\$18 million in 2017 this takes our total holding to 48%. The strong progress made on the global development of Tri-Solfen® for pigs, cattle and sheep and the ongoing trials for its application for debriding of venous leg ulcers in humans has resulted in separate independent valuations of the business, both in excess of AUD\$100 million. Following recent trials in South-East Asia, Tri-Solfen® has also been found to be highly effective in alleviating the clinical signs of Foot and Mouth Disease in cattle. Given the effectiveness in the trials and the catastrophic problem that this disease causes, the government in Laos has already approved the product for use in their country. We anticipate that other countries in South-East Asia will shortly follow suit. This could represent a significant revenue opportunity as the disease is endemic in many parts of the world and affects millions of cattle annually.

## Strategic Enablers

### Manufacturing and Supply Chain

At the half-year we announced the appointment of Simon Francis, formerly of Novartis, as our new Director of Manufacturing and Supply Chain. Simon immediately undertook and completed a full review of our facilities and capabilities to make improvements, including the strengthening of the Manufacturing and Supply Chain management team. The improvements needed to be implemented as we were experiencing a number of supply issues from our own sites and contract manufacturers. These issues are now in the process of being mitigated.



As planned within our strategic capital expenditure programme we have made infrastructure improvements at our three main European sites. In Skipton, UK, we have completely upgraded the packaging, manufacturing and washing facilities. In Zagreb, Croatia, we have built and commissioned a new solid dose facility and in Bladel, Netherlands, we are close to completing an upgrade of our sterile facility hopefully to achieve FDA status in 2020. In conjunction with grants from the Croatian government, we have implemented the largest green solar energy installation in the country at our Zagreb facility which will provide the site with 30% of its energy requirements from this natural resource.

### Technology

Following the successful roll out of Oracle across DVP EU in May 2018, we have subsequently implemented and completed phase two of the project which deals with new legislation changes, improved reporting and post go-live system efficiencies. We have commenced a number of development projects and interfaces to deal with recent logistics changes to Oracle in the USA.

The IT team has also implemented numerous other IT developments, including improvements to the Group network, overseeing the installation of the project management software in Product Development, a regulatory information system for Regulatory Affairs, the deployment of a new AI-based cyber defence solution and the support of a pilot for a new cash management solution for our Treasury Department. Our Digital team has also been very productive with new modules in the Dechra Academy for veterinarians and veterinary nurses, new training courses in Delta, the in-house educational programme, and an upgrade and relaunch of Insite, the Group's intranet.

### People

In April 2019 we announced the resignation of Richard Cotton, Group Chief Financial Officer. The process to identify a suitable replacement is continuing. Since April, Paul Sandland, who has been with the Group for nine years, and has demonstrated strong financial and commercial skills as both Group Financial Controller and DVP EU Finance Director, has been Acting Chief Financial Officer.

In February 2019 we announced the appointment of Lisa Bright as a new Non-Executive Director to complement the strong skills already in existence on the Board. Lisa's appointment strengthens the Board through her strategic and operational leadership knowledge in pharmaceutical and biotechnology companies; her experience and strong interpersonal skills will be invaluable in our international expansion strategy and the development of our employee engagement programme.

Operationally we have developed a pilot for a new approach to performance management that is currently being trialled in North America.

For a number of years we have offered a Save As You Earn scheme in the UK which has proved very successful in providing additional reward and retention of UK employees. We will soon be rolling out similar schemes across the Group, with the first launch being in North America in 2019 prior to further roll out in 2020.

On behalf of the Board I would like to thank all employees for their hard work, determination, skill and ambition. They are the main driving force behind Dechra's success.

### Brexit

In preparation for a potential hard Brexit, we have changed the ownership of all UK marketing authorisations to a newly established subsidiary in the Netherlands. We have also transferred all the analytical testing methods for products manufactured at our Skipton site to a new laboratory in Zagreb, Croatia, and to our existing laboratory at our Bladel manufacturing site; this will allow us to perform batch release within the EU in the likely event that there will be no mutual recognition of quality standards. We have increased inventory in the supply chain to mitigate the potential delays at ports. We do not expect any material effect from the potential import or export tariffs.

### Dividend

The Board is proposing a final dividend of 22.10 pence per share (2018: 18.17 pence per share). Added to the interim dividend of 9.50 pence per share, this brings the total dividend for the financial year ended 30 June 2019 to 31.60 per share, representing 23.9% growth over the previous year.

Subject to shareholder approval at the Annual General Meeting to be held on 18 October 2019, the final dividend will be paid on 15 November 2019 to shareholders on the Register at 25 October 2019. The shares will become ex-dividend on 24 October 2019.

### Outlook

Our strong growth, both organic and through acquisition, and our broadening product portfolio and increasing geographic reach positions us well for continued growth in this new financial year and beyond. Despite the challenges from the supply chain issues, outlined earlier in this report, the outlook for the year ahead remains in line with management expectations. We continue to identify and deliver opportunities for growth in line with our strategy and remain confident in our current and future prospects.

### Ian Page

Chief Executive Officer  
2 September 2019

# QA

**Ian Page**  
Chief Executive Officer

**Q How are the recent acquisitions progressing and is there anything else in the pipeline?**

**A** I will start with the acquisitions made in the previous financial year to the year being reported which would be AST/Le Vet. AST now has been completely amalgamated with our Dutch commercial business and we are now beginning to see revenue synergies from the enlarged product offering. The most significant part of this acquisition was Le Vet. The Le Vet products, to remind you, were sold through Dechra but also about 80% of them were sold through our competitors. We have now disintermediated about two thirds of those distribution agreements and have now started to bring the products back in-house to sell through our own sales organisations in Dechra livery and, clearly, there is a big uplift to margin by us doing that. We are actually delivering everything that we promised shareholders at the time of acquisition and that can be seen within the growth that we are starting to deliver within our European Segment in the second half of the financial year being reported and from which we will start to realise a greater benefit in the next financial year. So, all in all, it has been a terrific acquisition. The more recent significant acquisition has been Venco, a vaccine business in Brazil. A great step forward into what is now the third largest animal health country in the world, an excellent product portfolio and since working with the management team since we owned it, we have realised that we have got a great management team there as well. We will continue to develop the business, particularly looking at Brazil in the short term because there is a little bit of investment required over the next few years in the facility, particularly the upstream facility, the way that the vaccines are actually produced needs a little bit of investment to improve the quality systems and then we will hopefully get to expand the product sales into other South American markets. In terms of the pipeline, yes, we always have companies that we can talk to that we see as being ideal acquisition opportunities. Unfortunately, it is not an exact science; you are never entirely sure whether a business is going to sell or if they do sell, whether you will be considered the right partner. We do win more than our fair share of deals and we hope that that will continue, but we cannot rely on acquisitions because it is not a certainty, but to caveat that, we do and to repeat, we do have a decent pipeline and I would be very disappointed if we cannot bring more companies into the Group over the next few years.

→ Watch the video at [dechra.annualreport2019.com](https://www.dechra.com/annualreport2019)

**Q You have had a number of significant management changes recently; does this suggest some underlying issues?**

**A** No, absolutely categorically not. As you are aware Dechra has grown rapidly over the last few years. Commensurate with that growth you have to develop your sales team and add new skills into the Senior Executives. We did lose the Chief Financial Officer, Richard, recently, but that was nothing to do with the business in terms of disagreements or performance, but was entirely a personal decision. We have also appointed recently to the Senior Executive Team a new Manufacturing and Supply Chain Director which will add new skills into an ever expanding supply chain and complexity within our Manufacturing organisation. So, no, there is absolutely no reflection in the performance or issues within the business at all, it is all about strengthening the team to make us suitable for the future growth that is going to come.

**Q Can you provide the background and any more detail on the Akston licensing deal?**

**A** The first thing I would like to say is that we are really delighted to have completed this deal. We have been working hard for a long time now to convince Akston that we are the right partners from a sales perspective, from our market reach, but also because we are a good company to work with, we make decisions quickly and also, of course, because our key area of focus is endocrinology. The product is extremely exciting; it is the last major step that we need to complete our endocrine portfolio; it could be by far the biggest product in our portfolio once approved; it could change the welfare of pets with diabetes, both dogs and eventually cats; and could be a major product for veterinarians to dispense. Currently, insulins are given on a daily basis which you can imagine giving an injection to a dog every day is not a simple process, so to change that to a weekly injection is a major step forward for compliance; it makes it easier for the pet and it makes it easier for the pet owner. Whilst there is a big step up in our development costs over the next few years, the returns on this product could be huge and, as I said at the outset, it could become the biggest product in our portfolio and could help to drive the novel products within our portfolio.

# Financial Review



Our existing business performed strongly this year and was further enhanced by the realisation of significant revenue synergies. The Group's balance sheet is strong and we continue to invest both organically and through acquisitions to deliver shareholder value.



**Ian Page**

Chief Executive Officer

## Overview of Reported Financial Results

To assist with understanding our reported financial performance, the consolidated results below are split between existing and acquired businesses; acquisition includes the incremental effect of those businesses acquired in the current and prior year, reported on a 'like-for-like' basis. Additionally, the table below shows the growth at both reported actual exchange rates (AER), and constant exchange rates (CER) to identify the impact of foreign exchange movements. The acquisition loss includes underlying operating profit of £14.6 million and non-underlying

items of £38.9 million. These non-underlying items are comprised of amortisation of acquired intangibles of £30.1 million, non-cash uplift on acquired inventory of £5.1 million and acquisition costs of £3.7 million.

Including non-underlying items, the Group's consolidated operating profit increased by 13.5% at CER (14.4% at AER) whilst consolidated profit before tax decreased by 4.8% at CER (3.8% at AER) due to the increased finance charges arising from the financing of prior and current year acquisitions.

As Reported	2019	2019	2019	2018	Growth at	Growth at
	Existing	Acquisition	Consolidated		Consolidated	
	£m	£m	£m	£m	%	Consolidated
Revenue	447.6	34.2	481.8	407.1	18.3%	17.5%
Gross profit	258.8	14.3	273.1	222.4	22.8%	21.9%
Gross profit %	57.8%	41.8%	56.7%	54.6%	210bps	200bps
Operating profit/(loss)	63.3	(24.3)	39.0	34.1	14.4%	13.5%
EBIT %	14.1%	(71.1%)	8.1%	8.4%	(30bps)	(30bps)
Profit/(loss) before tax	53.7	(25.9)	27.8	28.9	(3.8%)	(4.8%)
Diluted EPS (p)			30.07	37.04	(18.8%)	(19.6%)



## Glossary

Terms used within this section:

**IFRSs:** International Financial Reporting Standards as adopted by the EU

**CER:** Constant Exchange Rates

**AER:** Actual Exchange Rates

**CAP:** Companion Animal Products

**FAP:** Food producing Animal Products

**bps:** basis points

→ Read the [Geographical Expansion and Acquisition](#) case study on page 39

# Financial Review

continued

## Overview of Underlying Financial Results

When presenting our financial results, we use a number of adjusted measures which are considered by the Board and management in reporting, planning and decision making. Underlying results reflect the Group's trading performance excluding non-underlying items. A reconciliation of underlying results to reported results in the year to 30 June 2019 is provided in the table below. In the commentary which follows, all references will be to CER movement unless otherwise stated.

	2019 Underlying Results £m	Non-underlying Items			2019 Reported Results £m
		Non-cash uplift on acquired inventory £m	Amortisation and related costs of acquired intangibles £m	Acquisition, impairments and restructuring costs £m	
Revenue	481.8	–	–	–	481.8
Gross profit	278.2	(5.1)	–	–	273.1
Selling, general and administrative expenses	(125.7)	–	(70.0)	(6.5)	(202.2)
R&D expenses	(25.1)	–	(6.8)	–	(31.9)
<b>Operating profit</b>	<b>127.4</b>	<b>(5.1)</b>	<b>(76.8)</b>	<b>(6.5)</b>	<b>39.0</b>
Net finance costs	(9.8)	–	–	–	(10.8)
Share of associate loss	(0.2)	–	(0.2)	–	(0.4)
<b>Profit before tax</b>	<b>117.4</b>	<b>(5.1)</b>	<b>(77.0)</b>	<b>(6.5)</b>	<b>27.8</b>
Taxation	(24.9)	1.5	17.4	1.5	3.1
<b>Profit after tax</b>	<b>92.5</b>	<b>(3.6)</b>	<b>(59.6)</b>	<b>(5.0)</b>	<b>30.9</b>
Diluted EPS (p)	90.01	–	–	–	30.07

In the year, Dechra delivered consolidated revenue of £481.8 million, representing an increase of 17.5% on the prior year. This included £447.6 million from its existing business, an increase of 8.9%, and a £34.2 million contribution from acquired businesses.

Consolidated underlying operating profit of £127.4 million, represents a 27.3% increase on the prior year. This included £112.8 million from Dechra's existing business, an increase of 12.2% on a like-for-like basis, and a £14.6 million contribution from acquired businesses.

Underlying EBIT margin increased by 200 bps to 26.4%, with the accretion coming from both the existing and acquired businesses in EU Pharmaceuticals.

Underlying diluted EPS grew by 16.6% to 90.01 pence reflecting the profit growth from the existing and acquired businesses, partially offset by higher finance charges from the increase in debt and equity issuance to fund the 2018 and 2019 acquisitions, adjusted by the change in mix of the applicable tax rates.

Underlying	2019	2019	2019	2018	Growth at CER	
	Existing £m	Acquisition £m	Consolidated £m		Existing %	Consolidated %
Revenue	447.6	34.2	481.8	407.1	8.9%	17.5%
Gross profit	258.8	19.4	278.2	227.5	12.7%	21.5%
Gross profit %	57.8%	56.7%	57.7%	55.9%	190bps	180bps
<b>Underlying Operating profit</b>	<b>112.8</b>	<b>14.6</b>	<b>127.4</b>	99.2	12.2%	27.3%
Underlying EBIT %	25.2%	42.7%	26.4%	24.4%	80bps	200bps
<b>Underlying EBITDA</b>	<b>122.2</b>	<b>15.0</b>	<b>137.2</b>	106.6	13.2%	27.7%
<b>Underlying Diluted EPS (p)</b>	<b>–</b>	<b>–</b>	<b>90.01</b>	76.45	–	16.6%
Dividend per share	–	–	31.60	25.50	–	23.9%

## Reported Segmental Performance

Reported segmental performance is presented in note 2 on pages 136 to 138. The effect of acquisitions in the year was material; the reported segmental performance is analysed between existing and acquired businesses, and at AER and CER in the table below. The acquisition elements capture the additional base business coming into the Group up to the first anniversary of their acquisition, including the growth Dechra generated in them during the year, and the synergies that have already been realised by the Group since acquisition. This analysis becomes less definitive the further in time from the completion of the acquisition, as the acquired business is progressively integrated with the existing business.

Reported	2019			2018 £m	Growth at AER		Growth at CER	
	Existing £m	Acquisition £m	Consolidated £m		Existing %	Consolidated %	Existing %	Consolidated %
<b>Revenue by segment</b>								
EU Pharmaceuticals	269.8	34.2	304.0	258.7	4.3%	17.5%	5.2%	18.7%
NA Pharmaceuticals	177.8	–	177.8	148.4	19.8%	19.8%	15.4%	15.4%
<b>Total</b>	<b>447.6</b>	<b>34.2</b>	<b>481.8</b>	407.1	9.9%	18.3%	8.9%	17.5%
<b>Operating profit/(loss) by segment</b>								
EU Pharmaceuticals	84.5	15.8	100.3	77.0	9.7%	30.3%	10.6%	31.7%
NA Pharmaceuticals	59.2	–	59.2	48.3	22.6%	22.6%	17.8%	17.8%
Pharmaceuticals Research and Development	(23.9)	(1.2)	(25.1)	(18.3)	(30.6%)	(37.2%)	(30.1%)	(36.6%)
<b>Segment operating profit</b>	<b>119.8</b>	<b>14.6</b>	<b>134.4</b>	107.0	12.0%	25.6%	10.6%	24.6%
Corporate and unallocated costs	(7.0)	–	(7.0)	(7.8)	10.3%	10.3%	10.3%	10.3%
<b>Underlying operating profit</b>	<b>112.8</b>	<b>14.6</b>	<b>127.4</b>	99.2	13.7%	28.4%	12.2%	27.3%
Non-underlying operating items	(49.5)	(38.9)	(88.4)	(65.1)				
<b>Reported operating profit</b>	<b>63.3</b>	<b>(24.3)</b>	<b>39.0</b>	34.1	–	14.4%	–	13.5%

## Underlying Segmental Performance

### European Pharmaceuticals

Revenue in European (EU) Pharmaceuticals grew by 18.7%. The existing business grew by 5.2% including like-for-like year-on-year RxVet Limited revenue, and AST Farma B.V. and Le Vet Beheer B.V. revenue; excluding third party contract manufacturing, which is being reduced in line with our strategy and replaced with own product manufacturing, revenues increased by 7.8%. This growth was achieved through the robust performance of our core business and through the realisation of significant synergies from Le Vet. The acquisitions of RxVet, AST Farma and Le Vet, Laboratorios Vencofarma do Brasil Ltda (Venco) and the trade and assets of Caledonian Holdings Ltd (Caledonian) contributed a combined £34.2 million to revenue for the period where there is no comparative and are reported within EU Pharmaceuticals.

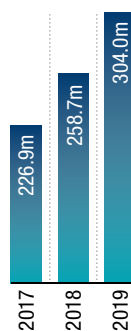
### Underlying Diluted Earnings Per Share

# 90.01p



### EU Pharmaceuticals Revenue

# £304.0m



### EU Pharmaceuticals Operating Profit

# £100.3m



# Financial Review

continued

Operating Profit from existing business grew 10.6%, with operating margin expanding to 31.3% and consolidated operating margin increasing to 33.0%. This was principally due to operating leverage, the accretive operating margin of Le Vet and the curtailment of our Dutch defined benefit pension scheme which resulted in a £3.5 million non-cash credit (presented on a consistent basis as underlying given previous curtailments and current service costs which substantially gave rise to this balance).

Underlying	2019	2019	2019	2018	Growth at CER	
	Existing	Acquisition	Consolidated		Existing	Consolidated
	£m	£m	£m	£m	%	%
Revenue	269.8	34.2	304.0	258.7	5.2%	18.7%
EBITDA	92.4	16.2	108.6	82.9	12.3%	32.3%
EBITDA %	34.2%	47.4%	35.7%	32.0%	220bps	370bps
Operating Profit	84.5	15.8	100.3	77.0	10.6%	31.7%
Operating Profit %	31.3%	46.2%	33.0%	29.8%	150bps	320bps

## North American Pharmaceuticals

Revenue from North American (NA) Pharmaceuticals grew by 15.4% to £177.8 million. All of the growth was in the existing business, with no acquisitions in NA Pharmaceuticals within the current or prior year. The growth was driven by our CAP portfolio and represents strong outperformance of the market. This was partially offset by a reduction in Equine as there was confusion in the market about the use of bisphosphonates and the discontinuation of a human product which was non-core and a legacy of the Putney business acquired in April 2016.

Operating Profit from the business grew by 17.8% with the operating margin growing 70 bps to 33.3% as further investments were made in the commercial team to drive future growth.

Underlying	2019	2019	2019	2018	Growth at CER	
	Existing	Acquisition	Consolidated		Existing	Consolidated
	£m	£m	£m	£m	%	%
Revenue	177.8	–	177.8	148.4	15.4%	15.4%
EBITDA	60.0	–	60.0	49.1	17.5%	17.5%
EBITDA %	33.7%	–	33.7%	33.1%	60bps	60bps
Operating Profit	59.2	–	59.2	48.3	17.8%	17.8%
Operating Profit %	33.3%	–	33.3%	32.5%	70bps	70bps

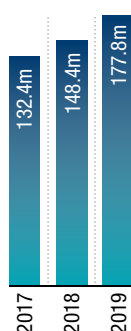
## Pharmaceuticals Research and Development

Pharmaceuticals Research and Development (R&D) expenses increased by 36.6% from £18.3 million to £25.1 million, with existing business research and development increasing by 30.1%. R&D activities of the acquisitions of AST Farma and Le Vet, and Venco added £1.2 million. Overall R&D expenses as a percentage of revenue increased from 4.5% to 5.2%, excluding the acquired R&D expenses, the increase was from 4.5% to 5.3%. This was in line with the previously communicated strategic intent to expand the Group's product pipeline and to increase investment in more novel opportunities to drive enhanced future growth.

Underlying	2019	2019	2019	2018	Growth at CER	
	Existing	Acquisition	Consolidated		Existing	Consolidated
	£m	£m	£m	£m	%	%
R&D expenses	(23.9)	(1.2)	(25.1)	(18.3)	(30.1%)	(36.6%)
% of Revenue	5.3%	3.5%	5.2%	4.5%		

### NA Pharmaceuticals Revenue

# £177.8m



### NA Pharmaceuticals Operating Profit

# £59.2m



### Research and Development Spend

# £25.1m



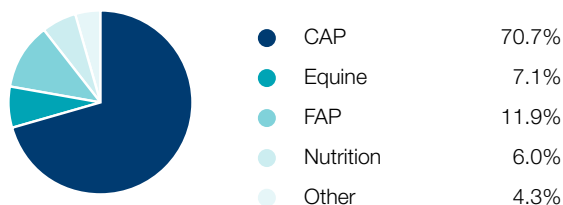
## Revenue by Product Category

CAP revenue continues to be the largest proportion of Dechra's business at 70.7%, up from 67.0% in the prior year. CAP grew 23.1% in the year from market penetration, product launches and the addition of the AST Farma and Le Vet portfolio. Equine revenue grew strongly by 21.1% in the year, with growth driven by the EU and by acquisition. FAP revenue accelerated by 19.1% driven by strong core growth in the EU and the acquisition of Venco. Nutrition revenue was broadly flat on the prior year; however, performance in the second half of the year improved with increased focus and the relaunch of the cat diet range.

Other revenue reduced by 25.1% to £20.8 million, now representing only 4.3% of the business as we continue our planned exit from third party contract manufacturing in line with our manufacturing strategy, to improve the production efficiency of Dechra's own products.

	2019 £m	2018 £m	% Change at AER	% Change at CER
CAP	340.2	272.7	24.8%	23.1%
Equine	34.4	28.4	21.1%	21.1%
FAP	57.3	48.7	17.7%	19.1%
Subtotal Pharmaceutical	431.9	349.8	23.5%	22.4%
Nutrition	29.1	29.4	(1.0%)	0.0%
Other	20.8	27.9	(25.4%)	(25.1%)
<b>Total</b>	<b>481.8</b>	<b>407.1</b>	<b>18.3%</b>	<b>17.5%</b>

## Revenue by Product Category (at AER)



## Underlying Gross Profit

Underlying Gross Margin for the existing business increased by 190 bps to 57.8% and the consolidated Underlying Gross Margin grew by 180 bps to 57.7%, reflecting the greater proportion of CAP sales and also the realisation of accretive Gross Margin in the acquired AST Farma and Le Vet business.

## Underlying Selling, General and Administrative Expenses (SG&A)

SG&A costs at AER grew from £110.0 million in the prior year to £125.7 million in the current year, an increase of 14.3% (at AER). This represents growth from both acquired and the existing businesses, and infrastructure cost added to manage the acquisitions and drive further growth.

We also benefited from a £3.5 million non-cash credit through the income statement as a result of the curtailment of our Dutch defined benefit pension scheme.

SG&A as a percentage of revenue contracted in the year from 27.0% in 2018 to 26.1% (26.8% excluding the pension credit) in 2019.

## Non-underlying Items

Non-underlying items incurred in the year are fully described in note 5 on page 139. In summary, they relate to the following:

- Amortisation of acquired intangibles of £76.8 million – the amortisation of the acquired intangibles has grown significantly in the year from £54.1 million following the acquisitions in the 2018 and 2019 financial years;
- Remeasurement of contingent consideration gain of £0.1 million – this relates to the excess release to the income statement of the contingent consideration on remeasurement of milestone and sales performance liabilities;
- Non-cash inventory adjustment of £5.1 million – the non-cash inventory adjustment which increases the value of acquisition inventory sold relates to the acquisitions of AST Farma and Le Vet, Caledonian and Venco. It is the result of the fair value exercise carried out in accordance with IFRS 3 'Business Combinations' on acquisition;
- Expenses relating to acquisition and subsequent integration activities of £3.7 million – this includes the transaction and integration costs associated with the acquisitions of AST Farma and Le Vet, Caledonian and Venco;
- Rationalisation of manufacturing organisation of £2.0 million – this comprises the costs associated with this strategic programme;
- Brexit preparation costs of £0.9 million – this represents regulatory and technology transfer costs incurred in advance of Brexit;
- Finance expense of £1.0 million – this represents the unwinding of the present value discounts relating to deferred consideration due and associated foreign exchange;
- Taxation credit of £28.0 million – this represents the tax impact of the above, as well as the revaluation of deferred tax balance sheet items following changes in corporate tax rates, most notably the reduction in the Netherlands tax rate from 25.0% to 22.5% in 2020 and 20.5% in 2021.

## Taxation

The reported effective tax rate (ETR) for the year is a credit of 11.2% (2018: credit of 24.9%), primarily reflecting the one-off impact of the reduction in the Netherlands tax rates on deferred tax balances; this includes both the underlying and non-underlying business. On an underlying basis the ETR is 21.2% (2018: 20.5%); the main differences to the UK corporation tax rate applicable of 19.0% (2018: 19.0%) relate to patent box allowances, and differences in overseas tax rates, particularly in NA Pharmaceuticals.

The underlying ETR is expected to remain broadly similar in the current year, due to the anticipated mix of profits from different countries.

We continue to monitor relevant tax legislation internationally as it may affect our future ETR. Further details can be found in Understanding Our Key Risks on pages 64 to 67.

## Reported Profit

Reported profit before tax decreased by 3.8% at AER reflecting the reported operating profit growth of 14.4% at AER offset by the increase in the finance charges arising from the financing of prior and current year acquisitions.

# Financial Review

continued

## Earnings per Share and Dividend

Underlying diluted EPS for the year was 90.01 pence, a 16.6% growth on the prior year. The EBIT growth of 27.3% was partially offset by higher interest costs from the increase in debt and the impact of the shares issued to fund the acquisitions of Venco, AST Farma and Le Vet. The weighted average number of shares for the year was 102.8 million (2018: 97.5 million).

The reported diluted EPS for the year was 30.07 pence (2018: 37.04 pence). This 18.8% reduction (at AER) in reported EPS reflects significantly higher intangible amortisation as a result of recent acquisitions.

The Board is proposing a final dividend of 22.10 pence per share (2018: 18.17 pence), added to the interim dividend of 9.50 pence, the total dividend per share for the year ended 30 June 2019 is 31.60 pence. This represents 23.9% growth over the prior year. Dividend cover based on underlying diluted EPS is 2.8 times (2018: 3.0 times). The Board continues to operate a progressive dividend policy recognising investment opportunities as they arise.

## Currency Exposure

The average rate for £/€ increased by 0.5%, and the £/\$ rate has decreased by 3.9% during the financial year. The effect in the Consolidated Income Statement and Statement of Financial Position is analysed in the above paragraphs of this review between performance at AER and CER. CER analysis compares the performance of the business on a like-for-like basis applying constant exchange rates.

	Average rates		
	2019	2018	% Change
£/€	1.1345	1.1286	0.5%
£/\$	1.2945	1.3465	(3.9%)

## Currency Sensitivity

Euro €: a 1% variation in the £/€ exchange rate affects underlying diluted EPS by approximately +/- 0.8%.

US Dollar \$: a 1% variation in the £/\$ exchange rate affects underlying diluted EPS by approximately +/- 0.5%.

Current exchange rates are £/€ 1.1010 and £/\$ 1.2203 as at 28 August 2019. If these rates had applied throughout the year, the underlying diluted EPS would have been approximately 5.6% higher.

## Statement of Financial Position

The Statement of Financial Position is summarised in the table below.

- Non-current assets decreased from £765.6 million to £755.5 million mainly due to the acquisition of Venco and Caledonian being more than offset by amortisation of acquired intangibles, most notably AST Farma and Le Vet.
- Working capital has increased from £92.5 million to £108.4 million partly due to a planned increase in inventory to support the potential disruption arising as a result of Brexit and also the growth of the Group.
- Net Debt has increased in the year by £16.4 million from £211.4 million to £227.8 million; this includes cash generation from operations at £108.3 million and £39.7 million of outflows relating to the acquisitions of Venco and Caledonian. Exchange rate variations adversely affected the Net Debt position by £5.4 million.
- Current and deferred tax has reduced from £98.9 million to £89.0 million principally due to the reduction in deferred tax liabilities following the reduction in the Netherlands rate and also the release relating to the amortisation of acquired intangibles.

	2019 £m	2018 £m
Total non-current assets	755.5	765.6
Working capital	108.4	92.5
Net debt	(227.8)	(211.4)
Current and deferred tax	(89.0)	(98.9)
Other liabilities	(38.0)	(42.8)
<b>Total net assets</b>	<b>509.1</b>	<b>505.0</b>

## Cash Flow, Financing and Liquidity

The Group enjoyed strong cash generation during the year, with the EBITDA margin strengthening from 26.2% to 28.5%. However, as mentioned above, working capital has increased by £19.5 million, mainly due to increases in inventory as a result of Brexit and growth of the Group's trading activities. This resulted in net cash generated from operations of £108.3 million, representing cash conversion of 85.0%. It is expected that the increased working capital levels will unwind to a certain extent during the forthcoming year.

	2019 £m	2018 £m
Underlying operating profit	127.4	99.2
Depreciation and amortisation	9.8	7.4
Underlying EBITDA	137.2	106.6
Underlying EBITDA %	28.5%	26.2%
Working capital movement	(19.5)	(23.4)
Other	(2.0)	2.4
<b>Cash generated from operations before interest, taxation and non-underlying items</b>	<b>115.7</b>	<b>85.6</b>
Non-underlying items	(7.4)	(4.4)
<b>Cash generated from operations before interest and taxation</b>	<b>108.3</b>	<b>81.2</b>
<b>Cash conversion (%)</b>	<b>85.0%</b>	<b>81.9%</b>

## Net Assets

# £509.1m





## Net Debt Bridge

Notable cash items are listed below in the Net Debt reconciliation table:

- Net capital expenditure on tangible and intangible assets increased to £22.2 million (2018: £12.6 million), representing 2.3 times depreciation and amortisation.
- Acquisition of subsidiaries of £39.7 million includes the acquisition of Caledonian and Venco. Further details are provided in note 32 to the Accounts on pages 166 and 167.

	£m
<b>Net Debt 30 June 2018</b>	<b>(211.4)</b>
Net cash generated from operations before non-underlying items	115.7
Non-underlying items	(7.4)
Net capital expenditure	(22.2)
Acquisition of subsidiaries	(39.7)
Acquisition of subsidiary borrowings	(2.8)
Interest and tax	(26.5)
Net equity issued	1.2
Dividend paid	(28.4)
Other non-cash movements	(0.9)
Foreign exchange on net debt	(5.4)
<b>Net Debt 30 June 2019</b>	<b>(227.8)</b>

- The Net Debt/underlying EBITDA leverage ratio per the borrowing facilities' leverage covenant, which includes the proforma adjustment to full year EBITDA for the acquisitions, was 1.64 times (2018: 1.75 times) versus a covenant of 3 times.

## Borrowing Facilities

### Revolving Credit Facility

The Group has committed facilities to July 2024 under a Revolving Credit Facility (RCF) for £235.0 million, through seven banks: Bank of Ireland, BNP Paribas, Fifth Third, HSBC, Lloyds, Raiffeisen and Santander. The RCF has an Accordion facility of a further £125.0 million. The total drawn at 30 June 2019 is £128.8 million.

There are two covenants governing the RCF:

- Leverage: Net Debt to underlying EBITDA not greater than 3:1 (30 June 2019: 1.64); and
- Interest Cover: underlying EBITDA to Net Finance Charges not less than 4:1 (30 June 2019: 13:1).

The current RCF is committed and has a non-utilisation fee of 35.0% of the applicable margin. The margin over LIBOR (or equivalent) ranges from 1.3% for leverage below 1.0 times, up to 2.2% for leverage above 2.5 times.

### Term Loan Facility

On 24 January 2018, the Group put in place a Term Loan facility of £350.0 million to provide funding for acquisitions. The committed facility has an availability period to 31 December 2019 and a termination date of 31 December 2020. A sum of €150.0 million was drawn on 12 February 2018 to fund part of the consideration paid for the AST Farma and Le Vet acquisition and further drawings were made to finance the acquisition of Venco. The total drawn at 30 June 2019 is £179.3 million.

The facility has the same covenants as the RCF above.

## Return on Capital Employed (ROCE)

ROCE grew to 15.5% in the year (2018: 15.4%) as the Group continues to benefit from consolidation of the acquisitions and by further leveraging the asset base.

## Acquisitions

The Group has made several acquisitions in recent years. Performance of the acquisitions made during the 2018 and 2019 financial years is separately summarised compared to the existing business in the sections above.

In October 2018, the Group acquired the trade and assets of Caledonian, an equine veterinary pharmaceuticals sales and distribution company based in New Zealand and Australia for a total consideration of £4.4 million. The business has been successfully integrated into the Group and is outperforming our expectations. The acquisition was financed from the Group's existing working capital resources.

In December 2018, the Group completed the acquisition of Venco for a total consideration of £34.8 million. The business has been successfully integrated into the Group and is outperforming our expectations. The acquisition was financed from an additional draw down from the Group's RCF.

## Accounting Standards

The accounting policies adopted are outlined in note 1 to the Accounts. There are no accounting policy changes which have materially impacted the 2019 financial year.

Note 1 to the Accounts outlines the impact of adopting IFRS 9 (financial instruments) and IFRS 15 (revenue recognition) in 2019 and also the Group's impact assessment of IFRS 16 (leases) which will be adopted in 2020.

## Summary

Our existing business performed strongly this year and was further enhanced by the realisation of significant Le Vet revenue synergies which have resulted in improved operating leverage.

We have increased our R&D expenditure enabling us to expand the number of pipeline projects, novel opportunities and overseas product registrations we invest in and our acquisitions of Caledonian and Venco strengthen both our geographical and market presence.

The Group's balance sheet is strong, enabling us to continue to consider further relevant acquisition and investment opportunities as they arise.

## Ian Page

Chief Executive Officer  
2 September 2019

# Key Performance Indicators

## KPI and Definition

## Performance

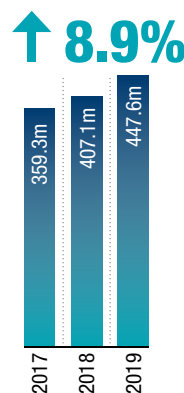
## Commentary

## Relevance to Strategy

1

### Revenue Growth

Year-on-year CER sales growth including new products and excluding revenue from acquired businesses.



Dechra's existing business grew by 7.8% in EU Pharmaceuticals (excluding third party contract manufacturing which declined), and by 15.4% in NA Pharmaceuticals.

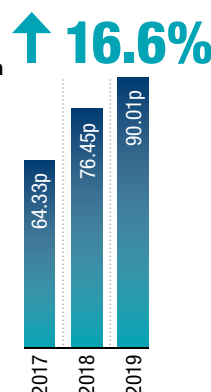


A key driver of our strategy is to deliver sustainable sales growth through delivering our pipeline, maximising our existing portfolio and expanding geographically.

2

### Underlying Diluted EPS Growth

Underlying profit after tax divided by the diluted average number of shares, calculated on the same basis as note 11 to the Accounts.



This includes a 27.3% increase in underlying operating profit partially offset by higher finance costs from the increase in debt and equity issuance to fund acquisitions.

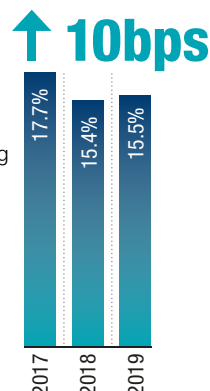


Underlying diluted EPS is a key indicator of our performance and the return we generate for our stakeholders. It is one of the performance conditions of the LTIP.

3

### Return on Capital Employed

Underlying operating profit expressed as a percentage of the average of the opening and closing operating assets (excluding cash/debt and net tax liabilities).



There was a small improvement in ROCE during the year as we continue to consolidate acquisitions and leverage the asset base.



As we look to grow the business, it is important that we use our capital efficiently to generate returns superior to our cost of capital in the medium to long term. It underpins the performance conditions of the LTIP.

## Key to Strategic Growth Drivers:

- Pipeline Delivery
- Portfolio Focus
- Geographical Expansion
- Acquisition

## Key to Strategic Enablers:

- Technology
- People
- Manufacturing and Supply Chain

## Key:

- Long Term Incentive Plan (LTIP) performance condition

KPI and Definition	Performance	Commentary	Relevance to Strategy								
<p><b>4</b></p> <p><b>Cash Conversion</b></p> <p>Cash generated from operations before tax and interest payments as a percentage of underlying operating profit.</p>	<p><b>↑ 310bps</b></p> <table border="1"> <tr><th>Year</th><th>Percentage</th></tr> <tr><td>2017</td><td>115.9%</td></tr> <tr><td>2018</td><td>81.9%</td></tr> <tr><td>2019</td><td>85.0%</td></tr> </table>	Year	Percentage	2017	115.9%	2018	81.9%	2019	85.0%	<p>Cash conversion improved during the year despite the increase in inventory as a result of Brexit and also the growth of the Group.</p>	<p>Our stated aim is to be a cash generative business. Cash generation supports investment in the pipeline, acquisition and people.</p>
Year	Percentage										
2017	115.9%										
2018	81.9%										
2019	85.0%										
<p><b>5</b></p> <p><b>New Product Revenue</b></p> <p>Revenue from new products as a percentage of total Group revenue. A new product is defined as any molecule launched in the last five financial years.</p>	<p><b>↑ 480bps</b></p> <table border="1"> <tr><th>Year</th><th>Percentage</th></tr> <tr><td>2017</td><td>7.9%</td></tr> <tr><td>2018</td><td>11.9%</td></tr> <tr><td>2019</td><td>16.7%</td></tr> </table>	Year	Percentage	2017	7.9%	2018	11.9%	2019	16.7%	<p>New product revenues reflect the strong market penetration of products launched in the year to 30 June 2019 and the previous four years.</p>	<p>This measure shows the delivery of revenue in each year from new products launched in the prior five years, on a rolling basis. It shows the performance of our R&amp;D and sales and marketing organisations when launching newly developed or in-licensed products.</p>
Year	Percentage										
2017	7.9%										
2018	11.9%										
2019	16.7%										
<p><b>6</b></p> <p><b>Lost Time Accident Frequency Rate (LTAFR)</b></p> <p>All accidents resulting in the absence or inability of employees to conduct the full range of their normal working activities for a period of more than three working days after the day when the incident occurred, normalised per 100,000 hours worked.</p>	<table border="1"> <tr><th>Year</th><th>LTAFR</th></tr> <tr><td>2017</td><td>0.26</td></tr> <tr><td>2018</td><td>0*</td></tr> <tr><td>2019</td><td>0.21*</td></tr> </table> <p>* excludes AST Farma and Le Vet</p>	Year	LTAFR	2017	0.26	2018	0*	2019	0.21*	<p>The LTAFR increased from nil to 0.21. None of these incidents resulted in a work-related fatality or disability.</p>	<p>The safety of our employees is core to everything we do. We are committed to a strong culture of safety in all our workplaces.</p> <p>➔ Read more about <b>Corporate Social Responsibility</b> on pages 46 to 61</p>
Year	LTAFR										
2017	0.26										
2018	0*										
2019	0.21*										
<p><b>7</b></p> <p><b>Employee Turnover</b></p> <p>Number of leavers during the period as a percentage of the average total number of employees in the period.</p>	<p><b>↓ 230bps</b></p> <table border="1"> <tr><th>Year</th><th>Percentage</th></tr> <tr><td>2017</td><td>15.9%*</td></tr> <tr><td>2018</td><td>13.6%†</td></tr> <tr><td>2019</td><td>13.6%†</td></tr> </table> <p>* excludes RxVet, AST Farma and Le Vet † excludes Venco</p>	Year	Percentage	2017	15.9%*	2018	13.6%†	2019	13.6%†	<p>We saw a decrease in employee turnover in the period despite operating in competitive markets.</p>	<p>Attracting and retaining the best employees is critical to the successful execution of our strategy.</p>
Year	Percentage										
2017	15.9%*										
2018	13.6%†										
2019	13.6%†										

Strategy in Action



## Pipeline Delivery

Delivering our pipeline on time, at the right costs and with the expected returns



# Delivering our pipeline through licensing opportunities

Increasing our novel product pipeline

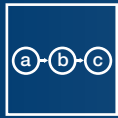
## £25.1m 19

**Development Spend**

**New Products in Development**

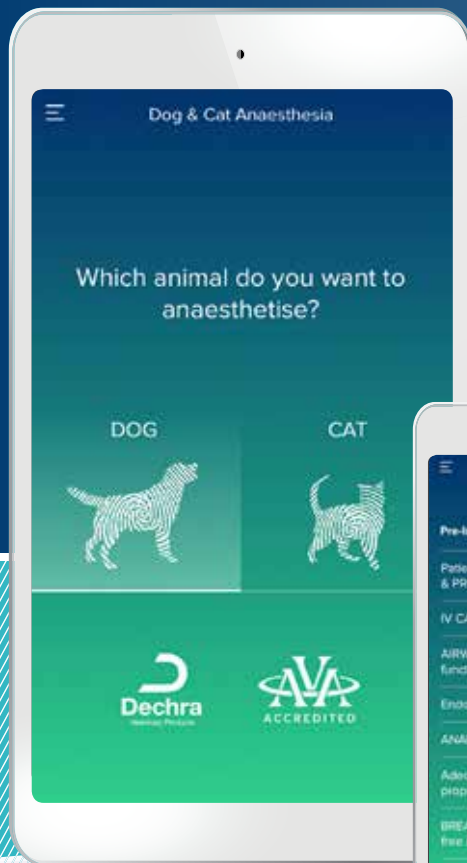
Dechra's pipeline is, and will remain, one of the key organic strategic growth drivers. It is important that the pipeline is the correct scale with a complementary portfolio of novel and generic products to reflect the current size of the business, enabling it to continue to make a meaningful contribution in the future. We have therefore invested additional time and effort over the last few years licensing new technologies to strengthen our in-house development capabilities. We have a business development group that screens products developed by outside innovators to determine the suitability and quality of the science and the strategic fit with our core therapeutic areas. This group attends external meetings and conferences to keep up-to-date with current cutting edge science and to meet with biotechnology companies, human pharmaceutical companies and educational establishments to propose Dechra as a future partner. Over the last two years we have been very successful in securing numerous agreements, the most significant of which are outlined below:

- A liquid formulation of pimobendan, a cardiovascular treatment for dogs. The new product was recently approved in 23 EU territories. Dechra will be responsible for the marketing and distribution and will sell the product under the Cardisure trademark;
- With a goal to help reduce the development of antimicrobial resistance in food animals, Dechra has been evaluating alternative therapies for prevention of disease in pigs and chickens. In the last year, we have entered into multiple agreements to evaluate new vaccine technologies against viral and bacterial diseases in pigs. By preventing the diseases there will be less use of prophylactic and therapeutic antimicrobials. Proof of concept studies are ongoing with these vaccines;
- We have entered into agreements to evaluate two products for equine lameness. One product, licensed from Glasgow University, is still in the proof of concept phase; the other, licensed from Anzac, is in full development. Both will contribute to our position as a market leader in equine medicine. Additionally, we are evaluating an equine ulcer treatment;
- One of our most recent licensing deals is with Vetcare Ltd for a patented canine sedative. This novel combination product provides greater cardiovascular safety as compared to other products of a similar class. The development programme is complete, and with our licensing partner, Vetcare, we expect to launch the new sedative into the first market in early 2021 with other territories to follow;
- As global market leaders in endocrinology, we have been looking for several years to complete the portfolio with the inclusion of insulin products for dogs and cats. Post the year-end, we are delighted to have completed a significant agreement with Akston Biosciences who have developed a unique version of insulin with a sustained duration of activity. If we are able to prove that we can deliver a weekly injection, as opposed to the current insulin products for dogs and cats that are daily, it will become one of Dechra's most significant products in its portfolio. Studies are ongoing to further prove the concept and to optimise dosing options prior to moving the product into full development.



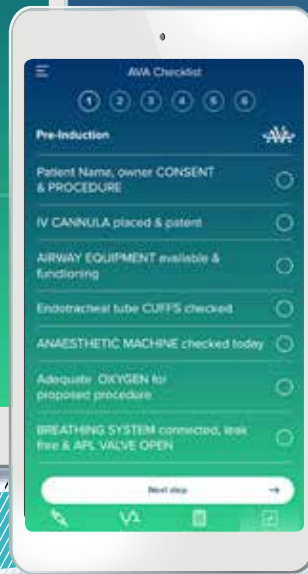
# Portfolio Focus

Maximise our revenue by increasing market penetration focusing on targeted therapeutic sectors



**3**  
Languages

**22,000**  
Downloads



# Dechra Dog & Cat App

## Anaesthesia Education and Support Tool

Although anaesthesia and sedation are performed daily in small animal practices, it can be a daunting decision for both veterinarians and nurses to decide what products to use. The extensive range of medications available, varying procedures, and the relative safety risk of each treatment, need to be considered for each individual patient. Additionally, as new scientific anaesthetic research is being published continually, retaining this volume of information can be overwhelming.

Dechra, already well known for our comprehensive anaesthesia product range, recognised the need to support veterinarians and veterinary nurses by providing them with a timely and easily accessible means to access the most up-to-date anaesthetic protocols for different types of patients undergoing varying treatments.

As a result, the Dechra Dog & Cat Anaesthesia App was developed. It was launched at the Association of Veterinary Anaesthetists (AVA), Spring Meeting in March 2019.

Developed in collaboration with two leading European Specialists in Veterinary Anaesthesia and Analgesia and endorsed by the Association of Veterinary Anaesthetists (AVA), the App provides specialist information in a format that is periodically updated to reflect new products, any changes in practice and new research findings.

Matt Gurney BVSc, CertVA, DipECVAA, MRCVS, one of the authors of the App and an RCVS and EBVS European Veterinary Specialist in Anaesthesia and Analgesia commented "The Dechra Anaesthesia App fills a clear gap in the market in the age of instant information. The App provides reassurance to veterinary practitioners that the recommendations provided are up to date and delivered by specialists in the field of anaesthesia and pain management. This is a clear benefit to the patients being treated."

The App is an intuitive tool. It is designed to assist veterinarians in developing appropriate anaesthetic protocols for different types of patients and their unique circumstances. It contains information on the full range of relevant and commonly used molecules. It assists veterinarians in choosing the most appropriate product for each procedure and it has an in-built dose calculator that helps to simplify the process and save time for busy vets.

Potential medication doses and combinations suggested in the App are based on the extensive expertise and clinical experience of the authors. In addition to providing routine protocols which are up-to-date with current opinion, the App is particularly valuable to veterinarians who will frequently be asked to treat challenging patients; from paediatric to geriatric, aggressive to moribund, across a wide range of procedures varying from non-painful imaging to severely painful orthopaedic and soft tissue surgery.

Many of these situations are not covered in individual product data sheets (SPCs) or textbooks. The App is therefore unique in providing this up-to-date expert knowledge at veterinarians' fingertips.

The App also contains the AVA Anaesthetic Safety Checklist, a pre-anaesthetic checklist designed to improve veterinary patient safety. This follows a similar checklist developed and used in human medicine which has been shown to almost halve the anaesthetic death risk.

This is an innovative and unique way to provide veterinarians with useful, practical anaesthesia support. It will make the day-to-day life of veterinarians in practice easier, improve patient safety and provide more animals with an optimal anaesthetic experience.

In turn, our investment in the development and launch of this important service reinforces Dechra's reputation as leaders in veterinary anaesthesia.

The Dechra Dog & Cat Anaesthesia App, which is already immensely popular with veterinarians, is freely available on both iOS and Android operating systems and can also be downloaded directly from the Dechra and AVA websites.



Strategy in Action



## Geographical Expansion

Leverage our product portfolio into new geographical regions through in-country presence



## Acquisition

Expand our geographical footprint and enhance our product portfolio through acquisition





# Laboratorios Vencofarma do Brasil Ltda, Brazil

Bringing an acquisition into the Dechra organisation

## 60

Registered Vaccines

## 3rd

Largest World Animal Health Market

Successful integration of an acquired business is a key skill that Dechra has developed over numerous transactions. When we buy a business we have an in depth understanding of its products, its markets and where it will fit strategically within the Dechra Group. We believe it is important that we implement a strategic plan from day one of ownership and outline to our new employees a very clear vision of what our objectives are. People do not like uncertainty, therefore an honest, straightforward and up front approach is always well received and also helps us to retain the key people who are one of the key strengths of any business.

With our most recent acquisition of Laboratorios Vencofarma do Brasil Ltda (Venco), we implemented swift change that has had a positive impact on the new team. By investing up front in our integration plan, we relieved some of the pressures on the management to allow them to focus on the employees, customers and driving sales. Over our first six months since acquiring Venco we have made 'excellence in communication' a key goal to obtain engagement and collaboration.

On day one a presentation was given to all staff, the majority of whom were on site, with others watching via a video stream. The purpose of this presentation was to highlight who Dechra are, where we have come from, and what the benefits would be for Venco being part of the Dechra Group. We also outlined the values we aspire to both as a Company and as individuals. Over the subsequent days we held mini group meetings with every department to provide an opportunity for questions and to clarify points that directly affected them.

This was only the start of the communication process which was followed up with a major conference where every single person in the Venco business attended. The presentations included a celebration of the past performance, expectations for the future, the importance of brand and an outline of the integration plan that was to be rolled out over the next 18 months. This conference was a high tempo and professionally organised event that generated a great atmosphere and a desire to embrace change. It was explained that visually the business will look different but, more importantly, culturally it will behave differently. Fundamentally, we were asking people to take responsibility for their own actions, decisions and

ambitions. For some this change was a frightening experience, for others a chance to express themselves and put forward their own ideas on how to change, improve and grow. The majority of the team responded extremely positively and have embraced the transition to Dechra.

We have worked hard to strengthen the team with the appointment of key management positions; a new Finance Director started within four weeks, a HR Manager within eight weeks and a Regulatory Manager within 12 weeks.

In the early days, the excitement and anticipation provided good momentum within the team, which has continued with the delivery of our promises and implementation of the integration plan. We have maintained regular communication to drive an informed, open and honest culture.

We have taken a number of key engagement actions, which includes:

- implementing a programme of English lessons which has had an uptake of over 70 people. This was seen as an opportunity for everyone in the business to grow their skills and enable them to engage better with the parent company and new colleagues;
- starting the "Great Place to Work" survey where we can listen to people's views and ideas;
- planning the site investments and the initiation of some early essential projects. It is important to start these as this is seen as a tangible expression of our commitment to developing the business; and
- introducing the change of corporate brand with new uniforms, site signage and website changes.

Ultimately, we want our employees to live and breathe our Values because it is important they share the same beliefs and culture.

In Brazil we have just started on this exciting journey; while there is a great deal to do, we know the team will enjoy delivering Dechra's goal of becoming a major animal health player in the South American market.

# Product Development

Although some products may have a slightly different path, most novel and generic products follow a fairly standard process containing six phases, defined as: **Evaluation**, **Feasibility**, **Research**, **Development**, **Registration** and **Launch**.

12

Projects in Feasibility

16

Projects in Research

19

Projects in Development

9

Projects in Registration

Dechra employs a structured process in its pharmaceutical and vaccine development pipeline while retaining an opportunistic and entrepreneurial approach. Focus is given to the Group's therapeutic sectors and new development opportunities and in-license opportunities are evaluated for strategic fit within these sectors. Therapies outside of the key areas are considered for inclusion in the pipeline if they are novel and address medical needs in the veterinary market.

A product's return on investment can vary: novel developments tend to have medium to long term realisation with attractive high value returns; while generic developments generally have shorter time scales with returns dependent upon the number of other entrants and speed to market relative to competition.

In addition to developing new products, Dechra is also looking continuously to improve existing commercial products to retain and grow market share. Lifecycle activities are varied but may include changing primary packaging or dose form for improving convenience for the user or adding claims or species to widen the addressable market. These lifecycle projects can lead to substantial growth, even for established products.

Dechra's current development pipeline is a mixture of short, medium and long term new opportunities and lifecycle projects.

## Generating and Prioritising Ideas

Ideas are usually generated by our Marketing and Business Development functions, but Dechra encourages all employees to share ideas for new or existing products. Ideas will be prioritised by Marketing and the most attractive ones will be evaluated by a small cross functional Evaluation team. During the **Evaluation** phase, the team defines the scope of the project and assesses whether the cost benefit ratio is favourable considering market need, market value, strategic fit and the probability of technical and regulatory success. The team also defines the work required to be completed in the Feasibility phase.



## Making the Chemistry Work

In the second phase of the development process, **Feasibility**, proof of concept level data is generated for pharmaceutical development (formulation and manufacturing process), efficacy and safety, and a regulatory pathway is identified. The purpose of this phase is to eliminate projects with low probability of success as early as possible.

All the necessary pilot data is generated in the **Research** phase to:

- understand the efficacy and safety profile (innovation) or the likelihood of establishing bioequivalence (generics);
- enable high quality pharmaceutical development; and
- establish the best strategy to maximise the probability of technical and regulatory success.

The main purpose of the Research phase is to de-risk the expensive, long and resource intensive Development phase. In addition, during the Research phase the formulation and manufacturing process are finalised, and the dose that is both safe and effective is determined. For some projects, this phase can be relatively straightforward, while for others it can be iterative, for example finding a formulation that gives the desired safety and efficacy profile.

## Entering the Development Phase

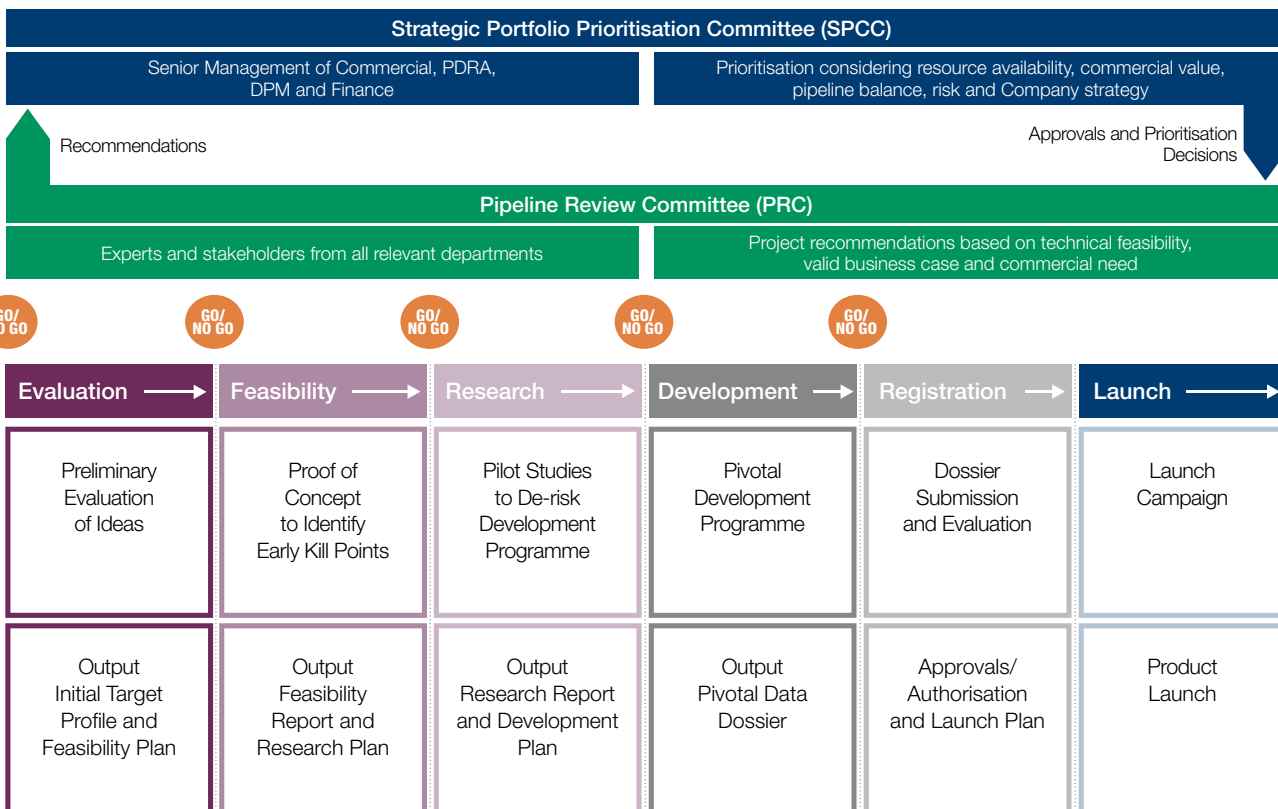
The **Development** phase is the longest part of the process, potentially taking between two to four years. After the formulation has been demonstrated to be stable, up to three registration batches are manufactured for use in safety studies, efficacy studies and stability testing. For generic products, the batches are used in one or more bioequivalence studies to demonstrate that activity will replicate the pioneer product. If the studies conducted during Development phase demonstrate the required safety, efficacy and chemical stability of the product, regulatory dossiers are prepared for **Registration**.

The whole process from beginning to end can take between three and ten years before **Launch**, depending on the complexity and nature of the product.

## Stage Gate Process

The Pipeline Review Committee analyses each project after each phase for technical or regulatory risks and issues, and for any changes to the business case. Project decisions are endorsed by the Strategic Portfolio Prioritisation Committee which also prioritises projects based on their overall commercial and strategic value within resource constraints.

→ Read about the **Product Pipeline** on pages 42 and 43



# Product Development



continued

## Product Pipeline




A key strategic priority for the Group is the delivery and strength of the pipeline. The chart outlines the status of the major projects. Owing to the nature of product development, the content of our pipeline will change over time as new projects progress from Evaluation to market or as projects are terminated. For competitive reasons, exact project details are not disclosed.

### Key to Product Pipeline Our Key Therapeutic Sectors

Analgesic, Anaesthesia, Anti-inflammatory	<span style="color: #00A0C0;">●</span>
Antimicrobial	<span style="color: #004A5A;">●</span>
Antiparasitic	<span style="color: #C0C000;">●</span>
Cardiology	<span style="color: #E67E22;">●</span>
Dermatology	<span style="color: #8E44AD;">●</span>
Endocrinology	<span style="color: #27AE60;">●</span>
Gastrointestinal	<span style="color: #000000;">●</span>
Vaccines	<span style="color: #9B59B6;">●</span>
Locomotion	<span style="color: #00A0C0;">●</span>
Urology	<span style="color: #5D6D7E;">●</span>

 ① — Evaluation		 ② — Feasibility	
CAP/Equine	FAP	CAP/Equine	FAP
<p><b>New opportunities are constantly being evaluated and will move into Feasibility quickly if of interest</b></p> <p>→ Read about the <b>Evaluation process</b> on page 40</p>		<span style="color: #00A0C0;">●</span> Analgesic therapy for dogs and cats	<span style="color: #9B59B6;">●</span> Swine vaccines
		<span style="color: #00A0C0;">●</span> Anti-inflammatory for horses	<span style="color: #9B59B6;">●</span> Swine vaccines
		<span style="color: #000000;">●</span> Gastrointestinal therapy for horses	<span style="color: #9B59B6;">●</span> Swine vaccines
		<span style="color: #008000;">●</span> Endocrine therapy for dogs	<span style="color: #9B59B6;">●</span> Swine vaccines
		<span style="color: #00A0C0;">●</span> Anaesthetic for dogs	<span style="color: #9B59B6;">●</span> Poultry vaccines
		<span style="color: #00A0C0;">●</span> Anti-inflammatory for horses	<span style="color: #9B59B6;">●</span> Poultry vaccines



 ③ — Research		 ④ — Development		 ⑤ — Registration	
CAP/Equine	FAP	CAP/Equine	FAP	CAP/Equine	FAP
● Dermatological therapy for dogs	● Antibiotic for pigs	● Endocrine diagnostic	● Antibiotic for cattle	● Antibiotic for dogs and cats	● Poultry vaccines
● Analgesic therapy for dogs	● Paraciticide for poultry	● Dermatological therapy for dogs	● Antibiotic for cattle, dogs, cats, horses	● Analgesic therapy for dogs	● Poultry vaccines
● Dermatological therapy for dogs	● Antibiotic for pigs	● Lameness therapy for horses	● Antibiotic for cattle and pigs	● Anaesthetic for dogs	● Poultry vaccines
● Dermatological therapy for dogs	● Antibiotic for cattle, pigs and poultry	● Lameness therapy for horses		● Paraciticide for dogs	
● Endocrine therapy for horses		● Analgesic therapy for horses		● Cardiovascular therapy for cats	
● Endocrine therapy for cats		● Analgesic therapy for horses		● Urological therapy for dogs	
● Ocular anti-inflammatory for dogs		● Endocrine therapy for dogs			
● Gastrointestinal therapy for dogs		● Gastrointestinal therapy for dogs			
● Dermatological therapy for dogs		● Gastrointestinal therapy for dogs			
● Antibiotic for dogs and cats		● Dermatological therapy for dogs			
● Anaesthetic for dogs and cats		● Anti-inflammatory for dogs			
● Antibiotic for dogs and cats		● Gastrointestinal therapy for dogs			
		● Anti-inflammatory for horses			
		● Anaesthetic for dogs			
		● Antibiotic for dogs and cats			
		● Anti-inflammatory for cats			

# International Product Offering

The tables below show the key products in our focus therapeutic areas in territories where we have sales and marketing organisations.

Therapeutic Area	Key Product	Australia	Austria	Belgium	B&H	Brazil	Canada	Croatia	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lans	NZ	Norway	Poland	Portugal	Serbia	Slovenia	Spain	Sweden	UK	US	
Endocrinology	<i>Felimazole</i>	●	●	●			●		●	●	●	●	●	●		●	●				●	●	●	●	●	●	
	<i>Forthyron</i>	●	●	●					●	●	●	●	●	●	●	●			●	●	●	●	●	●	●	●	
	<i>Vetoryl</i>	●	●	●		●			●	●	●	●	●	●	●	●	●	●	●	●	●	●		●	●	●	●
	<i>Zycortal</i>	●	●	●			●		●	●	●	●	●	●	●	●	●	●	●	●	●		●	●	●	●	●
Dermatology and Care	<i>Canaural</i>	●	●	●			●		●	●	●		●	●		●	●	●	●	●	●		●	●	●	●	
	<i>DermaPet</i>		●	●			●		●	●	●	●	●		●	●	●	●	●	●	●			●	●	●	
	<i>Isaderm</i>	●	●	●			●		●	●		●	●	●		●	●	●	●	●	●		●	●	●	●	
	<i>Malaseb</i>		●	●					●	●	●	●	●	●		●	●	●	●	●	●		●	●	●	●	
Anaesthesia and Analgesia	<i>Alfaxan</i>			●					●	●	●	●		●		●	●			●			●	●			
	<i>Atipam</i>		●	●						●	●	●	●	●		●	●	●	●	●	●		●	●	●		
	<i>Comfortan</i>		●	●					●		●		●	●		●	●	●	●	●	●		●	●	●		
	<i>Phycox</i>												●	●									●	●	●	●	
	<i>Sedator</i>		●	●						●	●	●	●	●		●	●	●	●	●	●		●	●	●	●	●
	<i>Vetivex</i>			●					●	●	●	●	●	●										●	●	●	
Cardiovascular	<i>Cardisure</i>	●	●	●					●	●	●	●	●	●	●	●	●	●	●	●	●		●	●	●	●	
Ophthalmology	<i>Isathal</i>	●	●				●		●	●	●	●	●	●		●	●	●		●	●		●	●	●	●	
Antibacterial and Antibiotics	<i>Amoxi-Clav</i>	●															●								●		
	<i>Clavubactin</i>		●						●	●	●	●	●	●		●	●		●						●	●	
	<i>Cefpodoxime Proxetil</i>																								●	●	
	<i>Enroquin/Enrofloxacin</i>	●				●																				●	
	<i>Metrobactin</i>		●	●	●	●		●	●	●	●	●	●	●	●		●			●	●	●	●	●	●	●	●

**Equine  
Medicine**

Key Product	Australia	Austria	Belgium	B&H	Brazil	Canada	Croatia	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lans	NZ	Norway	Poland	Portugal	Serbia	Slovenia	Spain	Sweden	UK	US
<i>Domidine</i>		●	●			●			●	●	●	●	●					●	●			●	●	●	
<i>Equipalazone</i>	●							●		●	●	●			●	●							●	●	●
<i>HY-50</i>			●			●		●	●		●		●		●	●	●						●	●	●
<i>Osphos</i>	●	●	●			●			●	●	●	●	●	●	●	●		●	●				●	●	●

**Food producing  
Animal Products**

Key Product	Australia	Austria	Belgium	B&H	Brazil	Canada	Croatia	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lans	NZ	Norway	Poland	Portugal	Serbia	Slovenia	Spain	Sweden	UK	US
<i>Cyclospray</i>		●	●	●		●	●			●		●	●	●		●		●	●	●	●	●	●	●	●
<i>Methoxasol</i>		●	●					●		●	●	●	●		●			●	●	●	●	●	●	●	●
<i>Octacillin</i>		●	●					●		●	●		●		●			●	●	●	●	●	●	●	●
<i>Rapidexon</i>		●	●					●	●	●	●	●	●		●			●	●		●	●	●	●	●
<i>Soludox</i>		●	●					●		●	●	●	●		●			●	●		●	●	●	●	●
<i>Centidox</i>		●	●								●		●		●						●	●			
<i>Altidox</i>		●								●	●							●				●			

**Nutrition**

Key Product	Australia	Austria	Belgium	B&H	Brazil	Canada	Croatia	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lans	NZ	Norway	Poland	Portugal	Serbia	Slovenia	Spain	Sweden	UK	US
<i>Specific</i>			●					●	●	●		●			●		●	●	●			●	●	●	

**Vaccines**

Key Product	Australia	Austria	Belgium	B&H	Brazil	Canada	Croatia	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lans	NZ	Norway	Poland	Portugal	Serbia	Slovenia	Spain	Sweden	UK	US
<i>Avishield ND</i>			●	●	●		●				●				●			●		●	●			●	

**Companion  
Animal Products**

Key Product	Australia	Austria	Belgium	B&H	Brazil	Canada	Croatia	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lans	NZ	Norway	Poland	Portugal	Serbia	Slovenia	Spain	Sweden	UK	US
<i>Phenoleptil</i>		●						●		●	●	●	●		●		●						●	●	
<i>Prevomax</i>		●	●				●	●	●	●	●	●	●		●		●	●	●		●	●	●	●	●

# Corporate Social Responsibility



**Tony Griffin**  
Managing Director, Dechra  
Veterinary Products EU

**Melanie Hall**  
Company Secretary

**Katy Clough**  
Group HR Director

The Board takes ultimate responsibility for Corporate Social Responsibility and is committed to developing and implementing appropriate policies that create and maintain long term value for all stakeholders.

### Dechra Values and Culture

Everything we do is underpinned by our culture and Values. They are important to us and have helped to drive the Group's success. We believe that our Values encapsulate our business ethics and set the standards that we wish to achieve and ultimately exceed. They outline the type of people we are, the services we provide and the way we aim to do business. Our businesses deliver high quality products and services to veterinarians worldwide through our employees and the network of third parties that we work with.

We are committed to acting responsibly and with integrity, respecting the laws, regulations, traditions and cultures of the countries within which

we do business. This is reflected in our Values, which define the core principles by which we operate.

Throughout this report you will find examples of how our Values guide our behaviours and actions.

Our Values are supported by our Code of Conduct, originally established in August 2009 and subsequently revised in 2018. This sets out the standards of conduct to be adopted by all employees worldwide. The Code of Conduct incorporates a number of our policies and standards to enable us to act with integrity and honesty, and includes Anti-Bribery and Anti-Corruption (ABC), Sanctions, Data Protection, Modern Slavery, Health and Safety and Donations.

Our Code of Conduct sets the standard of how we interact with our stakeholders and wider community, and is based around four pillars:

**Our People, Our Community, Our Environment and Our Business.**

### Non-Financial Information Statement

We aim to comply with the Non-Financial Reporting requirement as detailed in Sections 414CA and 414CB of the UK Companies Act 2006. The table below sets out where you can find the non-financial matters within our Strategic Report that, taken together, comprises the Non-Financial Information Statement.

Reporting requirement	Where to read more	Page number	Where to read more	Page number
<b>Environmental Matters*</b>	Corporate Social Responsibility: Our Environment	58 and 59		
<b>Employees*</b>	Creating Value for Our Stakeholders	15	Case Study: Bringing an acquisition into the Dechra organisation	39
	Chief Executive Officer's Statement	20 to 23		
	Understanding our Key Risks	64 to 67	Corporate Social Responsibility: Our People	49 to 55
<b>Social Matters*</b>	Creating Value for Our Stakeholders	15	Corporate Social Responsibility: Our Community	56 and 57
<b>Respect for Human Rights*</b>	Creating Value for Our Stakeholders	15	Corporate Social Responsibility: Our Business	60 and 61
<b>Anti-Bribery and Anti-Corruption*</b>	Creating Value for Our Stakeholders	15	Audit Committee Report	83 to 89
	Corporate Social Responsibility: Our Business	60 and 61		
<b>Business Model</b>	Our Business Model	12 to 14	Creating Value for Our Stakeholders	15
<b>Principal Risks</b>	How the Business Manages Risk	62 and 63	Understanding our Key Risks	64 to 67
<b>Non-Financial KPIs</b>	Key Performance Indicators	32 and 33		

\* References to our policies, due diligence processes and information on how we are performing on various measures in these areas are contained throughout the Strategic Report.



## Dedication



We are dedicated to delivering products and services that meet the highest level of service and quality to our customers. We take pride in and are committed

to our jobs within Dechra. Through the ownership of our responsibilities we will contribute to the competitiveness of our business in the marketplace. We constantly look for better ways to do things, resulting in a culture of continuous improvement. We encourage people to make decisions and accept there may be mistakes that will form part of our learning experience.

## Enjoyment



We will provide challenge for our people within their roles to help them stay motivated and engaged. We will endeavour to create an environment

where our people want to come to work and feel a part of Dechra. We will develop ourselves personally and professionally. We want an environment that encourages learning and development and will achieve ever-increasing personal competence. We will generate enthusiasm and energy through positive thinking and actions.

## Courage



We want a business where we dare to challenge each other, creating better cross-organisational solutions. We want an environment

where innovation and creativity can flourish. We encourage each person to be pro-active and to take initiatives. We will encourage everyone to have confidence in themselves and have the strength and character to question the status quo. We will nurture individuality and free thinking, thereby creating a strong and competitive spirit.

## Honesty



We will act with integrity and fairness and treat everyone with respect. We are honest and open in all interactions. Openness is supported at

all levels of the organisation. In our business every job is important. We value each person's contributions to the business as much as we value our own.

## Relationships



We see our customers and suppliers as business partners and thereby work together to ensure common success. We know that success is

not built on the performance of an individual, therefore we encourage co-operation and cross-organisational team working to produce better results together.

## Ambition







We are goal oriented and shall deliver solid results through our energetic and resilient approach throughout the organisation. Our ambitions shall

ensure that we at all times deliver the highest possible levels of quality and services to our customers and to each other. We are determined to do our best and to celebrate as many successes as possible.

# Corporate Social Responsibility

continued

	 <b>Our People</b>	 <b>Our Community</b>	 <b>Our Environment</b>	 <b>Our Business</b>
<b>Pillar</b>	<b>Our People</b>	<b>Our Community</b>	<b>Our Environment</b>	<b>Our Business</b>
<b>Stakeholder(s) Involved</b>	<ul style="list-style-type: none"> <li>Employees</li> </ul>	<ul style="list-style-type: none"> <li>Local Community</li> <li>Charities and non-profit organisations</li> </ul>	<ul style="list-style-type: none"> <li>Employees</li> <li>Local Community</li> </ul>	<ul style="list-style-type: none"> <li>Veterinary Professionals</li> <li>Universities</li> <li>Suppliers and Distributors</li> </ul>
<b>Key Focus Areas</b>	<ul style="list-style-type: none"> <li>Attracting, retaining and developing talent</li> <li>Diversity</li> <li>Culture and Values</li> <li>Employee engagement and productivity</li> <li>Safe working practices</li> </ul>	<ul style="list-style-type: none"> <li>Community investment through charitable donations and volunteering</li> </ul>	<ul style="list-style-type: none"> <li>Energy use</li> <li>Greenhouse gas emissions</li> <li>Waste disposal</li> <li>Sustainable raw materials</li> </ul>	<ul style="list-style-type: none"> <li>Animal welfare</li> <li>Anti-bribery and anti-corruption</li> <li>Education of veterinary professionals</li> <li>Compliance of suppliers with Code of Conduct</li> </ul>
<b>Policy</b>	<ul style="list-style-type: none"> <li>A great and safe place to work</li> <li>We value difference and believe diversity of people, skills and abilities is a strength that helps us to achieve our best</li> </ul>	<ul style="list-style-type: none"> <li>To engage in community activities focussing on animal welfare, human service and environmental stewardship</li> <li>To contribute to the social and economic welfare of the local communities in which we operate</li> </ul>	<ul style="list-style-type: none"> <li>We are committed to minimising the impact of our operations on the environment by adopting responsible environmental practices and complying with applicable environmental legislation</li> </ul>	<ul style="list-style-type: none"> <li>We are committed to acting responsibly and with integrity. We comply with the laws and regulations and respect the traditions and cultures of the countries within which we operate</li> <li>We expect our third parties to trade with honesty and integrity</li> </ul>
<b>Objectives</b>	<ul style="list-style-type: none"> <li>Leverage the Dechra Values and culture</li> <li>Maintain high levels of employee engagement</li> <li>Reinforce a culture of safe working practices</li> </ul>	<ul style="list-style-type: none"> <li>Contribute towards charitable causes through the donation of time, products and skills</li> </ul>	<ul style="list-style-type: none"> <li>Minimise our environmental footprint</li> <li>Optimise the energy we use</li> <li>To utilise the most eco-friendly and financially cost effective distribution system</li> <li>Wherever practicable, to use sustainable raw materials in our nutrition range</li> </ul>	<ul style="list-style-type: none"> <li>Maintain and improve the knowledge and skills of veterinarians who prescribe and use our products</li> <li>To act honestly and with integrity</li> <li>To develop products to improve animal welfare</li> <li>To work with third parties who comply with our Code of Conduct</li> </ul>

→ Read more about **Our People** on pages 49 to 55

→ Read more about **Our Community** on pages 56 and 57

→ Read more about **Our Environment** on pages 58 and 59

→ Read more about **Our Business** on pages 60 and 61



## Our People

### Key Facts:

- 74% of employees returned to work after parental leave
- 14% of current DSC employees have been recruited via the apprenticeship programme
- 2 of our manufacturing facilities have had 24 months of no LTA

**13.6%** Employee Turnover

**52%** of workforce is female

We now employ 1,753 people in 25 different countries and in a wide range of working environments. We have increased our cultural diversity even further in the last year with the addition of the team in Brazil. At Dechra, we have always acknowledged that our people are our greatest asset and know that an inclusive culture is beneficial for our business's performance. Our ongoing objective is to continue to be a high performing business driven by highly skilled and committed teams. Accordingly, we are committed to:

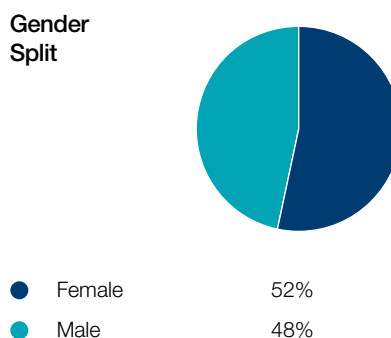
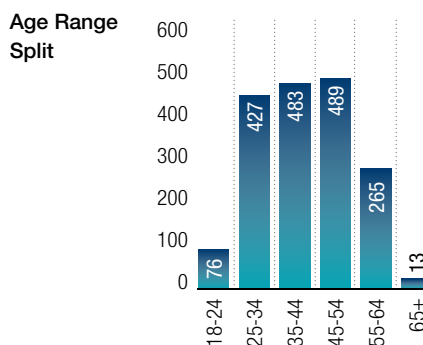
- strengthening and communicating the Dechra culture and striving to ensure our Values encompass our business ethics and standards;
- attracting, retaining and developing talent to build and maintain a top quality team; and
- developing effective succession plans to enable business continuity.

In delivering these aims, it is the Group's policy to recruit and promote people on the basis of their personal ability, contribution and potential, regardless of age, gender, sexual orientation, marital status, race, colour, ethnicity, disability, religion, political affiliation or union membership. We are committed to seeing that everywhere across our Group we promote, support and maintain a culture of fairness, respect and equal opportunity for all.

The Group gives full consideration to applications from disabled people, where they adequately fulfil the requirements of the role. Where existing employees become disabled, it is the Group's policy, whenever practicable, to provide continuing employment under the Group's terms and conditions and to provide training and career development whenever appropriate. The Group does not tolerate bullying or harassment.

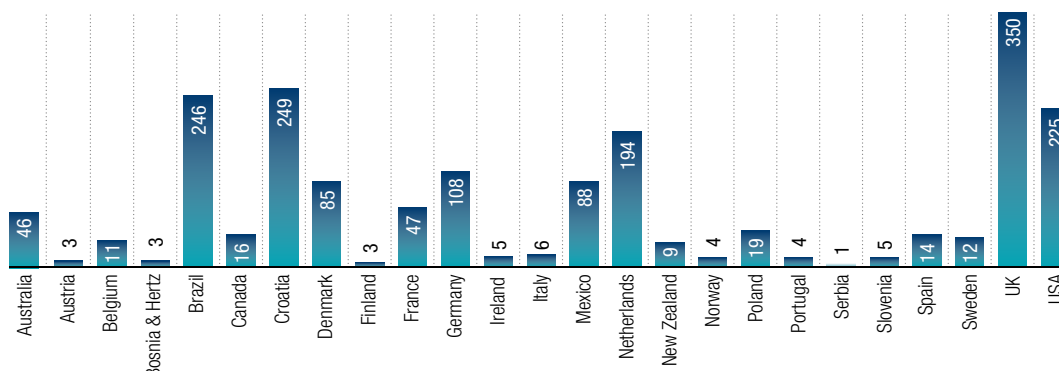
We are committed to fair employment practices and comply with national legal requirements regarding wages and working hours. In the UK, only one of our subsidiaries is required to report under Gender Pay Gap regulations, and we are pleased to report that our gender pay median gap has reduced from 17.7% in 2017 to 9.2% in 2018. This reduction is largely driven by an increase in the number of women in senior and technical roles.

We were delighted that 84% of our employees responded positively to the statement regarding diversity in the workplace in our first employee engagement survey (2018 Engagement Survey) which took place in March 2018. We firmly believe that our Dechra Values support the culturally diverse business that we have become, and although we are separated by time zones, geographically and by language we share common goals and ways of working that are underpinned by our Values.



### Headcount Per Country

**1,753 employees**



# Corporate Social Responsibility

continued



Our original people plan was developed five years ago to support the delivery of the Group's five year plan. Following significant progress, we adapted the people plan in the 2017 financial year to support the delivery of the evolving business goals and the continuous expansion of the Group.

#### **Accelerate Performance:**

Align employee efforts and drive productivity through effective goal setting, feedback and focus on development.

#### **Grow Our Own Talent:**

Attract, retain and develop the right talent in the right place at the right time.

#### **Strong Culture and Values:**

How we do things around here.

#### **Engaged and Committed Workforce:**

A great place to work.

#### **Healthy Workplace:**

Improving the working lives of our people.

#### **Creation of Shared Services:**

Efficient infrastructure supporting commercial operations.

### **Grow Our Own Talent**

Dechra is committed to enhancing the skills of our workforce, planning for a successful future and creating a sustainable talent pipeline.

#### **Delta**

Since July 2016, we have been utilising a learning management system, Delta, which hosts e-learning materials ranging from induction, compliance training such as pharmacovigilance, and software skills. There are 147 internal modules available on Delta to enable Dechra employees to continue to be the best partners to the veterinary profession. During the year, we have launched 16 new courses.

#### **Dechra Veterinary Products North America (DVP NA)**

The US Commercial sales team offers an extensive training programme for its new territory sales managers and inside sales representatives. A team of 18 recently spent two full weeks in Kansas City onboarding and building their product knowledge, equipping them to be productive from the first visit or the first call they make. Veterinary Professional Services, Veterinary Technical Services, and Marketing Managers facilitate the training workshops, which allows the field team to learn from our own internal experts. Additionally, regional managers continue their education with sales operations training offered during their first six months, at regional meetings, and during the national sales meeting.

#### **Apprentices and Interns**

We believe that offering internships and apprenticeships is a great way to attract new employees to Dechra. We have a small number of intern opportunities each year both in the UK and the US. We have successfully supported student interns at our Sansaw and Northwich offices and have an annual programme running. We have been delighted with the quality of the young people who have worked with us and we hope that the experiences of working with Dechra will support them in their future careers. We currently have nine apprentices in Europe in a variety of roles, including administration and logistics. In 2018 we had ten apprentices join our site in Croatia through a government sponsored scheme of which eight have been retained on a permanent basis.

### **Case Study**

## **A series of four webinars on the New EU Regulations for the Registration of Veterinary Medicines**

Product Development has recently run a series of four, one hour training webinars for PDRA colleagues globally to alert them to the major changes in the EU regulations for the registration and maintenance of veterinary medicines, which have been approved by the European Commission and will come into EU law on 22 January 2022. These new regulations are very wide ranging and include a total of 97 objectives with major impacts on our business. The webinars were delivered by Dr Julian Braidwood, MD of the international CRO Triveritas Ltd., and have proved very popular and thought provoking, with an audience of over 70 Dechra colleagues listening from their desks and asking a wide range of questions. Not only is this training format convenient and user friendly for our employees, but it is also an extremely cost effective way of delivering a bespoke and high quality training session on a key topic for our business. The webinars are recorded so that those unable to attend are still able to participate at a time which suits them.

In addition, the Product Development's global clinical team members attended an advanced Word training class for technical report writing. This programme complimented the basic training provided in Delta; geared more toward their job requirements. 22 team members from the US, the Netherlands and the UK participated in the training.

## Case Study



### Sales and Marketing Assistant/ Placement Student

Katy Mellor joined the UK marketing team last July for a one year placement from

Harper Adams University as part of her BSc Agriculture course. Katy has enjoyed learning about the veterinary industry and Dechra's vast and growing range of products whilst being part of a team working in a fast paced environment. She has been integral to the implementation of the Le Vet product launches within the UK, being involved in product forecasting, positioning, pricing and promotion of the products. All of which has furthered her understanding of commercial and marketing business practices. During the last year, Katy has embraced all of the Dechra Values and was formally recognised at a recent UK sales meeting for her contribution and support of her colleagues.

## Case Study



### Ben Poulter, Placement Student

"Working at Dechra as the Finance Placement Student I have gained invaluable experience which I will be taking forward into my future career.

Throughout the year I have learnt a lot about working life and working within a finance team. I have gained a deeper understanding of how the different sections of a finance team function within a large company. Dealing with foreign currencies and the different situations created in an international company has expanded my knowledge beyond what I had at university.

The thing that attracted me to Dechra is the opportunity to work within a relatively small Head Office finance team for the size of the Company. This has allowed me to feel like an integral part of the team and it is clear to see the results of my work. I was also interested in the opportunities available within this placement to help with different parts of the finance function and also experience different aspects of the Company. Having the opportunity to have a tour around the factory at Skipton and spending a day with a salesperson provided a new perspective on Dechra which was different to what I had experienced at Head Office. The experience that I have gained working within Dechra will not be forgotten."

## Case Study

### Apprentices in the Dechra Service Center (DSC), Uldum

There is a long running tradition of having apprentices at the DSC, primarily in the offices but also in the warehouse. The apprentices follow a formal education scheme and during the two year apprenticeship, they also attend 8 to 12 weeks of training courses at one of the local business colleges. They start with simpler tasks working alongside their colleagues, and as their skills evolve through on-the-job training, they ultimately perform the same role as their colleagues. In the final part of their training, the office trainees write a report on a project that is relevant to their work at Dechra. This report will often contain efficiency or cost savings proposals, and as such we have found that apprentices are of great value to both the Company and the employees. Out of the current employees in Uldum, 14% have been recruited through the apprentice programme, two of whom have been employed for over 20 years.



#### Martin Thimes Henriksen

"On a search of the job market, I found the apprentice role at Dechra logistics. After a very nervous job interview, my first ever actually, I was sold. Luckily, Dechra thought the same of me. I started my two years as an apprentice in September 2016, and my first few months was quite calm, and I learned the processes piece by piece, which was very nice. Along the way, I got more and more responsibility, and learned a lot from it. I personally think this is the way to train apprentices, I liked it that way. On my training courses, I both shared experiences with fellow apprentices, as well as learned the basics of logistics. I really liked the two years as a trainee, and I do recommend this kind of education to friends and family. As I am now a regular full time employee in the Logistics department in Denmark, I am now the one trying to pass on my knowledge to the new apprentices arriving. If I follow in the footsteps of my boss, Anders, I will enjoy a long and successful time with the Company, and I sincerely strive to do so."

# Corporate Social Responsibility

continued

## Case Study

### Rachel Gilroy, Product Development Intern Testimonial

“Coming to the end of your PhD marks a time when you need to make decisions on how you want to progress your future career. Making the move from academia to a career in industry is undeniably daunting, and with no industry connections, it can be difficult to take that first step. For me, I was keen to explore the veterinary pharmaceutical industry, and when I attended a talk given by Dechra at Durham University about career options of veterinarians in industry with focus on R&D, it provided me with an invaluable opportunity to approach Dechra regarding an internship in R&D. Having a long established history within the animal health market alongside a fundamental values system, Dechra represented a growing global market brand able to offer a unique internship experience.

Funded as part of the fully integrated BBSRC DTP PhD Internship programme, my three month placement was based primarily in the Product Development offices in Shrewsbury, UK.

During the initial phase of my internship, tasks were mainly focused on exploring published research to generate a comprehensive literature review which would determine subsequent clinical trial protocols. Moreover, I was involved in the creation of a technical training presentation which would be used for the roll out of a referencing software throughout the Group. Importantly it was during this early stage of my internship that great effort was made by all members of the Dechra team, both UK and international, to introduce themselves, their role and their wealth of previous experience. Not only did this make me feel particularly welcome but was valuable in illustrating how different industry roles are not defined by a single career path.

With a clinical team based largely in the US, Dechra allowed me the opportunity to visit teams in both Maine and Kansas. Working

closely with the clinical team in this way gave me tangible experience with procedures and software that formed the basis of clinical operations. Having one-to-one discussions with colleagues working in areas including regulatory affairs, safety and marketing gave me an appreciation of the multi-faceted nature of drug discovery and development, and how each role interlinks with another.

Most notably, I was heavily involved in the formation of a final study report for the submission of pilot clinical trial data to the FDA. Not only did this allow me to assess critically and interpret clinical data, but also present this in a way that complies with current guidelines. Dechra gave me the independence of being able to approach tasks in a manner that suited my skill set, while offering continued mentorship and encouragement during processes with which I was particularly unfamiliar. Being able to participate in clinical operations review meetings highlighted fundamental drug development milestones and challenges, but more importantly, how these are handled.

The ability to overlap my internship with my PhD has allowed me to apply some of the project management and trial protocol techniques to my ongoing research. Furthermore, I was able to present my current PhD research to teams in both the Netherlands and Croatia, sharing knowledge and feedback that could develop my research to application in both academia and industry.

Before working with Dechra, I had little sense of product development processes in the veterinary pharmaceutical industry. Thanks to the dedicated team at Dechra, I now have first-hand industrial experience relating to pharmaceutical research and development, alongside a strong network of industry professionals that have already contributed greatly in my future career. It is with both the confidence and knowledge foundation gained through this internship that I can decisively progress my career toward a role in veterinary pharmaceutical product development.”

## Engagement and Committed Workforce

Informing and engaging our employees through internal channels of communication is of utmost importance to the Group. We have multiple channels of communication to provide both formal and informal updates including a Group newsletter that is issued twice a year (following the half-yearly and year end results), intranets, management and team meetings at the respective business units. These keep our employees informed of the financial performance of the Group, as well as the sharing of updates which are relevant to all Group employees such as management and team changes, progress in relation to strategic objectives and updates on corporate social responsibility objectives.

At Dechra, people are our greatest asset. In order to continue to retain our qualified and skilled employees, and to attract new employees we conducted an Employee Engagement Survey in March 2018 using the Great Place to Work (GPTW) survey. The results of the survey were disclosed in the 2018 Annual Report.

Given the diverse nature of our workforce, due to the geographical spread and the differing roles and segments in which our employees operate, we were very pleased with the overall results of our first survey.

Since the survey took place we have spent time communicating the results to our employees. Initially, we produced a short video with the overall highlights of the survey, and this was followed with feedback of the results at a business unit, department, site or country level utilising any key meetings with employees or team briefings.

Action planning took place with employee groups across the Group where employees had the opportunity to identify areas that they wanted to address as a result of the survey and we built a database of plans, predominantly led by the employee groups. A huge variety of approaches has been taken depending on the size of the teams and their types of issues.

We have scheduled a second Group-wide survey for March 2020 where we hope to see maintained or improved scores.

During the year, Lisa Bright has been appointed as the Non-Executive Director designated for employee engagement. She is currently investigating, along with the Group HR Director, the most effective way in which the Board can engage with our employees to readily understand their views. During the forthcoming year, an employee engagement forum will be piloted.



## Engagement Survey

# 1

### Announcing the engagement survey

A number of communications were shared with our employees globally to inform them that the engagement survey would be launched in March 2018. The communications asked our employees to provide open and honest feedback.

# 2

### Aiding the understanding of the survey

Managers also held briefing sessions with their teams to share the GPTW presentation to build an understanding of why Dechra was launching the survey. We also used posters across our sites as a reminder to our teams of the importance of their input.

# 3

### Employee participation

Following the completion of the engagement survey, videos were posted to thank our teams for their input.

## Case Study

### DVP EU

The EU team had a strong set of results with an overall response rate of 88% of their employees and a trust index of 76% (+9% higher than the Dechra Average score). The strengths of the EU survey were Culture (85%), Engagement (83%) Job Security (81%), Teamwork (80%) and Wellbeing (74%).

Following the feedback of the results, the DVP EU Senior Management team chose to focus on improving the area of Communication and Involvement (66%) across their region. Several work streams were created to focus on improving the level and frequency of communication both formal and informal. These include more focused use of the intranet for sharing news, creation of a monthly newsletter, regular sales

updates to all staff, updates on the strategy from Tony Griffin and communication of the new EU marketing plan. More frequent conference calls have been put in place to allow Tony to talk directly to the EU teams, and the team has been utilising external social media such as LinkedIn to promote our employee brand.

In addition to this, each of the Country and Functional managers within DVP EU has also undertaken the same action planning process with the support of the HR team and had their own action plan documented. Activities vary from additional training sessions, creation of dashboards to keep teams informed, bi-weekly town hall meetings and arranging cross-functional meetings on a quarterly basis to promote better alignment.

# Corporate Social Responsibility

continued

## Culture of Safe Working Practices

Tony Griffin is the nominated Director responsible for health, safety and environmental matters. The Group attaches great importance to the health and safety of its employees and the public. The safety of our employees is paramount and that means continuing to reinforce good safety management practices as well as raising awareness of improved ways of working. Management are responsible for, and committed to, the maintenance, monitoring and promotion of a policy of health and safety at work to nurture the care and wellbeing of our employees, contractors and on-site visitors.

We have seven manufacturing facilities worldwide, employing 748 people representing 42.7% of our total workforce. Due to the nature of their roles, we have identified these as our higher risk employees with regards to health and safety. We have recently appointed a Group Dechra Pharmaceuticals Manufacturing (DPM) Health and Safety Manager who will initially be overseeing four of the main manufacturing facilities with the remit of standardising our procedures and working to ensure that high standards of health and safety are maintained.

To continue to improve the safety performance across both existing and newly acquired facilities, and to reflect the priority that is given across the business to safety, a proactive hazard awareness reporting initiative is in place in DPM.

Risk assessments are undertaken at our DPM sites to identify hazards and apply control measures to reduce or eliminate the risk of injury. Risk assessments may be conducted internally for routine activities or external specialists may be requested to conduct risk assessments for safety critical tasks. Where hazards are identified, these are scored according to the likelihood of an injury or incident occurring and the potential severity of this. Control measures are applied to reduce the risk of injury according to a hierarchy of control. We would firstly assess if a task was necessary and look for other safer ways to do a task before progressively applying other control measures.

All employees, contractors and visitors across the DPM sites are requested to remain vigilant at all times and to report any non-routine hazards they see using the local reporting procedures. We encourage employees to act immediately to warn others and control immediate risks whilst a more permanent solution may then be required to prevent the hazard from recurring. Because we work in a dynamic environment, we believe an increase in hazard reporting is an important leading indicator of the maturity of our safety culture.

DPM encourages local hazard reporting by both employees and contractors. The purpose of each report is to capture information about hazards and to track each hazard to an effective closure. It also allows us to provide feedback to the employees who have raised the hazards that action has been taken.

Each site periodically reviews any hazards raised and looks for trends. In addition to tackling each individual hazard, trend analysis allows each site to focus safety interventions on particular topics. This may include targeted safety training or safety communications.

For a number of years the Group has reported Lost Time Accident Frequency Rate (LTAFR) as a non-financial key performance indicator (see page 33). A LTA is any absence or the inability of workers to conduct their full range of their normal working activities for a period of more than three working days after the day when the incident occurred. Any acquisitions during the year are included from the first full month that they become part of the Dechra Group. Despite maintaining a rigorous focus on health and safety, over the course of the last 12 months the number of incidents has

increased from nil to six. All six incidents occurred in our manufacturing facilities; there were no fatalities. Two of the manufacturing facilities, Bladel and Melbourne, have now had over 24 months without a LTA.

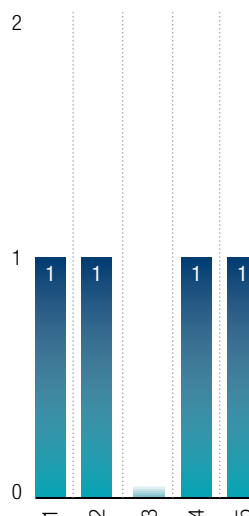
All accidents and incidents are investigated by Line Managers with the cooperation of safety representatives or other employees who are aligned to an area. When an accident occurs, each site conducts an investigation which aims to identify the root cause of the incident including any workplace hazards, system or behavioural errors. Corrective and preventative actions are then implemented.

Any material health and safety issues or incidents that occur are discussed in detail at both business unit senior management meetings, and PLC Board meetings. Discussions include details of incidents and any remedial action taken to mitigate or prevent recurrence. Twice a year a comprehensive health and safety report is presented to the PLC Board meeting for discussion and review by the Directors.

We are routinely investing in safety, and during the 2019 financial year this has included:

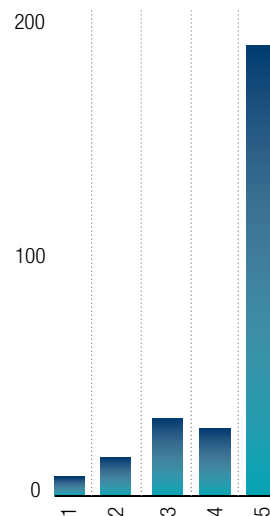
- Refurbishment of floors in our Melbourne facility to reduce the risks of slips and falls;
- The purchase of new equipment to reduce the risk from manually handling heavy drain covers in Zagreb and the installation of a mist shower for personal decontamination;
- The installation of three defibrillators at our Skipton facility, along with the provision of first aid training to 40 employees; and
- An independent health and safety report was conducted at our site in Sydney, Australia with findings being implemented.

Group Causality



1. Slipped/tripped or fell on the same level
2. Ergonomic injury
3. Contact with moving machinery or material being machined
4. Contact with a hot/cold surface or substance
5. Hit something fixed or stationary

DPM Hazards (Bladel, Florida, Skipton, Zagreb)



1. Reportable >7 days
2. LTA
3. Investigated accidents
4. Investigated (damage only)
5. Minor or First Aid accidents



## Case Study:



## Health and Safety Training

Working to ensure that our employees understand their health and safety obligations is critical to maturing and stabilising our safety culture. Employees receive general health and safety training at various stages:

- Induction – all new employees receive a health and safety induction on day one of their employment. This means that they understand the site emergency procedures, key health and safety rules and any welfare arrangements. This is supplemented in their departments with a local area induction.
- Job Training – Employees receive regular health and safety training according to their role and any hazards that exist in the work they are conducting. Role specific training, for example safe use of equipment, is delivered as part of operator training within their departments.
- General Health and Safety Training – General Health and Safety training is sometimes delivered to whole employee populations.
- Subject Matter Experts – Across the Group there are many employees who are trained in specialist health and safety roles. These roles support the overall health and safety management system to enable risks to be controlled on a day-to-day basis. Examples of such roles are first aiders, fire wardens, and spillage responders. For each of these roles training is provided and this is refreshed according to the required frequency.
- Post-accident reviews – following any accident the need for retraining is reviewed as part of the accident or incident investigation.



# Corporate Social Responsibility

continued



## Our Community

- Committed to give every employee one day in the community
- Provided work experience and educational programmes to local community

£322,894

Product donations

£60,123

Cash donations

### Local Community Engagement

We believe that it is important to give back to the communities in which we live and operate. Our community ethos is aligned with our business purpose and Values, in particular, our Relationships and Enjoyment Values. We encourage our employees to engage in community activities, in particular, in the fields of animal welfare, human service and environmental stewardship. There is a particular focus on animal welfare. Below are examples of the community activities, financial and non-financial donations and areas of community employment that we have been involved in:

#### Community Activities

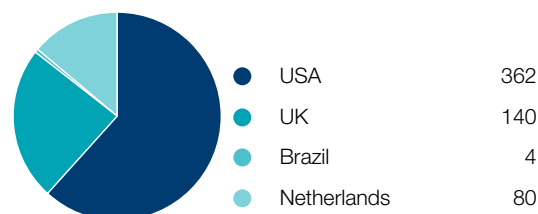
We have committed to giving our employees one day in the community, preferably as a team activity; and whilst this is in its infancy, we have seen teams in Brazil, the Netherlands, UK and USA engage in a variety of activities. In the US, 80 employees served two animal shelters local to our Portland and Kansas City offices. Employees dedicated their time to physical projects supporting the shelters, enabling shelter staff to dedicate more time to serving the animals in need. Both shelters are the respective area's largest shelters and have programmes that support elementary students on the necessary care and compassion for animals. In addition, the Veterinarian Technical Services simulated a well visit to minimise potential stress or triggers of veterans suffering from PTSD or brain injuries.



### Community Service Hours by Type



### Community Service Hours by Country



Case Study



### Head Office Community Activity

The Northwich Head Office team embarked on a CSR activity day in June, volunteering at a local Wildlife Reserve known as Lower Moss Wood, which is an educational nature reserve and wildlife hospital. It provides a place for schools, disabled visitors, environmental groups and others to go and learn about conservation and the environment. The wildlife hospital on site takes in any orphaned, sick or injured wild animals or birds and provides around the clock care. It is also a private nature reserve.

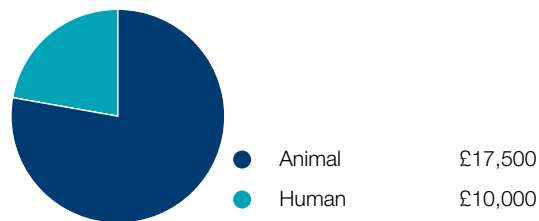
Twenty employees volunteered at the reserve across two days and collectively worked on digging out and restoring a natural peat bog. The aim was to allow the surrounding wildlife, most specifically dragonflies, to reach the water so they could survive and flourish.



### Community Donations

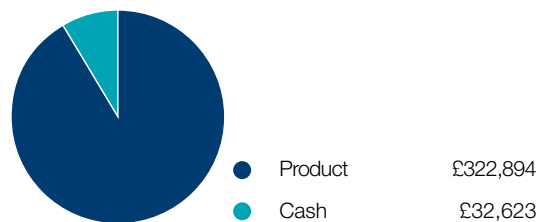
For the last eight years we have operated a Group Donations scheme, whereby we encourage all employees to nominate a charity or non-commercial organisation for a charitable donation. This year we donated to eleven charities each receiving £2,500.

#### Group Annual Charitable Giving



In addition to the annual Group donation, each business unit has the discretion to allocate funds and/or products to local community charities and/or animal welfare charities.

#### Business Unit Donations by Type



The majority of the above product donations are short dated product which otherwise would have had to be destroyed.

At our Zagreb site, we have provided some land to the local community for use as a children’s playground for ten years.

### Community Employment

Our IT and Finance teams located in the Uldum office supported three work readiness and retraining efforts for members of the greater Uldum community. This effort was another way to give back to the communities in which we live and work. Community members with special needs and circumstances were able to apply their skills and interests with a work assignment and work schedule that helped them build their confidence and transition back into productive members of the working community. Dechra team members who had the opportunity to learn about their circumstances and goals and watched their progress were also rewarded by the positive experience.

Similarly, our Brazilian business employed eleven apprentices, all of which were students working part-time to allow them to gain practical work experience, in both administrative areas such as Human Resources and also in production and maintenance. They worked four hours a day, over a period of either one or two years, in the business and attended a complementary qualification programmes for the remaining part of the day. The aim of the scheme was to help young people gain work experience prior to joining the labour market.

# Corporate Social Responsibility

continued



## Our Environment

- 5,540 photovoltaic panels installed in Zagreb
- Reduce CO<sub>2</sub> emissions per DSC Shipment

# 4.9%

Reduction in CO<sub>2</sub> per kg  
(DSC shipments)

# 100%

Certified fish in  
dry cat diets

### Minimise our Environmental Footprint

The Group recognises the importance of good environmental controls. It is the Group's policy to comply with environmental legislation currently in place, to adopt responsible environmental practices and to give consideration to minimising the impact of its operations on the environment.

### Annual Waste Disposal Performance at DPM

	Bladel		Florida		Skipton		Zagreb	
	2019	2018	2019	2018	2019	2018	2019	2018
Recovered, recycled and reused	100%	100%*	31.0%	32.0%	100%**	83.5%	44.0%	95.8%
Landfill	–	–	69.0%	68.0%	–	–	41.0%***	–
Waste & Controlled Drugs	–	–	–	–	–	16.5%	15.0%	4.2%

\* Recycled.

\*\* 47.7% is recovered and 52.3% is recycled.

\*\*\* The increase was due to the removal of asbestos from the majority of the roofs at the Zagreb facility.

Our central logistics hub for Europe (the DSC) has continued with its annual contribution of DKK15,000 to Energreen ApS for the construction of new green energy production facilities within Denmark.

### Optimise the Energy Used

#### Greenhouse Gas Emissions

In order to determine our carbon emissions, we have used the GHG Protocol Corporate Accounting and Reporting Standard and have reported on emissions arising from those sources over which we have operational control (the exception being the inclusion of a third party manufacturer who leases part of our facility in Uldum, Denmark). Any acquisitions during the year are included from the first full month that they become part of the Dechra Group. The disclosures below encompass:

- Scope 1: includes emission from combustion of fuel and operation of facilities (excluding combustion of fuel from company cars);
- Scope 2: includes emissions from purchased electricity, heat, steam and cooling; and
- Vehicle emissions.

Dechra has selected 'Tonnes of CO<sub>2</sub>e per total £ million sales revenue' as the intensity ratio as this is a relevant indicator of the Group's growth.

	1 July 2018 to 30 June 2019	1 July 2017 to 30 June 2018	1 July 2016 to 30 June 2017
Scope 1	5,554	3,819	4,018
Scope 2	3,712	3,463	3,890
Vehicle emissions	2,209	1,703	1,618
Total Carbon Footprint (tonnes of CO <sub>2</sub> e)	11,475	8,985	9,526
Intensity ratio (tonnes of CO <sub>2</sub> e per £m)	23.8	22.1	26.5

As reported in last year's report, the main contributor to Scope 1 is the production of the nutrition supplement that is manufactured at Genera. This was explained in a case study in the 2016 Annual Report. This site has plans to reduce its carbon footprint by installing solar panels as detailed in the case study on the following page.

The intensity ratio has increased by 1.7 tonnes of CO<sub>2</sub>e per total £ million sales revenue. The increase is partially due to the increase in vehicle emissions (0.4 tonnes of CO<sub>2</sub>e per total £ million sales revenue), and mainly due to the additional manufacturing facility in Brazil. During the forthcoming year, the Brazilian business will assess its emissions and identify equipment or processes that could be replaced or improved.

The Group has continued with its policy of replacing all non-LED lighting within its control over the next four years, and has installed 450 LED lighting units at the Zagreb facility, which represents 15% of the internal lighting units. The Northwich Head Office has moved to green tariff energy.

As reported in last year's Annual Report, the installation of the 5,540 photovoltaic (PV) panels have been fitted onto the existing roof structures across the Zagreb site. This is the largest installation of its type in Croatia, and has been in full operation since 28 June 2019. Any surplus electricity is distributed to the municipal electrical grid.



#### Sustainable Raw Materials in Our Nutrition Range

The raw materials of our dry diets are reviewed on a yearly basis for scarcity, and, if scarce, we endeavour to find an alternative raw material. Our focused action on the fish raw materials has resulted in the use of 100% certified fish in the dry cat diets from January 2018. In addition, as part of our environmental road map, we have rationalised our pack sizes which has reduced our use of plastic.

#### Eco-friendly and Financially Cost-Effective Distribution Systems

The transportation of goods is the largest activity for DSC. They handled 79,300 orders this year, an increase of 28.8%, to customers worldwide as well as receiving and storing approximately 1,500 full truck deliveries. Although the cost of transport is the predominant factor for choice of transportation, DSC has reviewed the method of transportation to find a form of transportation with the lowest carbon footprint.

The majority of the pharmaceutical products received by DSC are supplied from our manufacturing sites in Bladel, the Netherlands and Skipton, the UK. The products from Bladel are transported by road, whereas the products from UK are shipped by sea and road.

Products are shipped to our customers by road, air and sea. As the majority of the customers are based in Europe, road transportation is the main method. The following table shows the CO<sub>2</sub> emission for this form of transportation:

	2019	2018
Shipments	36,905	30,409
Total Weight (GRT)	19,399,330	16,665,247
CO <sub>2</sub> Outlet (kg)	1,670,037	1,393,046
CO <sub>2</sub> per kg	11.6	12.2

The increase in shipments, 36,905 in 2019 compared to 30,409 in 2018, is mainly due to the increase in inventory following the Le Vet acquisition and the transfer of products from distributors to Dechra marketing companies. This has resulted in an increase in the CO<sub>2</sub> gross outlet figure, however, the CO<sub>2</sub> per kg is lower as the size of each shipment was larger. In addition, the optimisation of the pack sizes for the Nutrition products and the packing into cartons has resulted in the pallets being more stable and therefore can be double-stacked. We have implemented more efficient packing methods which enables us to include more products in each delivery and therefore reduce our CO<sub>2</sub> emissions per delivery.

#### Reduction in Packaging Materials and Pallets

Historically, pallets of products received have been split for onward delivery which has meant additional packaging being required. However, recently whole pallets of products have been shipped out of DSC reducing the requirement to repackage the pallets and leading to a reduction in packaging costs per order as detailed in the table below:

	2019	2018	2017
Packaging Costs Per Order	£3.05	£4.40	£4.25
Reused Pallets	68.0%	64.5%	67.1%

68% of all pallets used in DSC are reused, and any damaged pallets are sold.

# Corporate Social Responsibility

continued



## Our Business

- 168 hours accredited content across 11 countries in our Academy
- 676 CPD presentations to an aggregate total of 18,680 attendees in North America and Mexico

# 317

Customers and Suppliers provided with ABC course

# 63%

Increase in Academy courses completed

### Improve the Knowledge and Skills of Veterinarians

Our relationship with veterinarians is key to our business and therefore, we provide added value services in the form of educational programmes focused on our key therapeutic areas. We deliver this education through many channels, including conferences and our digital e-learning environment, the Dechra Academy.

#### Dechra Academy

Dechra's dedication and commitment to enhancing the health of animals goes beyond the supply of high quality pharmaceuticals and includes vital education for animal health professionals. The Dechra Academy provides information that will help them better diagnose, monitor and treat conditions, aiding the appropriate use of Dechra products.

The Dechra Academy offer is internationally oriented and provides Continuous Professional Development (CPD) recognition by individual countries' authorities.

There are 189 courses available in our Dechra Academy, offering 168 hours of accredited content across 11 markets in 13 languages. 40 new courses have also been created this year in the strategic therapy areas of Endocrinology and Dermatology.

13,140 courses have been completed by veterinarians during the year, a 63% increase over last year.

As Dechra grows globally, more CPD content is becoming available to more countries all the time, with recognition approval obtained during the year for Canada, and plans are in progress to launch in Mexico, Australia and New Zealand during the forthcoming year.



### Case Study

## Webinar: Comfortan

Analgesia for ovariohysterectomy in dogs and cats and the role of *Comfortan* was presented by Dr Jo Murrell BVSc. (Hons), PhD, Dipl ECVA, MRCVS and had the highest registration rate in Dechra history.

There was a staggering 3,122 registrations from across the EU and even further afield, including Saudi Arabia and Peru. The success of the webinar is a result of everyone pulling together to engage with their customers and promote the event. As a follow up to the webinar we invited everyone who registered to "watch again" on the Academy. Within the first week we had 88 new enrolments and 29 completions of the recording.

## Seminar: Specific

27 delegates from Turkey, Estonia, Lithuania, Greece, Hungary, Czech Republic, Serbia, Slovakia, Switzerland, Romania, Russia and Ukraine as well as most of the International sales team took the chance to participate in the training programme.

The seminar started with lectures on recent developments in diabetes mellitus by Dr. Eric Zini (PD, PhD, Dipl. ECVIM-CA, Internal Medicine) on the first day to set the scene for the new diabetic cat diet, followed by presentations on the second day from Philip Wells, Dominic Ebery, Francis Pastoor and David Southey that focused more on the technical and marketing aspects of our *Specific* cat range.

The seminar provided an ideal opportunity to learn all about the *Specific* brand, the formulation improvements to the cat range, benchmarking against competition and to be informed about the support material available for the whole *Specific* range. It was also an excellent opportunity for all participants to exchange experiences as well as for Dechra to demonstrate our expertise in nutrition and to connect with our customers.

### To Act with Honesty and Integrity

We are committed to acting responsibly and with integrity, respecting the laws, regulations, traditions and cultures of the countries within which we operate. This is reflected through our Values. We expect our third parties to trade with honesty and integrity. Therefore we have introduced a Third Party Code of Conduct, which communicates what we expect from our trading partners in relation to health, safety and environmental standards, internationally accepted standards of workers' rights, use of child and forced labour, ethical standards, anti-bribery and anti-corruption, and compliance with relevant laws and regulations. Our Modern Slavery Statement can be found at [www.dechra.com](http://www.dechra.com).

### Anti-Bribery and Anti-Corruption

It is our policy to conduct all business in an honest and ethical manner. We take a zero tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate, and to implement and enforce effective systems to counter bribery and corruption.

During the year, we have successfully rolled out an ABC training course for Dechra's third party network, updated and published internal ABC policies and procedure, and have developed a new internal ABC training programme which will be rolled out during the forthcoming year across the business as compulsory training.

### Human Rights

Dechra is committed to upholding and respecting human rights both within our business and from our suppliers. However, Dechra does not currently have a separate human rights policy.

### Animal Welfare

It is our mission to develop products to improve animal welfare. We are committed to the responsible use and humane treatment of animals. We carefully consider the use of animals in research. However, occasionally it is necessary to conduct toxicology testing to achieve product registrations. The majority of the toxicology information can be derived from existing bibliographic data. When additional data is required by the regulators a third party Contract Research Organisation (CRO) will undertake the study on a minimum number of animals.

The following principles are applied in any trials which involve animals:

- animals should be treated humanely with greatest consideration given to their health and welfare and consistent with meeting the necessary scientific objectives; and
- all animal studies should only be performed after considering whether the numbers of animals can be reduced, replaced or the procedures refined to minimise distress.

All employees, except manufacturing shop floor workers, receive pharmacovigilance training within one month of joining Dechra. This is then verified by the pharmacovigilance e-learning module on Delta. These employees undertake an annual pharmacovigilance refresher training. The pharmacovigilance training outlines the procedure that should be followed by all Dechra personnel if they are informed of a product complaint.

Any time that Dechra receives a report of an adverse event occurring after the administration of one of its products, the Company treats the report seriously and believes that it is Dechra's obligation to review the case to determine whether its product may have caused or contributed to the adverse event. All suspect adverse reactions are reported to the appropriate regional regulatory authority.

### Case Study:

## Collaboration with Industry

The combination of the skills and expertise of academic organisations and industry can lead to positive and practical outcomes. We work with academia to support the development of new drugs and techniques as well as educational programmes. An example of this type of collaboration was when PhD student Alice Denyer from the Royal Veterinary College recently spent three months at Sansaw. After initial familiarisation with the existing Dechra Academy modules and understanding the history of development of the *Specific* Endocrine Support Diets, she carried out small-scale research into what veterinarians find most challenging about dealing with diabetes mellitus (DM) in practice. Alice subsequently developed the content for the canine and feline DM Academy modules, as well as additional downloadable resources for owners and veterinarians. The modules were completed on-time and both went live in the UK in June.



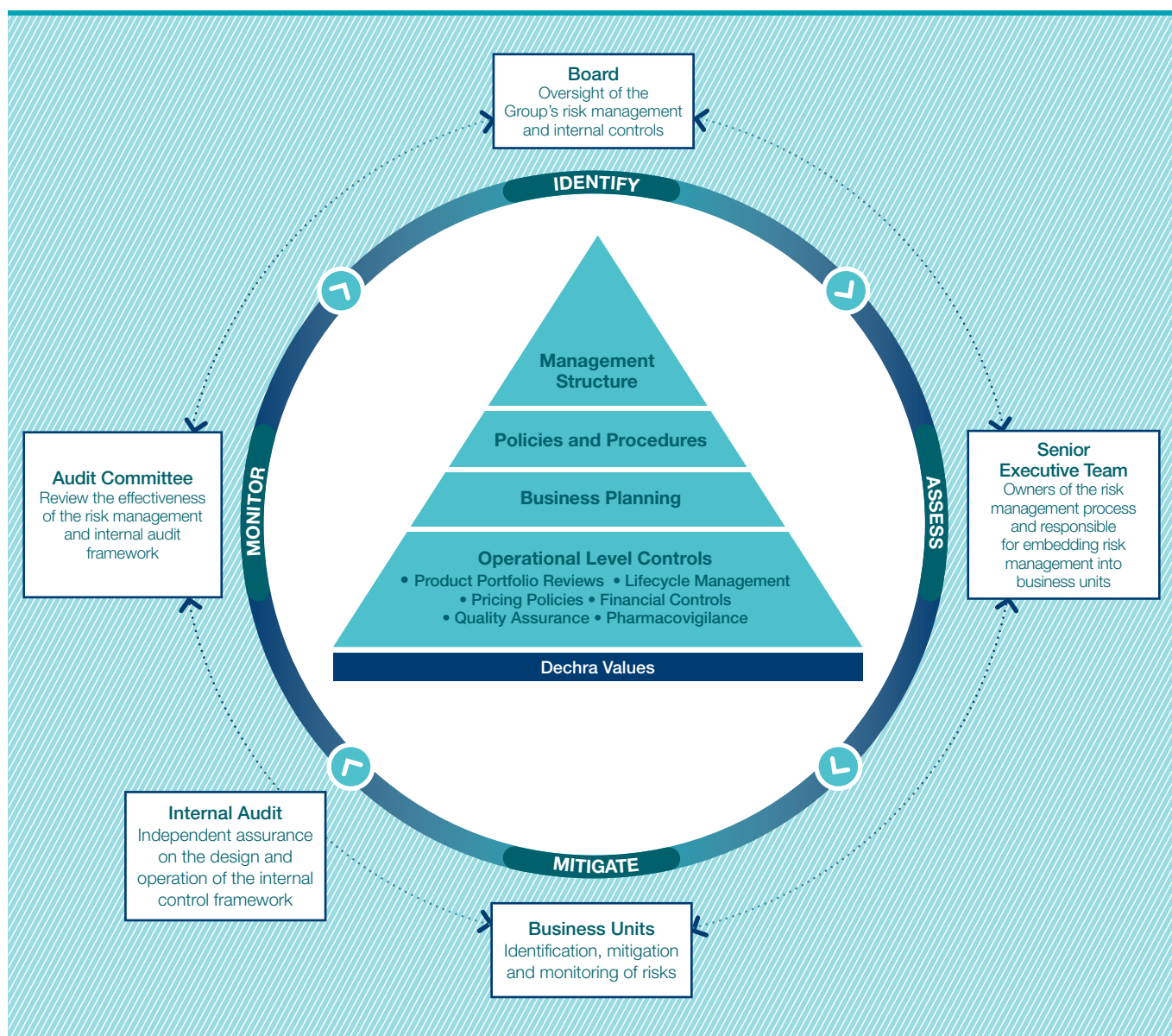
The placement formed an important part of Alice's career development, offering insight into the veterinary pharmaceutical industry and providing an opportunity to learn about marketing, project management and cross-functional teamwork. The EU team were welcoming, ensuring Alice was fully involved and providing a highly enjoyable three months. Not to be underestimated was the positive impact Alice had on the wider team during her time at Sansaw due to her personality, professionalism and dedication to animal welfare. To date, Alice has won the 2018 Postgraduate Student Inspiration Award, an International Canine Health Award and was recently awarded first place at the RVC Postgraduate day for her impact statement.

Alice is a member of the Canine Diabetes Genetics Partnership (CDGP), a multi-disciplinary group of expert clinicians and scientists from a range of UK institutions, sharing a special interest in the genetics of diabetes mellitus in dogs. The Partnership was formed in 2017 with the aim of using Whole Genome Sequencing to explore the genetic risk of canine diabetes in breeds considered to be at low risk (e.g. Boxer) and high risk (e.g. Samoyed) of developing the disease. Alice's placement at Dechra has provided an excellent opportunity to understand the potential impact of this research, as an ideal complement to the PhD training she has received in laboratory techniques and bioinformatics. The CDGP is supported by the PetPlan Charitable Trust and sponsored by Dechra Veterinary Products.

# How the Business Manages Risk

Effective risk management and control is key to the delivery of our business strategy and objectives.

Our risk management and control processes are designed to identify, assess, mitigate and monitor significant risks, and provide reasonable but not absolute assurance that the Group will be successful in delivering its objectives.



## Risk Management Process

Our strategy informs the setting of objectives across the business and is widely communicated. Strategic risks and opportunities are identified as an integral part of the strategy setting process.

The Board oversees the risk management and internal control framework and the Audit Committee reviews the effectiveness of the risk management process and the internal control framework.

Our Senior Executive Team (SET) owns the risk management process and is responsible for managing specific Group risks. The SET members are also responsible for embedding sound risk management in strategy, planning, budgeting, performance management, and operational processes within their respective Operating Segments and business units.

The Board and the SET together set the tone and decide the level of risk and control to be taken in achieving the Group's objectives.

SET members present their risks, controls and mitigation plans to the Board for review on a rolling programme throughout the year. The SET is responsible for conducting self-assessments of their risks and the effectiveness of their control processes. Where control weaknesses are identified, remedial action plans are developed, and these are included in the risk reports presented to the Board.

Internal Audit co-ordinates the risk reporting process and provides independent assurance on the internal control framework.



## Dechra Culture

The Dechra Values are the foundation of our entire business culture including our approach to risk management and control. The Board expects that these Values should drive the behaviours and actions of all employees. We encourage an open communication style where it is normal practice to escalate issues promptly so that appropriate action can be taken quickly to minimise any impact on the business.

## Internal Control Framework

Our internal control framework is designed to ensure:

- proper financial records are maintained;
- the Group's assets are safeguarded;
- compliance with laws and regulations; and
- effective and efficient operation of business processes.

## Management Structure

Our management structure has clearly defined reporting lines, accountabilities and authority levels. The Group is organised into business units. Each business unit is led by a SET member and has its own management team.

## Policies and Procedures

Our key financial, legal and compliance policies that apply across the Group are:

- Code of Business Conduct and How to Raise a Concern;
- Delegation of Authorities;
- Dechra Finance Manual, including Tax and Treasury policies;
- Anti-Bribery and Anti-Corruption;
- Data Protection;
- Sanctions; and
- Charitable Donations.

## Strategy and Business Planning

We have a five year strategic plan which is developed by the SET and endorsed by the Board annually. Business objectives and performance measures are defined annually, together with budgets and forecasts. Monthly business performance reviews are conducted at both Group and business unit levels.

## Operational Controls

Our key operational control processes are as follows:

- **Product Pipeline Reviews:** We review our pipeline regularly to identify new product ideas and assess fit with our product portfolio, review whether products in development are progressing according to schedule; and assess the expected commercial return on new products.
- **Lifecycle Management:** We manage and monitor lifecycle management activities for our key products to meet evolving customer needs.
- **Pricing Policies:** We manage and monitor our national and European pricing policies to deliver equitable pricing for each customer group.
- **Quality Assurance:** Each of our manufacturing sites have an established Quality Management System. These systems are designed to ensure that our products are manufactured to a high standard and in compliance with the relevant regulatory requirements.
- **Pharmacovigilance:** Our regulatory team operates a robust system with a view to ensuring that any adverse reactions related to the use of our products are reported and dealt with promptly.

- **Financial Controls:** Our controls are designed to prevent and detect financial misstatement or fraud and operate at three levels:
  - Entity Level Controls performed by senior managers at Group and business unit level;
  - Month-end and year-end procedures performed as part of our regular financial reporting and management processes; and
  - Transactional Level Controls operated on a day-to-day basis.

The key controls in place to manage our principal risks are described in further detail on pages 65 to 67.

Internal Audit provides independent and objective assurance and advice on the design and operation of the Group's internal control framework.

The internal audit plan seeks to provide balanced coverage of the Group's material financial, operational and compliance control processes.

## Improvements in 2019

We have continued to strengthen and improve our governance and control processes and the following changes have been implemented:

- a Strategic Portfolio Prioritisation Committee has been established to prioritise better our product development projects and new project management tools have been implemented to improve the planning and delivery of our product pipeline;
- a Treasury management system and Zero Balancing processes have been implemented to enable more effective cash pooling;
- our Third Party Code of Conduct and online training have been communicated to our higher risk third parties as part of our ongoing Anti-Bribery and Anti-Corruption (ABC) compliance programme;
- changes to the leadership team in our Manufacturing and Supply organisation and additional investments to strengthen our manufacturing and supply capabilities; and
- we are in the process of embedding our financial control framework and have implemented our ABC compliance programme in Venco, our recent acquisition in Brazil.

## Plans for 2020

We will continue to refine and strengthen our internal control framework where required in response to changes in our risk profile and improvement opportunities identified by business management, quality assurance and internal audit. Our Manufacturing and Supply processes are the primary focus area for 2020.

Our business growth and the continued expansion of our product portfolio through acquisition, has contributed to increased complexity in our Manufacturing and Supply network. We have experienced challenges with the production and supply of some products from both our internal and external network in 2019, but these have not had a material impact on the Group's performance. The majority of issues have now been remedied with all but two products to be back in supply in the first six months of the year.

We are committed to maintaining a robust network that complies with rigorous product quality and regulatory standards, in order to provide a reliable supply of high quality products to our worldwide customer base.

To continue to meet this commitment, we plan to make further investments in our people, manufacturing, quality and supply processes, and production facilities. We are also making improvements to the governance and oversight processes and the performance measures to monitor our internal and external network.

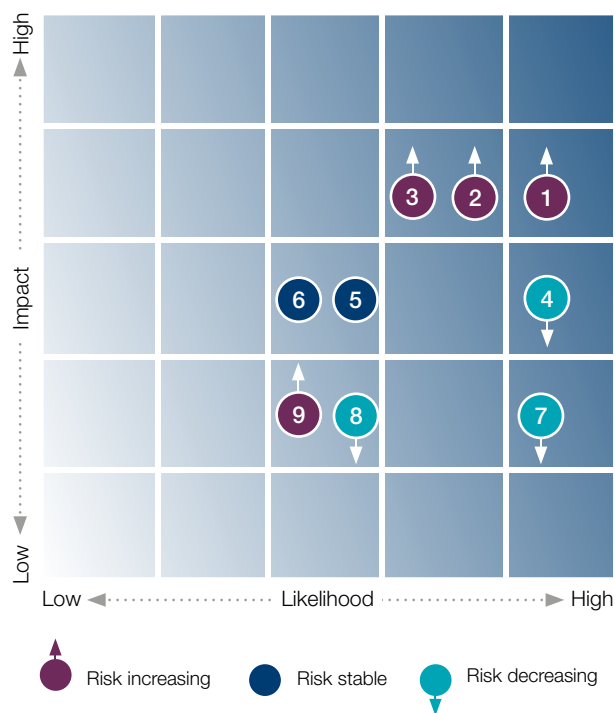
# Understanding Our Key Risks

## Principal Risks

The SET has identified and agreed key risks with the Board. Of these, a number are deemed to be generic risks facing every business, including failure to comply with financial reporting regulation, foreign exchange, IT systems failure and non-compliance with legislation. The risk profile opposite, therefore, details the nine principal risks that are specific to our business and provides information on:

- their prioritisation;
- how they link to Group strategy;
- their potential impact on the business; and
- what controls are in place to mitigate them.

The risk profile is shown post mitigation.



## Emerging Risks

Given current geopolitical uncertainty we have identified three emerging risks as detailed below:

<b>Taxation</b>	<ul style="list-style-type: none"> <li>• The Group's effective tax rate (ETR) is subject to taxation policy in the territories in which it operates. The Group has benefited in the year from the reduction in corporate tax rate in the USA for the Tax Cuts and Jobs Act and is expected to benefit from the reduction in the Netherlands corporate tax rate in 2020. We continue to monitor developments in the tax reform globally which may cause future movements in the Group's ETR.</li> <li>• The EU is currently challenging the legality of the UK Controlled Foreign Company (CFC) tax legislation from which the Group benefits. We continue to monitor developments.</li> <li>• The Group currently benefits from patent and innovation box tax incentives. The Group's ETR will increase as qualifying patents expire.</li> </ul>
<b>Brexit</b>	<ul style="list-style-type: none"> <li>• The decision by the UK to leave the European Union (EU) has created volatility in markets and uncertainty about how future trading relationships, regulatory processes and supply chains will operate. Our priority is to maintain continuity of supply of our products to our customers in the UK and the EU, and we have increased inventory accordingly.</li> <li>• We have established a cross-functional team to assess and monitor the situation and have completed the implementation of a hard Brexit mitigation plan as outlined below:                             <ul style="list-style-type: none"> <li>• We have transferred our UK registered Marketing Authorisations for products that are sold in the EU to a subsidiary in the Netherlands; and</li> <li>• We have transferred the analytical testing methods for products manufactured at our Skipton facility to our laboratories in Bladel and Zagreb.</li> </ul> </li> <li>• These changes will enable us to batch release UK manufactured products within the EU in the event that there will be no mutual recognition of quality standards.</li> </ul>
<b>Iran</b>	<ul style="list-style-type: none"> <li>• We continue to monitor the potential impact of US sanctions on our existing business with Iran, the world's fourth largest poultry market, where we currently sell approximately £1.0 million per annum of products that are on the UN exempt sanctions list.</li> </ul>

Link to  
Strategic  
Growth  
Driver and

Enabler	Risk	Potential Impact	Control and Mitigating Actions	Trends
	<p><b>1 Market Risk:</b></p> <p>The emergence of veterinary buying groups and corporate customers.</p> <p>We sell and promote primarily to veterinary practices and distribute our products through wholesaler and distributor networks in most markets.</p> <p>In a number of mature markets, veterinarians are establishing buying groups to consolidate their purchasing, and corporate customers are also emerging.</p>	<p>The emergence of corporate customers and buying groups represents an opportunity to increase sales volumes and revenue but may result in reduced margins.</p>	<p>We manage and monitor our national and European pricing policies to deliver equitable pricing for each customer group.</p> <p>Our relationships with larger customers are managed by key account managers.</p> <p>Our marketing strategy is designed to support veterinarians in retaining customers by promoting the benefits of our product portfolio in our major therapeutic areas.</p>	<p>▲</p> <p>Continuing customer consolidation in our EU markets</p>
	<p><b>2 Product Development and Launch Risk:</b></p> <p>Failure to deliver major products either due to pipeline delays or newly launched products not meeting revenue expectations.</p> <p>The development of pharmaceutical products is a complex, risky and lengthy process involving significant financial, R&amp;D and other resources.</p> <p>Products that initially appear promising may be delayed or fail to meet expected clinical or commercial expectations or face delays in regulatory approval.</p> <p>It can also be difficult to predict whether newly launched products will meet commercial expectations.</p>	<p>A succession of clinical trial failures could adversely affect our ability to deliver shareholder expectations and could also damage our reputation and relationship with veterinarians.</p> <p>Our market position in key therapeutic areas could be affected, resulting in reduced revenues and profits.</p> <p>Where we are unable to recoup the costs incurred in developing and launching a product this would result in impairment of any intangible assets recognised.</p>	<p>Potential new development opportunities are assessed from a commercial, financial and scientific perspective by a multi-functional team to allow senior management to make decisions on which ones to progress.</p> <p>The pipeline is discussed regularly by senior management, including the Chief Executive Officer and Chief Financial Officer. Regular updates are also provided to the Board.</p> <p>Each development project is managed by co-project leaders who chair project team meetings.</p> <p>Before costly pivotal studies are initiated, smaller proof of concept pilot studies are conducted to assess the effects of the drug on target species and for the target indication.</p> <p>In respect of all new product launches a detailed marketing plan is established and progress against that plan is regularly monitored.</p> <p>The Group has a detailed market knowledge and retains close contact with customers through its management and sales teams which are trained to a high standard.</p>	<p>▲</p> <p>Delay in delivery of some projects</p>
	<p><b>3 Supply Chain Risk:</b></p> <p>Inability to maintain supply of key products due to manufacturing, quality or product supply problems in our own facilities or from third party suppliers.</p> <p>We rely on third parties for the supply of all raw materials for products that we manufacture in-house. We also purchase many of our finished products from third party manufacturers.</p>	<p>Raw material supply failures may cause:</p> <ul style="list-style-type: none"> <li>increased product costs due to difficulties in obtaining scarce materials on commercially acceptable terms;</li> <li>product shortages due to manufacturing delays; or</li> <li>delays in clinical trials due to shortage of trial products.</li> </ul> <p>Shortages in manufactured products and third party supply failures on finished products may result in lost sales.</p>	<p>We monitor the performance of our key suppliers and act promptly to source from alternative suppliers where potential issues are identified.</p> <p>The top ten Group products are regularly reviewed in order to identify the key suppliers of materials or finished products.</p> <p>We maintain buffer stocks and/or dual sourcing arrangements of key products.</p> <p>Contracts with suppliers are reviewed from both a commercial and legal perspective to enable reassignment of the contract should there be a change of control of any of the contracting parties.</p> <p>Processes are in place to monitor and improve product robustness, including Quality and Technical analyses of key products and engagement with internal and external Regulatory stakeholders.</p> <p>A business continuity plan is in place at Skipton and similar plans are being developed for other sites.</p> <p>A project is in progress to review and improve our supply planning processes.</p>	<p>▲</p> <p>Growth in our product portfolio and increased complexity in our supply network</p>







# Understanding Our Key Risks

continued


Link to  
Strategic  
Growth  
Driver and  
Enabler

Enabler	Risk	Potential Impact	Control and Mitigating Actions	Trends
  	<p><b>4 Competitor Risk:</b> Competitor products launched against one of our leading brands (e.g. generics or a superior product profile).</p> <p>We depend on data exclusivity periods or patents to have exclusive marketing rights for some of our products.</p> <p>Although we maintain a broad portfolio of products, our unique products like <i>Vetoryl</i> and <i>Felimazole</i> have built a market which may be attractive to competitors.</p>	<p>Revenues and margins may be adversely affected should competitors launch a novel or generic product that competes with one of our unique products upon the expiry or early loss of patents.</p> <p>Costs may increase due to defensive marketing activity.</p>	<p>We focus on lifecycle management strategies for our key products such that they can fulfil evolving customer requirements.</p> <p>Product patents are monitored and defensive strategies are developed towards the end of the patent life or the data exclusivity period.</p> <p>We monitor market activity prior to competitor products being launched, and develop a marketing response strategy to mitigate competitor impact.</p>	 Impact of competitor launches on our key products reduced
  	<p><b>5 Regulatory Risk:</b> Failure to meet regulatory requirements.</p> <p>We conduct our business in a highly regulated environment, which is designed to ensure the safety, efficacy, quality, and ethical promotion of pharmaceutical products.</p> <p>Failure to adhere to regulatory standards or to implement changes in those standards could affect our ability to register, manufacture or promote our products.</p> <p>Brexit presents uncertainty regarding the regulatory standards and transitional arrangements between the UK and the EU.</p>	<p>Delays in regulatory reviews and approvals could impact the timing of a product launch and have a material effect on sales and margins.</p> <p>Any changes made to the manufacturing, distribution, marketing and safety surveillance processes of our products may require additional regulatory approvals, resulting in additional costs and/or delays.</p> <p>Brexit transition may result in additional regulatory and quality control requirements and associated costs.</p> <p>Non-compliance with regulatory requirements may result in delays to production or lost sales.</p>	<p>The Group strives to exceed regulatory requirements and ensure that its employees have detailed experience and knowledge of the regulations.</p> <p>Manufacturing and Regulatory teams have established quality systems and standard operating procedures in place.</p> <p>Regular contact is maintained with all relevant regulatory bodies in order to build and strengthen relationships and facilitate good communication lines.</p> <p>The Regulatory and Legal teams keep updated in respect of changes with a view to ensuring that the business is equipped to deal with, and adhere to, such changes.</p> <p>Where changes are identified which could affect our ability to market and sell any of our products, a response team is created in order to mitigate the risk.</p> <p>We have appointed a new Global Quality Director with additional resources to improve oversight and performance monitoring across our end-to-end supply chain.</p> <p>External consultants are used to audit our manufacturing quality systems.</p>	
  	<p><b>6 People Risk:</b> Failure to resource the business to achieve our strategic ambitions, particularly on geographical expansion and acquisition.</p> <p>As Dechra expands into new markets and acquires new businesses or science, we recognise that we may need new people with different skills, experience and cultural knowledge to execute our strategy successfully in those markets and business areas.</p> <p>In the UK, the uncertainty created by Brexit could impact the hiring and retention of staff in some areas.</p>	<p>Failure to recruit or develop good quality people could result in:</p> <ul style="list-style-type: none"> <li>• capability gaps in new markets;</li> <li>• challenges in integrating new acquisitions; or</li> <li>• overstretched resources.</li> </ul> <p>This could delay implementation of our strategy and we may not meet shareholders' expectations.</p>	<p>The Group HR Director reviews the organisational structure with the SET and the Board twice a year to aim to ensure that the organisation is fit for purpose and to assess the resourcing implications of planned changes or strategic imperatives.</p> <p>A development programme is in place to identify opportunities to recruit new talent and develop existing potential.</p>	




Link to Strategic Growth Driver and

Enabler	Risk	Potential Impact	Control and Mitigating Actions	Trends
 	<p><b>7 Antibiotic Regulatory Risk:</b> Continuing pressure on reducing antibiotic use.</p> <p>The issue of the potential transfer of antibacterial resistance from food producing animals to humans is subject to regulatory discussions.</p> <p>In some countries this has led to government recommendations on reducing the use of antibiotics in food producing animals.</p>	<p>Reduction in sales of our antimicrobial product range.</p> <p>Our reputation could be adversely impacted if we do not respond appropriately to government recommendations.</p>	<p>Regular contact is maintained with relevant veterinary authorities to enable us to have a comprehensive understanding of regulatory changes.</p> <p>We strive to develop new products and minimise antimicrobial resistance concerns.</p>	<p>▼</p> <p>Antibiotic sales are stable or growing in most EU markets</p>
	<p><b>8 Acquisition Risk:</b> Identification of acquisition opportunities and their potential integration.</p> <p>Identification of suitable opportunities and securing a successful approach involves a high degree of uncertainty.</p> <p>Acquired products or businesses may fail to deliver expected returns due to over-valuation or integration challenges.</p>	<p>Failure to identify or secure suitable targets could slow the pace at which we can expand into new markets or grow our portfolio.</p> <p>Acquisitions could deliver lower profits than expected or result in intangible assets impairment.</p>	<p>We have defined criteria for screening acquisition targets and we conduct commercial, clinical, financial and legal due diligence.</p> <p>The Board reviews acquisition plans and progress regularly and approves all potential transactions.</p> <p>The SET manages post acquisition integration and monitors the delivery of benefits and returns.</p>	<p>▼</p> <p>Implementation of standard integration planning, resourcing and execution processes</p>
  	<p><b>9 Retention of People Risk:</b> Failure to retain high calibre, talented senior managers and other key roles in the business.</p> <p>Our growth plans and future success are dependent on retaining knowledgeable and experienced senior managers and key staff.</p>	<p>Loss of key skills and experience could erode our competitive advantage and could have an adverse impact on results.</p> <p>Inability to attract and retain key personnel may weaken succession planning.</p>	<p>The Nomination Committee oversees succession planning for the Board and the SET.</p> <p>Succession plans are in place for the SET together with development plans for key senior managers.</p> <p>Remuneration packages are reviewed on an annual basis in order to help ensure that the Group can continue to retain, incentivise and motivate its employees.</p>	<p>▲</p> <p>Challenges in attracting talent for key roles in some geographies and specialist functions</p>

Key to Strategic Growth Drivers:

-  Pipeline Delivery
-  Portfolio Focus
-  Geographical Expansion
-  Acquisition

Key to Strategic Enablers:

-  Technology
-  People
-  Manufacturing and Supply Chain

Key to Risk Trend:

- ▲ Increased risk
- ▼ Decreased risk
- ◄► No change

# GOVERNANCE

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**A STRONG,  
BALANCED AND  
ACCOUNTABLE  
BOARD**

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# Letter from the Chairman on Governance



**Tony Rice**  
Non-Executive Chairman

## Dear Shareholder

On behalf of the Board, I am pleased to present Dechra's Governance report for the year ended 30 June 2019.

## Our Values

Dechra has a Code of Conduct which sets out the standards of conduct to be adopted by all employees. The Board is committed to the highest possible standards of openness, integrity and accountability and encourages any individual who has genuine concerns about any form of malpractice, including any breaches of the Dechra Values, to raise those concerns.

→ For further details on our Values please refer to page 47

## Managing Governance

The Board recognises that excellence in corporate governance is important in order to generate and protect value for our investors. Our governance structure is designed to maintain effective control and oversight of our business whilst at the same time promoting the entrepreneurial spirit that has underpinned Dechra's success to date.

In our Corporate Governance report we aim to provide a clear and meaningful explanation of how the Board leads the Group and discharges its governance duties, including how we apply the provisions of the UK Corporate Governance Code 2016 (the Code). During the year, we have reviewed the UK Corporate Governance Code 2018 (the New Code) and assessed its impact on our Governance structure. We have put in place an action plan in readiness to enable us to comply with the New Code, which will apply from 1 July 2019.

## Leadership

We have a strong and balanced Board with a range of complementary skills to support the strategic and operational direction of the Group. During the year there were two membership changes to the Board. We welcomed Lisa Bright as Non-Executive Director in February 2019. Lisa's biographical details can be found on page 75. She will act as the Employee Engagement Designated Non-Executive Director, working closely with the Group HR Director. Lisa has been appointed as a member of the Audit, Nomination and Remuneration Committees. Richard Cotton stood down in April 2019 as the Chief Financial Officer. We are currently looking for his successor (further details of the

recruitment process can be found in the Nomination Committee report on page 91; however, in the meantime the Dechra Veterinary Products EU Finance Director, Paul Sandland, has stepped in as the Acting Chief Financial Officer in accordance with our emergency succession planning.

The Senior Executive Team (SET) has the responsibility for the overall leadership of the Group, driving the successful implementation and execution of the strategy.

→ Learn more about the **Directors' skills and experience** on pages 72, 75 and 91

## Board Effectiveness

As Chairman, I am responsible for the leadership of the Board and driving its effectiveness in all aspects of its role. During the 2019 financial year we undertook an internal evaluation of the Board, its Committees and individual Directors. I am delighted to report that the overall outcome from the evaluation was that the Board and its individual Directors are performing effectively, and that the Board is dynamic and consistent with the organisational culture of openness.

→ Read more about the **Board's Effectiveness** on pages 79 and 80

During the year the Board undertook the annual review of the Diversity Policy. I am pleased to report that the female representation of our Board has increased from 14.3% to 28.6%. The Board is proud of the diversity within the Group and monitors and reviews our position in this area.

→ Read more about the **Board Diversity** on pages 90 and 91

## Accountability

We are required by the Code to include an assessment of the viability of the Group. This is covered on pages 81 and 82. The Audit Committee Report contains further details on how it has assisted the Board in reviewing the financial reporting and internal financial control effectiveness, and managing the relationship with the external auditor.

→ Read more about our **approach to Risk Management** on page 87

## Remuneration

Our Remuneration Policy is designed to promote the long term success of the Group and to reward the creation of long term value for shareholders. During the year, work has commenced on our Global SAYE Plan and preparations are in place for the initial launch to our USA employees.

→ Read more on our **Remuneration Policy** on pages 106 to 110

## Relations with Shareholders

The Annual General Meeting will be held in Northwich on 18 October 2019 and I would like to invite our shareholders to attend. It will provide you with an opportunity to meet the Board and ask any questions that you may have in respect of the Group's activities.

Finally, should you have any questions in relation to this report, please feel free to contact me or the Company Secretary.

**Tony Rice**  
Non-Executive Chairman  
2 September 2019



# Corporate Governance

## Compliance with the Code

The UK Corporate Governance Code 2016 (the Code) establishes the principles of good governance for companies; the following report describes how the Company has applied these principles to its activities and where it has applied the principles of the UK Corporate Governance Code 2018 (the New Code). The Board remains committed to maintaining high standards of corporate governance. In the opinion of the Directors, the Company has complied with the Code throughout the period. The Code can be found at [www.frc.org.uk](http://www.frc.org.uk).

## Leadership

The Board oversees the effective delivery of our strategy which is developed and implemented by the Senior Executive Team (SET). Further details of the Board and SET can be found on pages 72 to 75.

### Non-Executive Chairman

- Leads the Board in the determination of Group strategy and achievement of its objectives.
- Drives the effectiveness of the Board in all aspects of its role.
- Facilitates the effective contribution of the Non-Executive Directors, ensuring that all decisions are subject to constructive debate and supported by sound decision making processes.
- Arranges for shareholder views to be brought to the attention of the Board.

### Senior Independent Non-Executive Director

- Provides a sounding board for the Chairman and is available to shareholders if they have concerns that have failed to be resolved through the normal channels.
- Carries out the annual evaluation of the performance of the Chairman, and chairs the Nomination Committee when it is considering the succession of that role.

### Chief Executive Officer

- Manages day-to-day operations of the Group and leads the SET.
- Drives performance and results of the Group.
- Proposes strategy.
- Executes strategy agreed by the Board.

### Non-Executive Director

All of the Non-Executive Directors:

- are considered independent;
- are free of any business or other relationship which could materially interfere with, or compromise, their ability to exercise independent judgement;
- are considered to have a breadth of experience which adds value to the decision making of the Board, as well as the formulation and progression of the Dechra strategy;
- provide independent and constructive challenge;
- evaluate strategy and risks.

### Role of the Board

- The Board's primary responsibility is to promote the long term success of the Company by the creation and delivery of sustainable shareholder value.
- The Board's strategy has four drivers to promote growth:
- KPIs have been designed to measure progress and delivery of the strategic plan and our four growth drivers. Further details are provided on pages 32 and 33.

### Chief Financial Officer

- Responsible for financial planning and reporting for the Group.
- Manages financial risk.
- Develops and executes the strategic plan in conjunction with the Chief Executive Officer.
- Secures funding as required.

### Company Secretary

- Advises the Board on matters of procedure and governance.
- Provides all required information to the Board on a timely basis.

### Senior Executive Team

- Leads the development and implementation of the business strategy.

### Managing Director Dechra Veterinary Products (DVP) EU

- Management of the segment which contributes the majority of Group revenue.
- Nominated Director for health, safety and environmental matters.
- Development and execution of strategy in the EU.

# Board

## Executive Directors



**Ian Page:** Chief Executive Officer

**Committee Membership:** Disclosure (Chairman).

**Skills and Experience:** Ian has gained detailed knowledge and experience through various positions he has held within the pharmaceutical and veterinary arena. He has a solid understanding of business development both in the UK and globally. In particular he has extensive experience in M&A and in the successful delivery of strategic plans.

**Background:** Ian joined NVS, Dechra's former services business, at its formation in 1989 and was an integral part of the management buyout in 1997, becoming its Managing Director in 1998. He joined the Board in 1997 and became Chief Executive Officer in 2001. Ian has played a key role in the development of the Group's growth strategy.

**External Appointments:** None.

**Pets:** 



**Tony Griffin:** Managing Director, Dechra Veterinary Products EU

**Committee Membership:** Not applicable.

**Skills and Experience:** Tony has over 30 years' experience in the animal health business and has substantial international experience as a result of living and working outside the UK since 1993. He gained broad experience of running an international animal health business with teams in different European countries as Chief Executive Officer of the AUV Group. Tony is the Board nominated Director responsible for health, safety and environmental matters.

**Background:** Tony was appointed Managing Director of DVP EU in May 2012 following the acquisition of Eurovet Animal Health BV from AUV Holding B.V. He joined the AUV Group in 1993 as Director of Exports, having previously worked at Norbrook Laboratories and Moy Park. Tony was promoted to Managing Director of Eurovet in 1996, becoming the Chief Executive Officer of the AUV Group in 2006.

**External Appointments:** None.

**Pets:** 

## Non-Executive Chairman



**Tony Rice:** Non-Executive Chairman

**Committee Membership:** Nomination (Chairman), Remuneration.

**Skills and Experience:** Tony has extensive board level experience across a range of sectors, including aerospace, healthcare, telecommunications and retail in both UK and international markets.

**Background:** Tony joined the Board in May 2016 and was appointed Chairman in October 2016. He served as Chief Executive Officer at Cable & Wireless and Tunstall Holdings, and prior to that held various roles at BAE Systems

including Managing Director of Commercial Aircraft and Group Managing Director of Business Development. He has also served as a Non-Executive Director at Punch Taverns, Spirit Pub Company, Cable & Wireless, Telewest Communications and Saab Technologies, and Chairman of Alexander Mann Solutions.

**External Appointments:** Tony is currently the Senior Independent Non-Executive Director and Chairman of the Remuneration Committee at Halma plc and Chair at Ultra Electronics Holdings plc.

**Pets:** None

## Non-Executive Director



**Ishbel Macpherson:** Senior Independent Non-Executive Director

**Committee Membership:** Audit, Nomination, Remuneration (Chairman).

**Skills and Experience:** Ishbel has a broad range of PLC Board experience in a variety of roles, including Chairman, Audit Committee and Remuneration Committee Chairman. She has knowledge and understanding of City matters gained over 20 years' experience as an investment banker, specialising in UK mid-market corporate finance.

**Background:** Ishbel joined the Group as a Non-Executive Director in February 2013.

Prior to this she was Head of UK Emerging Companies Corporate Finance at Dresdner Kleinwort Benson from 1999 to 2005, having previously worked at Hoare Govett and Barclays de Zoete Wedd.

**External Appointments:** Ishbel is Non-Executive Director at Workspace Group PLC (appointed January 2019) and Lloyd's Registrar Group Limited (appointed August 2018).

**Pets:** 

# Senior Executive Team

The Senior Executive Team comprises the Executive Directors, the Acting Chief Financial Officer and the following:



**Dr Susan Longhofer:** Business Development and Regulatory Affairs Group Director

**Background:** Susan joined the Group in June 2005. A veterinarian with 30 years' experience in the industry, she leads a team of approximately 50 staff around the globe responsible for registering new products and maintaining the registrations of our existing products. She has assumed the Business Development role in 2015, searching out new products to continue to fill our product development pipeline.

Prior to joining Dechra, Susan worked for Virbac Corporation, Heska Corporation and Merck Research Laboratories. Susan holds an MS and a DVM in Veterinary Science and is a Diplomate, American College of Veterinary Internal Medicine. She is located in Kansas, USA.

**Pets:** 



**Dr Anthony Lucas:** Group Product Development Director

**Background:** Anthony joined Dechra in 2016 following the acquisition of Putney Inc. where he was Senior Vice President of R&D. Anthony is originally a veterinarian from Australia with five years in clinical practice including a residency in emergency and critical care. Following a Masters in veterinary pharmacology, PhD in human pharmacology and post-doc at the University of Kansas, he spent six years at Elanco in early drug development, technology acquisition and has a Six Sigma blackbelt.

In his six years at Putney, Anthony built the R&D team, which delivered ten FDA product approvals.

As the Group Product Development Director, Anthony leads a team of around 50 scientists across five global research centres, to efficiently deliver the pipeline of products to meet Dechra's growth needs. He is located in Maine, USA.

**Pets:** 



**Mike Eldred:** President North America

**Background:** Mike joined Dechra in 2004 and is responsible for Dechra Veterinary Products' North American business. Mike has more than 20 years' experience in the animal health sector, having held senior positions in business development, sales and operations at Virbac Corporation, Fort Dodge Animal Health and Sanofi Animal Health.

As our first employee in the USA, he has built the USA and Canadian team to 181 people and has grown sales revenue to £177.8 million. Mike has also been involved in several commercial agreements and acquisitions for the Group including Pharmaderm, DermaPet, Phycos Animal Health and Putney. Mike has a BA in Business, and an MBA. He is located in Kansas, USA.

**Pets:** 



**Giles Coley:** Dechra Veterinary Products International Group Director

**Background:** Giles joined Dechra in January 1999 as sales and marketing manager for Arnolds Veterinary Products having previously spent 14 years primarily involved in dairy farming business consultancy. During his time at Dechra he has been responsible for the launch and market development of our leading brand *Vetoryl*, as well as a number of our other key brands. Giles has also been an integral member of the teams that ensured fast and smooth integrations of several of our acquisitions, and in particular as lead in the integration of Apex in 2016 and Venco in 2019.

In his role of Dechra Veterinary Products International Group Director, his responsibilities are extremely varied and involve managing and growing our existing business through ANZ and Latin American business and distribution partners, as well as further developing our Dechra International strategy through product registrations and market development. Giles has a BSc degree in Agricultural Technology. He is located in Sansaw, UK.

**Pets:** 



**Katy Clough:** Group HR Director

**Background:** Katy joined Dechra in April 2014 from AppSense Ltd where she was the Vice President of HR Europe and Rest of the World. With over 15 years operating at Director level within Software, Health, Travel and Finance industries, Katy brings with her a wealth of HR expertise gained in both blue chip corporates and smaller entrepreneurial companies.

She has strong international, leadership and M&A experience and has taken responsibility for driving the global people agenda for the Dechra Group. She is located at Head Office, Northwich, UK.

**Pets:** None



**Allen Mellor:** Group IT Director

**Background:** Allen joined Dechra in April 2012 and has developed and implemented the Group IT strategy during this time. During the last 25 years, Allen has gained a breadth of experience from the implementation of diverse business solutions across multiple industry sectors including Justice, Education, Energy, Distribution and Retail. He has held several senior management positions encompassing software development,

IT service provision and IT departmental management. His last role was as Head of IT for the BSS Group PLC, a leading plumbing and heating distribution company. Allen is currently responsible for all Group IT support to a multitude of internal customers. He is located at Head Office, Northwich, UK.

**Pets:** 



**Simon Francis:** Group Manufacturing and Supply Director

**Background:** Simon joined Dechra in 2019. He has over 20 years' experience in various senior roles within the Pharmaceutical industry. After completing a chemistry degree, Simon started his career with Bayer in Quality Control. He had a variety of UK pharmaceutical roles within quality, supply chain, production and operations, before moving to China as the site head for Boehringer Ingelheim. He then moved to their German headquarters, subsequently joining Sandoz (Novartis) as a Managing

Director covering three German generic manufacturing sites. Latterly, Simon was the Head of Strategy Global Solids and a Novartis Senior Executive Team member based in Switzerland, responsible for product strategy, supply chain and product lifecycle across 35 manufacturing sites.

Simon is responsible for our manufacturing sites in Europe and the USA.

He is located at Head Office, Northwich, UK.

**Pets:** 



**Melanie Hall:** Company Secretary

**Committee Membership:** Disclosure

**Background:** Melanie joined Dechra in January 2010 as the Assistant Company Secretary, and was promoted to Deputy Company Secretary in May 2015 and Company Secretary in July 2017. Prior to joining Dechra she has gained over 25 years' experience in various company

secretarial roles including at GKN plc, TRW Automotive Inc and Pendragon PLC. Melanie is a Fellow of the Institute of Chartered Secretaries and Administrators. She is located at Head Office, Northwich, UK.

**Pets:** 

**Non-Executive Directors**



**Julian Heslop:** Non-Executive Director

**Committee Membership:** Audit (Chairman), Nomination, Remuneration.

**Skills and Experience:** Julian has considerable financial experience as a result of the senior finance roles he has held in the pharmaceutical, food, property and brewing sectors over the last 30 years.

**Background:** Julian joined the Board in January 2013. He served as Chief Financial Officer of GlaxoSmithKline PLC (GSK) between 2005 and 2011, having previously been appointed its Senior Vice President,

Operations Controller between 2001 and 2005 and as Financial Controller of Glaxo Wellcome PLC between 1998 and 2000. Prior to this, Julian held senior finance roles at Grand Metropolitan PLC and Imperial Brewing and Leisure. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

**External Appointments:** None.

**Pets:** 



**Dr Lawson Macartney:** Non-Executive Director

**Committee Membership:** Audit, Nomination and Remuneration.

**Skills and Experience:** Lawson is a veterinarian and, in addition to spending several years in veterinary practice, has held a range of senior roles in pharmaceutical R&D, sales and marketing over the past 30 years.

**Background:** Lawson joined the Board in December 2016. He served as Chief Executive Officer of Ambrx Inc. between 2013 and 2015, and prior to that led emerging business for Shire PLC. Lawson was with GSK from 1999 to 2011 in positions of increasing seniority. His final role at GSK was to lead the strategic marketing, outcomes and reimbursement,

project management and portfolio teams. In addition to his veterinary degree, Lawson has a PhD in viral pathobiology and is a pathologist, holding Fellowship of the Royal College of Pathologists as well as Membership of the Royal College of Veterinary Surgeons.

**External Appointments:** Lawson has been the Chairman of Viking Therapeutics Inc. since 2015, as well as the Chairman of the Nomination and Corporate Governance and a member of the Audit Committees. He is also a strategic adviser to several investment and private equity groups in both Europe and USA.

**Pets:** 



**Lisa Bright:** Non-Executive Director

**Committee Membership:** Audit, Nomination and Remuneration.

**Skills and Experience:** Lisa has strategic and operational leadership experience in global market leading pharmaceutical and emerging biotech companies gained over her 30 year career in the industry.

**Background:** Lisa joined the Board in February 2019. She is currently President International, and previously Chief Commercial and Corporate Affairs Officer of Intercept Pharmaceuticals, Inc, a global biopharmaceutical company focused on

the development and commercialisation of novel therapeutics. Prior to this, Lisa held various Vice President roles at Gilead Sciences, Inc and GlaxoSmithKline plc, in Regional General Management, Government Affairs, and sales and marketing.

**External Appointments:** Lisa is also a Non-Executive Director at Ascendis Pharma A/S.

**Pets:** 

**Board Attendee**



**Paul Sandland:** Acting Chief Financial Officer

**Committee Membership:** Not applicable.

**Skills and Experience:** Paul qualified as a Chartered Certified Accountant in 2005. He spent five years post qualification at KPMG, during which time he was part of the team which advised the Group on its acquisition of VetXX in 2008.

**Background:** Paul was appointed as Acting Chief Financial Officer on 3 April 2019. Prior to this he was the Dechra Veterinary Products EU Finance Director. He was the Group Financial Controller of Dechra and Finance Director of Dechra Laboratory Services and Dechra Specialist Laboratories between January 2010 and April 2015.

**External Appointments:** None.

**Pets:** 

# Corporate Governance

continued

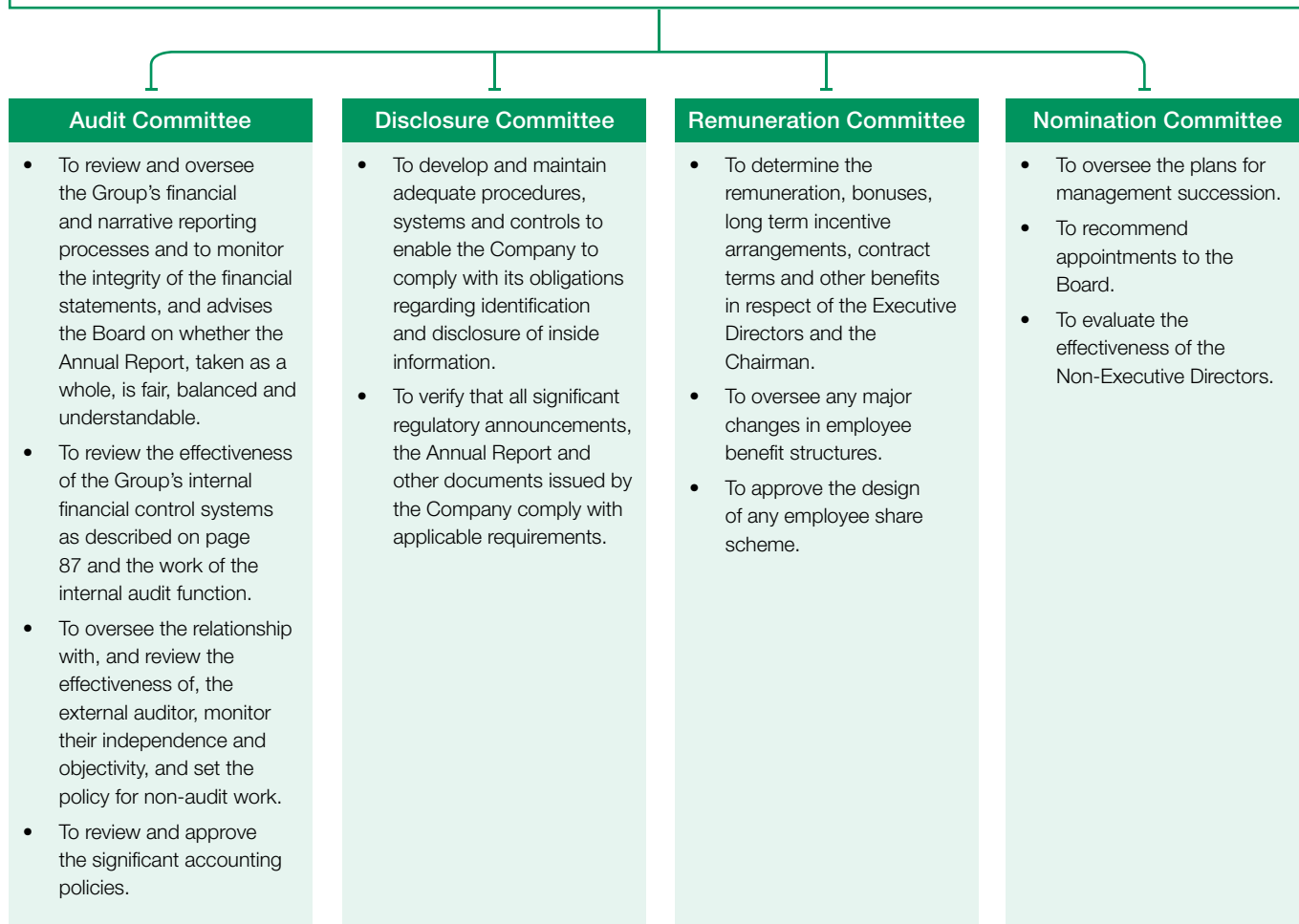
## Main Responsibilities

The Board is responsible, under section 172 of the Companies Act 2006, for the long term success of the Company for the benefit of its shareholders, having regard for its stakeholders. Further details on how the Board considers key stakeholders can be found on pages 15 and 78.

## Shareholders

## The Dechra Board

Key Responsibilities	
Responsibilities	Actions
<b>Strategy and performance</b>	Bi-annual strategy review. Strategic decisions are made after reports and recommendations are received from management on markets, potential growth areas including acquisitions, product development and risk analysis, including execution risks
<b>Risk management and internal controls</b>	Ongoing review of key risks and material internal control processes. Review of stress tests on the Group's forecasts to support the viability statement. Receipt of Audit Committee reports on the risk management process and internal controls
<b>Oversight of the Group's operations</b>	Approval of the annual budget and capital expenditure projects. Site visits to factories and offices in the UK and abroad. Review progress through Group and business unit reports and detailed financial result reports
<b>Governance</b>	Receive governance reviews from external advisers, the Company Secretary and internal audit. Review of Board skills, performance, composition and succession planning. Approval of Annual and Half-Year Reports



➔ See pages 83 to 89

➔ See page 77

➔ See pages 93 to 110

➔ See pages 90 to 92

## Board Membership

Details of the Directors together with details of their respective Committee membership, skills and experience, backgrounds and external appointments can be found on pages 72 to 75. In line with the Code, at least half the Board, excluding the Chairman, is determined by the Company to be independent.

The Board has determined that the Non-Executive Directors have sufficient time to meet their Board responsibilities and any proposed new appointments are disclosed to enable the Board to assess whether there are any conflicts of interest or time.

## Matters Reserved for the Board

There is a formal schedule of matters reserved for the Board. The schedule of matters covers a number of areas including strategy, approval of acquisitions and business development proposals, the dividend policy, budget, internal controls and risk management and Group policies. The Board has formally delegated specific responsibilities to Committees, namely the Audit, Remuneration, Nomination and Disclosures Committees. The Disclosure Committee members are the Chief Executive Officer, the Chief Financial Officer, the Corporate Development Director and the Company Secretary. The full terms of reference for each of these Committees are available on the Company's website ([www.dechra.com](http://www.dechra.com)) or on request from the Company Secretary. Other matters have been delegated to the SET and other committees such as the Data Protection Committee and Treasury Committee.

The schedule of matters are reviewed periodically and were last reviewed in November 2018 along with the Delegation of Authority Policy. The Delegation of Authority Policy defines who is authorised to make decisions on behalf of the Group and their authority limits for both monetary and non-monetary decisions.

## Board Meetings

The Board is scheduled to meet seven times per year. Attendance at the Board meetings during the year to 30 June 2019 is set out in the table below:

	<b>Tony Rice</b>	<b>Ian Page</b>	<b>Tony Griffin</b>	<b>Richard Cotton†</b>	<b>Lisa Bright‡</b>	<b>Julian Heslop</b>	<b>Lawson Macartney</b>	<b>Ishbel Macpherson</b>
<b>Appointment Date</b>	5 May 2016	13 June 1997	1 November 2012	3 January 2017	1 February 2019	1 January 2013	1 December 2016	1 February 2013
<b>Board</b>								
Met 7 times								

 Meetings attended

† Richard Cotton resigned as a Director of Dechra Pharmaceuticals PLC on 3 April 2019, he attended all meetings prior to his resignation.

‡ Lisa Bright has attended all meetings since her appointment.

The Non-Executive Directors met informally before every meeting, and they also met twice with the SET on an informal basis during the year.

Where Directors cannot attend a meeting, the Board papers are still provided allowing the Director to raise any queries or discussion points through the Chairman. Should Directors have concerns of any nature which cannot be resolved within the Board meeting, they have the right to have their view recorded in the minutes.

In the months where there is no Board meeting scheduled, an update is provided on the business. In addition, arrangements are in place should Board approval be required outside of the scheduled meeting dates.

## Director Insurance and Indemnities

The Company maintains an appropriate level of Directors' and Officers' insurance in respect of legal action against Directors as permitted under the Company's Articles of Association and the Companies Act 2006. The Company also indemnifies the Directors under an indemnity deed with each Director in respect of legal action to the extent allowed under the Company's Articles of Association and the Companies Act 2006. As at the date of this report, qualifying third party indemnity provisions are in force. A copy of the indemnity provisions will be available for inspection at the forthcoming Annual General Meeting.

# Corporate Governance

continued

## Board Activities

At each meeting the Board receives trading, financial and strategic updates from the Chief Executive Officer and Chief Financial Officer. During the year each SET member will present to the Board, providing the Board the opportunity to take a deep dive into the operations and strategic plans of the respective businesses as well as reviewing their specific risks. In addition to its routine business, the table below details the other matters discussed during the year and the respective key stakeholders affected.

Topic	Key activities and discussions in 2018/2019	Stakeholder
Strategy and performance	<ul style="list-style-type: none"> <li>Interim and full Strategy Review</li> <li>Approval of five year plan</li> <li>Bi-annual update on product pipeline and product development</li> <li>Various acquisition and licensing agreements approvals, including the acquisition of Venco</li> </ul>	
Risk management and internal controls	<ul style="list-style-type: none"> <li>Approval of Half Year and Full Year principal risks and emerging risks</li> <li>Presentations from the SET on their respective risks</li> <li>Risk Assessment Review and Viability Statement review</li> <li>Review of Schedule of Matters and Delegation of Authority</li> </ul>	
Governance	<ul style="list-style-type: none"> <li>Review of Disclosure Terms of Reference</li> <li>Review of 2019 Internal Board Evaluation</li> <li>Approval of 2019 Half-Yearly Results and interim dividend</li> <li>Approval of 2019 Full Year Results and final dividend recommendation</li> <li>Approval of Non-Executive Director appointment and Committee membership</li> <li>Review of the bi-annual Health and Safety Report</li> <li>Review of Diversity Policy and Modern Slavery Statement</li> <li>Review of How To Raise Concern Policy and Reports</li> </ul>	
Oversight of the Group's operations	<ul style="list-style-type: none"> <li>Functional presentations from the SET and Head of Legal</li> <li>Report from Quality Director</li> <li>Approval of the 2019/2020 budget and capital expenditure projects</li> <li>Site visits to Sansaw, Skipton and Uldum</li> <li>Review of people strategy and employee engagement</li> </ul>	

Key: Customers People Shareholders Suppliers

### Case Study



Skipton site visit



Uldum site visit

## Board Site Visits: Skipton Facility/Denmark Facility

Following the recent investment at the Skipton Manufacturing site, the May Board meeting was held in Skipton. This gave the Board the opportunity to have a tour of the manufacturing facility, in particular the recently refurbished tablets suite. At this meeting the Group Manufacturing Director and Quality Director gave presentations to the Board.

The June Board meeting was held in Uldum, Denmark, which was the Board's first visit to the main EU distribution centre of the Group. Anders Rasmussen, the Logistics Manager, conducted a tour of the facility which enabled the Board to gain a better understanding of the EU distribution of Dechra products. They also had the opportunity to have their lunch in the staff canteen facility which gave the Danish employees the chance to interact directly with the Board members in a relaxed setting.

Both Board visits were scheduled over two days which enabled the Board to meet and interact with senior managers during the evening before the meetings, on a more informal basis.



**Effectiveness**

**Board Structure, Size and Composition**

The Board seeks to ensure that the Board and the Committees have an appropriate composition to manage their duties effectively and to manage succession issues. It supports diversity in its broadest sense and considers it an essential driver of Board effectiveness. The Board recognises it is important that its composition is sufficiently diverse and reflects a wide range of knowledge, skills and experience. The Nomination Committee Report on pages 90 to 92 provides further information on the diversity of the Board in terms of gender and skills.

**Board Composition as at 30 June 2019**



**Board Balance and Independence**

The Board understands the importance of balance and refreshment in terms of its composition and keeps these matters under review. There have been the following changes at Board level over the past 12 months:

- Lisa Bright (Non-Executive Director) joined the Board on 1 February 2019; and
- Richard Cotton (Executive Director) resigned on 3 April 2019. Until a successor is appointed, Paul Sandland is Acting Chief Financial Officer during this interim period.

As disclosed in the 2018 Annual Report, the Nomination Committee retained an independent recruitment consultancy, Dzaleta Consulting, to assist in the appointment of Lisa Bright. Further details relating to the recruitment process and appointment can be found in the Nomination Committee Report on page 91.

The Nomination Committee Report on page 92 provides further information on succession planning measures taken by the Company, together with how we are developing the talent pool internally.

**Conflicts of Interest and External Board Appointments**

Under the Companies Act 2006 (the Act), all Directors have a duty to avoid a situation in which they have, or could have, a direct or indirect conflict of interest with the Company. As permitted under the Act, the Articles of Association of the Company enable the Directors to consider and, if appropriate, authorise any actual or potential conflict of interest which could arise.

The Board has established procedures for the disclosure by Directors of any such conflicts, and also for the consideration and authorisation of these conflicts. Directors are required to submit any actual or potential conflicts of interest they may have with the Company to the Board. The non-conflicted Directors are able to impose limits or conditions when giving or reviewing authorisation. The Board reviews the Conflicts of Interest register annually and on an ad hoc basis when necessary. Any potential conflicts of interest are considered by the Board prior to the appointment of new Directors. During the financial year under review no actual conflicts have arisen.

None of the Executive Directors have external Board appointments.

**Induction and Training**

In order to assist the Board to maintain its knowledge and familiarity with the Group’s operations, at least one Board meeting per year is held at one of the Group’s operational sites. This year, Board meetings were held at Sansaw and Skipton, UK and Uldum, Denmark (see case study on page 78 for further details).

Any newly appointed Directors are provided with comprehensive documentation in relation to the remit and obligations of the role, current areas under consideration for the Board and the latest equity research reports. New Directors visit the various business units in order to allow them to meet with the management teams and to be shown around the operations. An introduction to Remuneration Committee responsibilities was provided to Lisa Bright by our remuneration advisers, Deloitte LLP. Lisa Bright has visited Uldum, and plans have been made for her to attend a field visit and one manufacturing site, as well as meet key Head Office employees during the forthcoming year.

Regular briefings are provided to the Directors, which cover a number of legal and regulatory changes and developments relevant to each Director’s areas of responsibility. In addition, the Company Secretary informs the Directors of any external training courses which may be of relevance, and all Directors are encouraged to raise any training needs with the Company Secretary.

Each Director is entitled, upon request, to receive information to enable him or her to make informed judgements in order to discharge their duties adequately. In addition, all Directors have access to the advice and services of the Company Secretary and senior managers, and may take independent professional advice at the Company’s expense in connection with their duties.

**Induction Process**

<b>1</b>	<p><b>Understanding the Business</b></p> <p>Key documentation is provided such as a schedule of Board and Committee dates, Schedule of Matters and Delegation of Authority, Programmes of Business, Articles of Association, and Group Policies and Procedures</p> <p>One to one with the CEO</p>
<b>2</b>	<p><b>Meeting the Management Team</b></p> <p>Meet the SET informally and formally</p> <p>Meet key management at Head Office and leadership teams at the main sites</p>
<b>3</b>	<p><b>Director and Committee Responsibilities</b></p> <p>Receive induction/training on Director and Committee responsibilities (if applicable)</p> <p>Market Abuse Regulations online training course</p>
<b>4</b>	<p><b>Visit the Business</b></p> <p>Visit a key site for each function (PDRA, Manufacturing, Sales and Marketing, and Head Office)</p>

# Corporate Governance

continued

## Board Evaluation

The Chairman manages the Board and oversees the operation of its Committees with the aim of ensuring that they operate effectively by utilising the diverse range of skills and experience of the various Board members. The effectiveness of the Board is important to the success of the Group and the Board undertakes an annual evaluation of its performance and that of its Committees to ensure that they remain fit for purpose.

### The 2018 External Board Evaluation

An external evaluation of the Board and its Committees was completed during 2018 by Independent Audit Limited. The findings of the external evaluation were discussed at the June 2018 Board meeting. Overall, the review indicated that the Board operates effectively and is robust and challenging, but noted some areas for improvement. The actions which were taken are shown in the table below:

Action	Progress
Increase the diversity of the Board	Female representation at Board level increased to 25% following the appointment of Lisa Bright on 1 February 2019
Continue to develop the organisational design to meet future growth requirements	Ongoing
Concise Operational and Functional Board reports	A standard operational and functional Board paper format has been adopted
Bi-annual update on product pipeline and product development	An update on the product pipeline and product development was presented to the meetings in November 2018 and May 2019

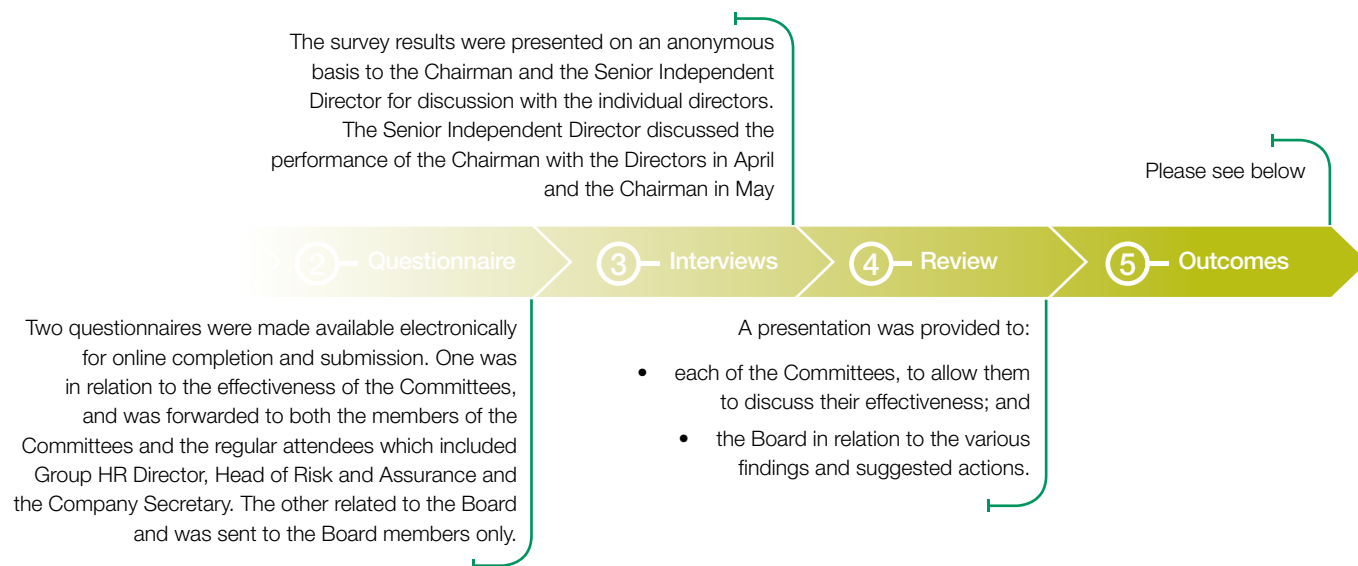
### The 2019 Internal Board Evaluation

Following the external evaluation last year, it was agreed to undertake an internal evaluation for the 2019 financial year, focusing on the following areas: (i) Board composition; (ii) strategy review and delivery process; (iii) the format of Board meetings and the decision process; (iv) training and development; (v) the performance of the Board and the individual Directors; (vi) Corporate Governance; (vii) leadership and culture; and (viii) risk assessment.

The internal evaluation process is detailed below and took the format of a questionnaire which was distributed to all of the Board, with the survey results presented on an anonymous basis. The responses were received in April, and were discussed with the individual directors. In addition, the Senior Independent Director discussed the performance of the Chairman with the Directors in April and the Chairman in May.

### Internal Board Evaluation Process

The process of the Internal Evaluation of the Board and its Committees were as follows:



### Outcomes of the 2019 Internal Board Evaluation

Following an initial review of the responses, the Chairman discussed with the Executive and Non-Executive Directors at the June 2019 Board meeting the general themes raised by the survey, and any other survey-related points they wished to discuss.

Overall, the review once again indicated that the Board operates effectively but noted the following focus areas:

- Succession Planning; and
- Employee Engagement.

The Board will perform a further external evaluation in two years' time. Internal evaluations will be completed during the intervening period.

## Accountability

### Financial Reporting

The Board seeks to present a fair, balanced and understandable assessment of the Group's position and prospects.

The responsibilities of the Directors and the external auditor in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities and the Independent Auditor's Report on pages 113 and 116 to 122 respectively.

### Preservation of Value

The basis on which the Group generates and preserves value over the longer term and the strategy for delivering the objectives of the Group can be found in the Strategic Report.

### Going Concern

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing these annual financial statements.

In reaching this conclusion the Directors have given due regard to the following:

- the Group's business activities together with factors likely to impact the future growth and operating performance;
- the financial position of the Group, its cash flows, available debt facilities and compliance with the financial covenants associated with the Group's borrowings, which are described in the financial statements; and
- the cash generated from operations, available cash resources and committed bank facilities and their maturities, which taken together provide confidence that the Group will be able to meet its obligations as they fall due.

As at 30 June 2019 the Group had cash balances of £80.3 million and net borrowings of £227.8 million (2018: cash balances of £79.7 million and net borrowings of £211.4 million). Further information on available resources and committed bank facilities is provided in notes 18 and 21 to the financial statements.

As reported in preceding Annual Reports, the Group completed a refinancing and entered into a facilities agreement in July 2017 (the Facility Agreement) with a group of banks comprising Bank of Ireland (UK) plc, BNP Paribas, Fifth Third Bank, HSBC Bank plc, Lloyds Bank plc, Raiffeisen Bank International AG and Santander UK plc (the Banks). The Facility Agreement includes a committed revolving credit facility of £235.0 million, together with an 'Accordion' facility of £125.0 million. The RCF is committed for five years until July 2022 with two optional one year extensions, both of which were exercised. The RCF is now committed until July 2024.

In January 2018, the Group entered into a £350.0 million multi-currency term loan facility (Term Loan) with BNP Paribas Fortis SA/NV, Fifth Third Bank, HSBC Bank plc, Santander UK plc and Lloyds Bank plc, with the loans made or to be made under the Term Loan to be applied towards the acquisition of AST Farma and Le Vet and any other permitted acquisitions. All parties terms and conditions are the same as the existing £235.0 million Facility Agreement. The maturity date on the Term Loan is 31 December 2020. The Term Loan had an initial drawdown period expiring on 30 June 2018; this has been subsequently extended to 31 December 2019.

## Assessment of Prospects

Dechra has consistently delivered on its strategic objectives resulting in a strong track record of growth. The Group's strategy remains unchanged and is set out on pages 16 to 19 of the Strategic Report. The key factors supporting the Group's prospects are explained throughout the Annual Report and are summarised below:

- a clear strategic focus;
- a growing global animal health market;
- a clear portfolio focus with strong market positions in a number of key therapeutic areas;
- a strong development pipeline and a track record of pipeline delivery;
- manufacturing flexibility, with a wide range of dosage forms, small and large scale production batches;
- an entrepreneurial and experienced management team;
- a recognised brand with a strong reputation for providing high quality products with technical support;
- an expanding international focus;
- talented people and expertise; and
- a sound track record of successful acquisitions to expand our product portfolio and geographic reach.

The Board believes that the Group has adequate resilience due to its diversified product portfolio, its geographic footprint, a strong balance sheet, healthy cash generation and access to external financing, which includes committed facilities.

### The Assessment Process and Key Assumptions

The Group's prospects are assessed primarily through its strategic and financial planning processes over a five year time period. The strategic plan is supported by a five year financial plan, both of which are updated annually by the SET and reviewed by the Board. The Board also reviews the Group's principal risks on a rolling basis throughout the year, based on updates from SET members.

The planning process considers risks to sales and cost forecasts for each part of the Group, the Group's consolidated income and cash flow forecasts, and includes key assumptions to support longer term projections. The financial plans are reviewed to confirm that adequate financing facilities are in place. This review is based on the reasonable assumption that the Group will be able to refinance its revolving credit facility and its term loan facility which are currently committed to 25 July 2024 and 31 December 2020 respectively.

Progress against financial budgets, forecasts and key business objectives are reviewed through monthly business performance reviews at both Group and business unit levels. Mitigating actions are taken to address under performance. The latest updates to the plans were reviewed in June 2019 and considered the Group's current position, its future prospects and reaffirmed the Group's stated strategy.

### Assessment of Viability and Time Period

The Board has determined that a three year period to 30 June 2022 is an appropriate period over which to provide its viability statement. This time period is supported by the Group's budget process, which includes detailed projections for the next two financial years, and broader projections from the third year of the five year strategic planning process. The Board believes this provides a sound framework for providing reasonable assurance on the Group's viability given the inherent uncertainty associated with longer term forecasts.

# Corporate Governance

continued

The Board's assessment has considered the Group's current position, its future prospects, adequacy of financing facilities, the strategic plan and the management of the Group's principal risks. The viability assessment takes account of all the committed expenditure of the Group.

Although the output of the Group's strategic and financial planning processes reflects the Board's best estimate of the future prospects of the business, the Group has also conducted stress testing to assess the liquidity impact of a range of alternative scenarios.

These scenarios have been developed by considering those principal risks that could have a material impact on viability. The potential impact of each principal risk is described on pages 64 to 67 of the Strategic Report. A number of severe but plausible stress tests have been conducted on these areas including a significant pipeline delay; significant profit reduction on top ten products, and loss of key high margin products. A combination of the individual scenarios and an overall reverse stress test on the Group's borrowing facilities and covenant commitments have also been considered.

The Board believes the results of the stress testing demonstrate that the Group should be able to withstand the impact in each case due to its strong cash generation, strong balance sheet, and existing financing arrangements.

## Viability Statement

Based on the results of this analysis and the assumptions used in the Group's planning process, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period from 30 June 2019.

## Internal Control and Risk Management

The Board retains overall responsibility for determining the nature and extent of the risks it is willing to take in achieving its strategic objectives.

In accordance with the Code, the Board is responsible for reviewing the effectiveness of the Group's risk management and internal control systems, and confirms that:

- there is an ongoing process for identifying, assessing, managing and monitoring the Group's principal risks;
- the SET's assessment of the principal risks is considered to be robust and those risks that have the potential to impact liquidity have been considered in the assessment of the Group's viability;
- the principal risks and internal control processes have been monitored by the SET throughout the year and reviewed by the Board on a rolling programme throughout the year; and
- no significant failings or weaknesses in internal control processes have been identified.

Based on its review throughout the year, the Board is satisfied that the risk management and internal control systems in place remain effective and provide reasonable but not absolute assurance that the Group will be successful in delivering its objectives.

Further information on how the business manages risk can be found in the Strategic Report on pages 62 and 63.

## How to Raise a Concern

The Board is committed to the highest possible standards of openness, integrity and accountability and encourages any individual who has genuine concerns about any form of malpractice, including any breaches of the Values, within Dechra (or in relation to its business) to raise those concerns at an early stage via its How to Raise a Concern procedure.

A summary of any reported concerns is provided to the Board.

## Relations with Shareholders

### Dialogue with Institutional Shareholders

Relationships with shareholders receive high priority and a rolling programme of meetings between institutional shareholders and the Chief Executive Officer and Chief Financial Officer have been held throughout the year (a summary of the main events is shown below).

### Investor Presentations

Full Year: London and Edinburgh	September 2018
Half Year: London and Edinburgh	February/March 2019

### Investor Roadshows

USA: New York	October 2018
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### Investor Conferences

UK	November 2018
USA	December 2018
UK	March 2019

### Site Visits

UK	December 2018 and March 2019
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These meetings are in addition to the Annual General Meeting and seek to foster a mutual understanding of both the Company's and shareholders' objectives. Such meetings are conducted in a format to protect price sensitive information that has not already been made generally available to all the Company's shareholders. Similar guidelines also apply to other communications between the Company and other parties, such as financial analysts, brokers and the media.

Feedback is collated by the Company's brokers after Investor Presentations. The feedback is circulated to the Board for review and consideration. In addition, the Board is provided with market summary reports which detail share price and share register movements. Where material changes in respect of remuneration or governance are proposed, the Board seeks to consult with its major shareholders before implementing such changes.

The Chairman and Senior Independent Director are available to meet shareholders upon request.

### Constructive use of the Annual General Meeting

All members of the Board are scheduled to attend the Annual General Meeting (the Meeting) and the Chairmen of the Audit, Remuneration and Nomination Committees will be available to answer shareholders' questions at the Meeting. Notice of the Meeting is dispatched to shareholders at least 20 working days before the Meeting. The information sent to shareholders includes a summary of the business to be covered, with a separate resolution prepared for each substantive matter. When a vote is taken on a show of hands, the level of proxies received for and against the resolution and any abstentions are disclosed at the Meeting. The results of votes lodged for and against each resolution are announced to the London Stock Exchange and displayed on the Company's website. At the Meeting there will be an opportunity, following the formal business, for informal communications between shareholders and Directors.

### Tony Rice

Non-Executive Chairman  
2 September 2019

# Letter from the Audit Committee Chairman



**Julian Heslop**  
Audit Committee Chairman

4

## Audit Committee Meetings Held

### Areas of Focus this Year

- Impact of New Accounting Standards
- Venco Compliance and Controls Implementation
- Anti-Bribery and Anti-Corruption Policy

### Committee membership and attendance

**Julian Heslop**

Date Joined: 1 January 2013

4/4

**Lawson Macartney**

Date Joined: 1 December 2016

4/4

**Ishbel Macpherson**

Date Joined: 1 February 2013

4/4

**Lisa Bright**

Date Joined: 1 February 2019

2/2

### Dear Shareholder

On behalf of the Board, I am pleased to present this year's Audit Committee (the Committee) report. During the year in addition to our regular duties, we focused on the impact of a number of new accounting standards, compliance and control implementation in our newly acquired business in Brazil and Anti-Bribery and Anti-Corruption compliance.

### Impact of New Accounting Standards

The Committee endorsed the amendments to the Group accounting policies following the adoption of IFRS 9 and IFRS 15 from 1 July 2018 and reviewed the impact assessment and adoption approach for IFRS 16 from 1 July 2019.

### Venco Compliance and Controls Implementation

The acquisition of Laboratorios Vencofarma do Brasil Ltda (Venco) in December 2018 has been a key focus area for this year given the higher risk inherent in doing business in Brazil. Internal Audit has designed a compliance and financial controls improvement plan to implement Dechra's global standards in the Brazilian business, and are providing updates to the Committee on its implementation.

### Anti-Bribery and Anti-Corruption Policy

The Committee approved an amendment to the policy to give further information and guidance to the policy audience on the relevance of this area of law to them, and reviewed the third party e-learning course.

### Committee Membership

We have welcomed Lisa Bright to the Committee and look forward to the additional perspective she will bring given her international pharmaceutical background.

### Annual Report 2019

The judgements and factors that the Committee considered in reviewing the Annual Report and Accounts for 2019 (2019 Annual Report) are set out in its report on page 86.

The report also outlines significant accounting matters which received particular focus during the period. It explains why the issues were considered significant and how the Committee satisfied itself on the validity of the judgements made.

The Committee has reviewed the viability statement, which clearly distinguishes the assessment of long term prospects from the viability assessment, with a five year time frame for long term prospects and a three year time frame for viability.

Finally, we specifically reviewed, at the request of the Board, whether the 2019 Annual Report was fair, balanced and understandable and concluded that it was. The basis supporting our conclusion is set out on page 87.

I will be available at the Annual General Meeting to answer any questions about our work.

**Julian Heslop**

Audit Committee Chairman

2 September 2019

# Audit Committee Report

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## The Purpose and Function of the Audit Committee (the Committee)

### Purpose

The Committee's key role is to review and report to the Board on financial reporting and internal financial control effectiveness, and to oversee the relationship with the external auditor. The main responsibilities are summarised on page 76 of the Corporate Governance Report.

### Membership, Meetings and Attendance

The membership of the Committee, together with appointment dates and attendance at meetings, are detailed on page 83. Lisa Bright joined the Committee on her appointment to the Board in February 2019. All Committee members are Non-Executive Directors.

The Board considers that all members of the Committee are independent and have competences relevant to the sector in which the Company operates. Julian Heslop has recent and relevant financial experience as a result of his financial background and qualification. Ishbel Macpherson, Lawson Macartney and Lisa Bright provide different but relevant skills and experience which support the Committee in meeting its objectives. The biographies of all Committee members are detailed on pages 72 and 75.

The Company Secretary attends each meeting and acts as its secretary assisting the Chairman in ensuring that all papers are provided prior to each meeting in a timely manner and providing advice on all governance related matters. Other members of the Board normally attend each meeting together with the PricewaterhouseCoopers LLP (PwC) Lead Audit Partner, the Group Financial Controller and the Head of Internal Audit and Risk Assurance. In addition, the Committee Chairman meets with the Chief Financial Officer, the Head of Internal Audit and Risk Assurance and the Lead Audit Partner outside of the Committee meetings in order to understand fully the key topics to enable these subjects to be discussed meaningfully at the meetings.

The Committee meets with the external and internal auditors without management being present, after each scheduled meeting, to discuss their respective areas and any issues arising from their audits.

Neither the Company nor its Directors have any relationships that impair the external auditor's independence.

### Effectiveness of the Committee

The Committee's performance was evaluated as part of the 2019 Board and Committee Internal Evaluation (further details of which can be found on page 80 of the Corporate Governance Report). The Committee considered the results of the evaluation and it was agreed that the Committee remained effective. The structure and content of the papers and quality of discussions held gave the Committee further assurance of its effectiveness.

### Role and Responsibilities

The main role and responsibilities of the Committee are set out in the written terms of reference which are available on the Company's website at [www.dechra.com](http://www.dechra.com). The Board reviewed the Committee's terms of reference at the November 2018 meeting and amended them to reflect the 2018 UK Corporate Governance Code requirements.

### Major Activities of the Committee during the Year

The Committee met four times since the last Annual Report was issued. These meetings were scheduled meetings, and are generally timed to coincide with the financial reporting timetable of the Company. The Committee Chairman and the Company Secretary have developed an annual programme of business. This allows the Committee to consider standing items of business alongside any exceptional matters that may arise during the course of the year.

At each meeting the Committee reviews the following items routinely:

- status of statutory audits, global tax management and compliance support;
- non-audit fees (including actual and projected spend); and
- the internal audit progress and assurance report.

The table below shows the other key areas of the Committee activities:

<b>Purpose and Function (see page 84)</b>	<ul style="list-style-type: none"> <li>• Review of the Committee's terms of reference</li> <li>• Review of the implication of the 2018 Corporate Governance Code on the Committee's activities</li> </ul>	<ul style="list-style-type: none"> <li>• Review of the effectiveness of the Committee</li> </ul>
<b>Financial and Narrative Reporting (see pages 86 and 87)</b>	<ul style="list-style-type: none"> <li>• Review and approval of Accounting Policy amendments due to the adoption of IFRS 9 and IFRS 15 from 1 July 2018</li> <li>• Review of impact assessment and proposed adoption approach for IFRS 16 from 1 July 2019</li> <li>• Review of year end accounting treatment for acquisitions, non-underlying items and new accounting standards</li> <li>• Review and endorsement of key judgements made by management in determining half-year and full year results</li> <li>• Review of the Group's Half-Yearly Report and supporting papers</li> <li>• Consideration of the Half-Year Review Memorandum prepared by the external auditor</li> <li>• Review of the dividend policy and interim and final dividend proposals</li> </ul>	<ul style="list-style-type: none"> <li>• Review of the Group's preliminary statement, draft Annual Report (including the Audit Committee Report) for the year ended 30 June 2019 and management presentation to investors</li> <li>• Consideration of the Audit Memorandum prepared by the external auditor, including: <ul style="list-style-type: none"> <li>• review of accounting treatment of non-underlying items</li> <li>• assessment of acquired intangible assets and goodwill including impairment assessments undertaken</li> <li>• commentary on the general control environment across the Group</li> </ul> </li> <li>• Review of viability statement process</li> <li>• Review and commend the going concern and viability statements</li> <li>• Fair, balanced and understandable recommendation of the Annual Report</li> </ul>
<b>Internal Controls and Risk Management (see page 87)</b>	<ul style="list-style-type: none"> <li>• Review of Anti-Bribery and Anti-Corruption and How to Raise a Concern Policies</li> <li>• Anti-Bribery and Anti-Corruption and Sanction progress update</li> <li>• Half-year and full year review of internal financial controls</li> <li>• Review of tax strategy and policy framework</li> <li>• Review of treasury policy and practice</li> </ul>	<ul style="list-style-type: none"> <li>• GDPR compliance update</li> <li>• Review and approval of the internal control and risk management statements</li> <li>• Review of Internal Audit Plan and effectiveness of Internal Audit</li> <li>• Review of Internal Audit Charter</li> </ul>
<b>External Audit (see pages 88 and 89)</b>	<ul style="list-style-type: none"> <li>• Review and approval of PwC Half-Yearly review plan</li> <li>• Review and approval of PwC full year external audit strategy (including timetable, scope and fees)</li> <li>• Discussion in relation to the Company's expectations of the external auditor and audit process</li> </ul>	<ul style="list-style-type: none"> <li>• Review of the external audit effectiveness, external auditor's independence and level of non-audit fees</li> <li>• Review of the non-audit fee policy</li> <li>• Review of findings from the external audit</li> </ul>

# Audit Committee Report

continued

## Financial and Narrative Reporting

All significant matters under consideration by the Committee during the year were supported by relevant justification papers and were fully discussed so that due and appropriate consideration was given before any decision was approved. Further detail in relation to a number of the matters is provided below.

## Financial Judgements

The Committee reviewed both the half-year and the annual financial statements. This process included an analysis by management of key judgements made in determining the results. The Committee reviewed this in detail and endorsed management's judgements.

The Committee gave particular attention to significant matters where judgement was involved, which were complex in nature, or where alternative performance measures (APMs) were provided to enhance investors' understanding of the underlying performance. The Group uses various non-GAAP APMs within internal management reporting, the Half-Yearly Report and the Annual Report. The objective of these APMs is to isolate the impact of exceptional, one-off or non-trading related items to allow the Board and investors to understand better the underlying performance of the business. The Group also uses constant exchange rate growth percentages to eliminate the impact of exchange rate fluctuations and show the underlying business growth. These matters were well supported by briefing papers provided by management and were specifically reviewed and agreed by the external auditor in their reports to the Committee and in related discussions.

The key matters reviewed are shown in the table below:

Significant risks considered by the Committee in relation to the financial statements	Corresponding actions taken by the Committee to address the issues
Review of the carrying value of intangible assets and goodwill of £687.0 million, which represents 65.5% of total Group assets.	The Committee reviewed management's process for reviewing and testing goodwill and other intangible assets for potential impairment. In respect of assets not subject to amortisation, it reviewed the papers provided by management and noted the headroom between the value in use and the carrying value of goodwill. In addition, it considered the ongoing viability of capitalised R&D projects compared to their carrying value. Finally it reviewed the process adopted by management to review amortised assets for impairment. It endorsed management's conclusion that no impairment of these assets had taken place. The Committee considered PwC's report on these matters.
Review of the remeasurement of the intangibles and associated contingent consideration for the licensing transactions which were remeasured during the year.	The Committee reviewed the accounting basis of the adjustments which supported the remeasurement and considered the appropriateness of the accounting treatment.
Valuation of the acquired intangible assets and goodwill acquired during business combinations in the year, which total £37.5 million.	The Committee reviewed the calculations and assumptions provided by management and third party experts which support the valuation of these acquired assets and these valuations were assessed for completeness. The Committee reviewed the useful economic lives of the identifiable intangible assets and the future growth rate assumptions applied in the valuations.
Valuation and accounting for the acquired commercial licensing agreement intangibles of £7.9 million together with the related deferred consideration.	The Committee reviewed the calculations and assumptions provided by management and third party experts which support the valuation of these acquired assets and these valuations were assessed for completeness. The Committee reviewed the useful economic lives of the identifiable intangible assets and the future growth rate assumptions applied in the valuations.
Review of the corporate tax rate for the year being a credit of 11.2% (21.2% on underlying operations).	The Committee discussed the key risks in respect of corporate tax and reviewed that appropriate controls were in place to confirm that taxation calculations were not materially misstated. Areas where significant judgements, such as uncertain tax positions, had been applied were reviewed and challenged and external audit work and conclusions were considered.
In order to assist investors with a better understanding of the underlying performance of the business, management present within the financial statements figures for underlying profit and earnings.	The Committee reviewed the basis for calculating the underlying figures and its consistency with previous year's figures. It also sought confirmation from the external auditor, PwC, that they were satisfied that the application of the accounting policy was appropriate.
This is reconciled to the figures provided in the financial statements and excludes matters such as impairment and amortisation of acquired intangible assets and related deferred consideration, acquisition costs, manufacturing rationalisation restructuring costs, and the fair value uplift on inventory acquired through business combinations.	The Committee also reviewed any material one-off income and costs within the underlying results, and ensured these were clearly disclosed within the financial statements and notes.



### Going Concern and Viability Statements

The Committee reviewed the Group's going concern and viability statements set out on pages 81 and 82 of the Corporate Governance Report. In considering the viability statement the Committee paid particular attention to the robustness of the stress testing scenarios, the cash flows forecast by the business and the committed bank facilities available to the Group. The external auditor reviewed management's assessment and discussed this review with the Committee.

### Fair, Balanced and Understandable Assessment of the Annual Report

At the request of the Board, the Committee considered whether the 2019 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance (pages 25 to 31), business model (pages 12 to 14) and strategy (pages 16 to 19).

The Committee based its assessment on a review of the processes and controls put in place by management. This included:

- the relevant senior management providing information on their own business units and their confirmation that it was fair, balanced and understandable; and
- the Executive Directors and Company Secretary providing confirmation that each section of the report has been subject to a rigorous review process built around four tiers:
  - ongoing internal review by members of the Annual Report project team;
  - Board review of a full printed draft copy of the Annual Report with all comments received being considered by the owners of the respective reports;
  - external review by advisers including the external auditor; and
  - a final review by all members of the Senior Executive Team (SET).

The above is an integral part of the process and each tier is invited to comment so that issues could be debated and a final assessment made. The Annual Report project team concluded that the Annual Report 2019 met the fair, balanced and understandable test. In addition, the final draft document was reviewed by all members of the SET who also concluded that it met the fair, balanced and understandable test.

An integral part of the process was the Committee's final review; other Board members and the external auditor were invited to comment so that issues could be debated and a final assessment made.

The external auditor confirmed that in their opinion the Annual Report 2019 was fair, balanced and understandable, which can be found on pages 116 to 122.

This assessment was carried out by the Committee on 27 August 2019, following which the Committee reported to the Board that it was satisfied that, taken as a whole, the Annual Report 2019 is fair, balanced and understandable.

### Internal Controls and Risk Management

The Board retains overall responsibility for the management of the Group's risk management and internal control framework. The Committee monitors and reviews the effectiveness of the Group's internal financial controls.

The Committee has also reviewed the effectiveness of the Group's risk management and internal control processes. This includes:

- confirmation that the rolling programme of risk and control reviews by the Board has been completed;
- a review of the SET's assessment of material internal control effectiveness;
- a review of the going concern and viability statements together with the financial stress testing conducted to support these statements; and
- a review of baseline financial controls and management representations on their effectiveness across the Group.

Further details in respect of the Group's risk management and internal control processes are provided on pages 62 and 63 of the Strategic Report and the Board's statements on the effectiveness of these processes are provided on page 82 of the Corporate Governance Report.

### Review of Policies and Procedures

During the year the Committee reviewed the following policies:

- Finance Policies  
The Committee endorsed amendments to three Accounting Policies (Receivables, Intercompany and Revenue) which had been impacted by the adoption of IFRS 9 and IFRS 15. In addition, the Committee undertook the annual review of the Group Tax Policy and Strategy and Treasury Policy.
- Anti-Bribery and Anti-Corruption Policy  
This policy was amended to give further information and guidance to the policy audience on the relevance of this area of law to them, and included the newly developed Third Party Risk Identification Questionnaire and guidance.

# Audit Committee Report

continued

## Internal Audit

The Head of Internal Audit and Risk Assurance provides objective assurance and advice on the management of the Group's risks and its systems of internal control. Internal Audit operates a resourcing arrangement with KPMG LLP (KPMG) with a mix of seconded and specialist resources to provide a flexible resource model and access to specialist expertise and language skills in worldwide geographies.

Internal Audit operates a three year assurance plan which seeks to provide balanced coverage of the Group's material financial, operational and compliance control processes. It consists of a rolling programme of core assurance activities together with initial controls reviews on new acquisitions and reviews of major business process and systems changes. The annual delivery plan, which defines the specific assurance projects to be delivered each calendar year, is developed from the three year plan. The annual plan for the year to June 2020 was approved by the Committee in May 2019.

The acquisition of Laboratorios Vencofarma do Brasil Ltda (Venco) in December 2018 has been a key focus area for this year given the higher risk inherent in doing business in Brazil. A compliance and financial controls improvement plan to implement Dechra's global standards in the Brazilian business has been designed by Internal Audit, who are also monitoring its implementation by the Venco management team. This plan includes:

- implementation of Dechra's standard financial control framework;
- communication and training on the Group's compliance policies with a significant focus on the Anti-Bribery and Anti-Corruption (ABC) Policy;
- implementation of Dechra's ABC third party compliance programme to complete a risk assessment of Venco's customer and suppliers, communicate Dechra's Third Party Code of Conduct to higher risk parties and conduct due diligence on these higher risk relationships; and
- a review and assessment of the internal controls in the recently implemented ERP system.

Internal Audit recommendations are communicated to relevant business leaders, appropriate control improvements agreed with them, and implementation of agreed actions is monitored monthly. Audit reports are provided to the Committee together with regular progress reports on management's implementation of control improvements.

During the year the Committee reviewed and approved an Internal Audit Charter and, based on an assessment of its work, concluded that Internal Audit continued to be effective.

## External Auditor

Following a competitive tender in 2015, PwC were appointed as the Company's external auditor effective from the 2016 audit. The Company complies with the Competition and Markets Authority Order 2014 relating to audit tendering and the provision of non-audit services.

## Audit Plan

PwC agreed their audit plan with the Committee, which included their audit scope, key audit risk areas and materiality. The Committee discussed the audit plan with PwC and approved it, together with the fees proposed.

## Independence, Effectiveness and Objectivity of the Audit Process

The Committee conducted a review of the external auditor's independence, effectiveness and objectivity based on:

- the Committee's own assessment of the quality of the audit plan, the rigour of the audit findings and conclusions, the extent to which the Lead Audit Partner understands the business and constructively challenges management and the quality and clarity of the technical and governance advice provided;
- the results of a questionnaire on external auditor effectiveness and efficiency (further detail on which is provided below);
- a report prepared by PwC setting out its processes to ensure independence and its confirmation of compliance with them; and
- the level of non-audit fees as a percentage of the audit fees paid to the external auditor, which were 6.7% (2018: 70.0% in relation to services rendered by PwC).

Responses to the questionnaire have been received from all finance directors across the Group who provided information and assistance to the external auditor. The questionnaire covered a number of areas, including:

- quality of the audit team;
- knowledge and understanding of the Group;
- appropriateness of the areas of audit focus;
- interaction with audit specialists; and
- timeliness and adequacy of communication by the external auditor.

The results of the questionnaire were reported to the Committee at the meeting on 27 August 2019.

Based on the review set out above, the Committee is satisfied with the external auditor's independence, effectiveness and objectivity.

### Re-Appointment of External Auditor

At the forthcoming Annual General Meeting, a resolution to re-appoint PwC as the external auditor and to authorise the Committee to set their remuneration will be proposed.

In recommending the re-appointment of the external auditor at the Annual General Meeting, the Committee also takes into account EU guidance and the Competition and Markets Authority (CMA) Order on mandatory audit tendering. Dechra will be required to retender its audit no later than for 2026 financial year and we also note that the next regular PwC partner rotation will take place after the 2020 audit. The Committee has therefore started to consider the factors that would be taken into account during the tender process to enable access to an appropriate pool of external auditors for consideration.

### External Audit Engagement Partner Rotation

In line with the ethical standards of the Audit Practices Board, the Lead Audit Partner will be rotated every five years. The current Lead Audit Partner was appointed during the 2016 financial year and consequently will stand down at the latest after the completion of the audit of the 2020 financial year.

### Non-Audit Assignments

With respect to non-audit services undertaken by the external auditor, the Company's policy is that the provision of such services does not impair their independence or objectivity.

The 2018 fee was higher than in previous years, and was due to the external auditor providing the services of reporting accountant with respect to the acquisition of AST Farma B.V. and Le Vet Beheer B.V. in February 2018. The Committee fully considered this engagement and concluded that the performance of this non-audit work did not affect or impair the external auditor's integrity for the reasons outlined in the 2018 Audit Committee Report.

As previously disclosed, in May 2018 the Committee amended its policy for the use of the auditors, PwC, for non-audit work, by agreeing a cap of 30% for the ratio of non-audit fees to the audit fee and reconfirmed the underlying principle that the external auditor should never be used where another professional firm can provide the same or similar service. This principle is stricter than the FRC guidance as it is expected that non-audit work performed by the external auditor will be limited to the review of the half-year accounts and any other work required to be carried out by the auditor in accordance with legislation. The annual review of the policy was undertaken in May 2019 with no major changes being made.

The approval of the Committee must be obtained before the external auditor is engaged to provide any permitted non-audit services. Should another professional firm be unable to provide the same or similar service the Committee will continue to approve in advance any non-audit work carried out by the external auditor. In all instances the Committee will assess the qualification, expertise, independence and objectivity of the external auditor prior to granting approval. Safeguards are in place to provide for continued external auditor independence, including the use of separate teams to undertake the non-audit work and the audit work. As such, non-audit fee spend is a standing item on the agenda for every Committee meeting.

A summary of audit and non-audit fees in relation to the year is provided in note 7 to the Group's financial statements. This shows that non-audit work carried out by the external auditor represented 6.7% (2018: 70.0%) of the annual audit fee. The 2019 non-audit fees relate to the engagement of PwC to provide an annual attestation to NOMA (the regulator in Norway), an attestation in respect of the Mexican Social Security Institute filings and an expert's opinion in relation to the capital reduction of the Group's Irish subsidiary, as such the services were permitted under the non-audit fee policy.

	2019	2018	2017	2016
	PwC	PwC	PwC	PwC
Audit fees including related assurance services (£m)	0.89	0.80	0.57	0.50
Non-audit fees (£m):				
Review of Half-Yearly Report	0.04	0.04	0.04	0.04
Other work	0.02	0.52*	0.05	0.02
Ratio of non-audit fees to audit fees	6.7%	70.0%	15.8%	12.0%

\* The 2018 Audit Committee Report sets out the reasons for the engagement of PwC.

### Julian Heslop

Audit Committee Chairman  
2 September 2019

# Nomination Committee Report



**Tony Rice**  
Nomination Committee  
Chairman

4

## Nomination Committee Meetings Held

### Areas of Focus this Year

- Diversity
- Board Appointments and Succession Planning
- SET Succession Planning and Leadership needs of the Group
- Board Evaluation and Committee Effectiveness

### Committee membership and attendance

<b>Tony Rice</b> Date Joined: 5 May 2016	<b>4/4</b>	<b>Lawson Macartney</b> Date Joined: 1 December 2016	<b>4/4</b>
<b>Julian Heslop</b> Date Joined: 1 January 2013	<b>4/4</b>	<b>Lisa Bright</b> Date Joined: 1 February 2019	<b>1/1</b>
<b>Ishbel Macpherson</b> Date Joined: 1 February 2013	<b>4/4</b>		

### Dear Shareholder

On behalf of the Board, I am pleased to present the Nomination Committee (the Committee) report.

During the year there was one additional meeting which dealt with the appointment of Lisa Bright as a Non-Executive Director and her role as the designated director for employee engagement. In last year's report we made a commitment to improve our diversity balance on the Board and I am pleased to report that with the appointment of Lisa this is now at 28.6%.

The Committee regularly considers succession and emergency planning both for the Executive Directors and the Senior Executive Team (SET). Following the resignation of Richard Cotton, Executive Director and Chief Financial Officer, Paul Sandland, our DVP EU Finance Director, was appointed to the post of Acting Chief Financial Officer in line with our emergency succession planning. The Committee believes that the Board continues to have the appropriate skills, knowledge and experience to oversee the effective delivery of our strategy. The Committee also believes that the Group has an experienced SET to lead the development and implementation of this strategy.

The following report provides an overview of the work carried out during the year under review.

Should you have any questions in relation to this report or the Committee, please contact me or the Company Secretary.

### Tony Rice

Nomination Committee Chairman  
2 September 2019

### Committee Membership and Attendance

The membership of the Committee, together with appointment dates and attendance at meetings during the year, is set out above. Other attendees at the meetings include the Chief Executive Officer, the Group HR Director and the Company Secretary (who acts as secretary to the Committee).

The Chairman does not chair the Committee meeting if it is dealing with the appointment of his successor. The Senior Independent Director, Ishbel Macpherson, takes the chair when required.

### Role and Responsibilities

The role and responsibilities of the Committee are set out in the written terms of reference, which are available on the Company's website at [www.dechra.com](http://www.dechra.com). The Committee's terms of reference are reviewed on an annual basis. During the 2019 financial year this took place at the February meeting and they were amended to reflect the 2018 UK Corporate Governance Code requirements. An overview of the terms of reference is detailed on page 76 of the Corporate Governance Report.

Principal activities of the Committee during the year included:

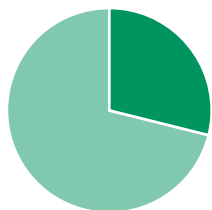
#### • Diversity

The Board reviews its policy on diversity and its implementation every year and during 2019 this review took place in February. The Group recognises that the diversity of teams and an inclusive culture is beneficial for the Dechra business, its processes, and its performance. Our objective is to continue to be a high performing business driven by highly skilled and committed teams. In the context of the market in which we compete, we believe that the diversity of our workforce contributes significantly to developing strong relationships with veterinarians, a significant and growing proportion of which are women, in the many markets and cultures in which we trade.

The Board believes that everyone should be recruited and promoted on the basis of their personal ability, contribution and potential. The Board is committed to promoting and supporting a culture of fairness, respect and equal opportunity across the Group.

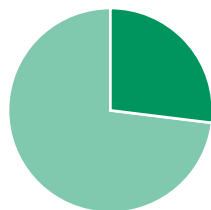
The Board is generally opposed to the idea of stated gender quotas; however, it acknowledged in the 2018 Annual Report that there was a low representation of female Directors (14.3%) on the Board, and it committed to restoring the balance. Following the appointment of Lisa Bright in February 2019, the female representation at Board level increased to 25%. Following Richard Cotton's resignation this has increased to 28.6%. Female representation below Board level is 27.3% of the Senior Executive Team and 52% of the overall workforce.

**The Board as at 30 June 2019**



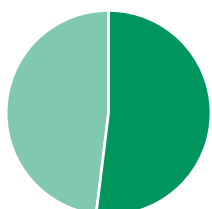
● Female 29%  
● Male 71%

**Senior Executive Team as at 30 June 2019**



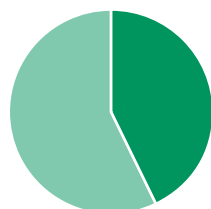
● Female 27%  
● Male 73%

**Overall Workforce as at 30 June 2019**



● Female 52%  
● Male 48%

**Management Team below the Senior Executive Team as at 30 June 2019**



● Female 43%  
● Male 57%

**Board Skills, Knowledge and Experience**

**Industry knowledge/experience**

Industry experience	5
Knowledge of sector	6
Understanding of regulatory process	5

**Skills/experience of the Board**

Strategic thinking	7
Governance	7
Risk management	7
Financial	6

• **Board Appointments**

During the 2018 financial year, the Committee commenced the recruitment for an additional Non-Executive Director which resulted in the appointment of Lisa Bright in February 2019.

**1 Nomination Committee** One of the criteria was that the candidates should have Human Resources background which would be beneficial in light of the new Corporate Governance requirements around engagement with the workforce and oversight of the wider Group remuneration principles by the Remuneration Committee. In addition, they were required to have a broad business experience and be a good fit with the culture of the Company

**2 Engage** Dzaleta Consulting (Dzaleta) was appointed

**3 Meet** To assist Dzaleta with the understanding of the requirements of the role, they met with the Group HR Director, Chief Executive Officer and the Chairman

**4 Consider** The long list of candidates was circulated to the Committee for comments before a short list was agreed

**5 Select** All of the candidates had a broad range of experience from a wide range of different backgrounds including executives in blue chip FTSE organisations, partners in consulting firms and a number of candidates with an established portfolio career

**6 Interview** The first interviews were with the Chief Executive Officer and Group HR Director, the second interviews were held with the Chairman, and successful interviewees met with the remaining Non-Executive Directors prior to appointment

**7 Select** Following a rigorous recruitment process, Lisa Bright was selected. Lisa's other appointments were considered to check there was no conflict of interest or time. References were taken

**8 Appoint** Lisa Bright was appointed to the Board on 1 February 2019. Further details relating to her background and experience can be found on page 75

**9 Induct** See page 79

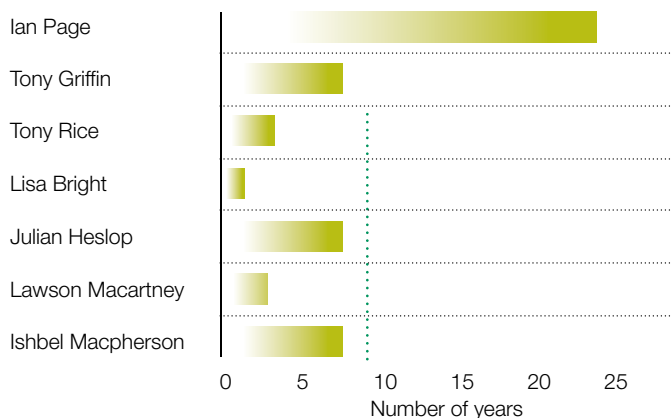
We are currently assessing our options in relation to a replacement for Richard Cotton, who resigned as Executive Director and Chief Financial Officer on 3 April 2019, which may include the appointment of an external recruitment consultant as well as the consideration of internal candidates.

# Nomination Committee Report

continued

• **Board Succession Planning**

The Committee has reviewed the Board succession plans during the year, which have, in particular, taken into account the key dates of the Non-Executive Directors' terms of appointment. This has highlighted that over the next two years at least one Non-Executive Director will need to be recruited in order to have orderly succession.



• **SET Succession Planning and Leadership Needs of the Group**  
**Two of our key risks are people focused and they are:**

- the failure to retain high calibre, talented senior managers and other key roles in the business; and
- failure to recruit or develop good quality people to achieve our strategic aims.

To assist with this, the Group HR Director regularly presents to the Committee on the Group's succession planning. The Committee discusses the succession plan for the SET, which includes the Executive Directors, at least annually. Plans are in place for sudden, unforeseen absences, for medium term orderly succession and for longer term succession as well as supporting significant acquisitions that require full time Dechra leadership during the integration phase. For each SET member, we have either identified an internal candidate or have identified roles that would benefit from bringing new experience into the team. In addition, the Committee has reviewed the emergency succession planning, which clearly identified individuals capable of covering key management roles on an interim basis whether this be due to an unanticipated absence, secondment of a key resource into a different role for a defined period or assume a key role until a successor can be identified and appointed. All these individuals will receive, or have received, the necessary coaching to assist them in obtaining the required skills to provide any critical support when needed. This planning has facilitated the DVP EU Finance Director, Paul Sandland, being appointed as the Acting Chief Financial Officer, with his post being backfilled by the DVP International Finance Director.

In addition to this, a forward looking review of the future anticipated shape of the organisation has been undertaken to identify any potential gaps that may emerge and plans have been outlined to enable the organisation's structure to remain fit for purpose.

One of the elements of our People Plan has focused on the continual development of the SET to provide world class leadership to the Group. In order to support this plan, it has been agreed that the SET will undertake a development programme, which will focus on each individual SET member, their behavioural traits and preferences, leadership styles and contribution to the team.

We encourage regular contact between members of the SET and the Board, with all SET members presenting to the Board at least once a year, leading site visits of their respective businesses and attending one-to-one sessions with Non-Executive Directors to discuss specific issues when applicable.

During the year Simon Francis was appointed as Group Manufacturing and Supply Director to continue the evolution of the team.

• **Effectiveness of Committee and Directors**

The Committee's performance was evaluated as part of the 2019 Board and Committee Internal Evaluation (further details of which are provided on page 80 of the Corporate Governance Report). The Committee considered the results of the evaluation and it was agreed that the Committee remained effective and was covering all areas within its remit. The findings of the internal evaluation were presented to the Committee for its discussion at the June 2019 meeting and it was agreed that more work on succession planning was required as well as implementing employee engagement initiatives.

Following the internal evaluation, which concluded that the Board is dynamic, robust and challenging (further details of which, including the outcomes and actions, are provided on page 80 of the Corporate Governance Report), the Committee has concluded that each of the Directors continue to perform effectively and demonstrate commitment, not only in respect of their roles and responsibilities, but also in relation to the Group and its shareholders. At the forthcoming Annual General Meeting, Lisa Bright, who was appointed to the Board on 1 February 2019, will offer herself for election, and all of the remaining Directors will retire and offer themselves for re-election.

**Tony Rice**  
 Nomination Committee Chairman  
 2 September 2019

# Letter from the Remuneration Committee Chairman



**Ishbel Macpherson**  
Remuneration Committee Chairman

4

## Remuneration Committee Meetings Held

### Areas of Focus this Year

- 2019 Salary and Bonus review
- Review and approval of grant of share options/awards and vesting of share awards
- Review of Employee Stock Purchase Plan
- Implications of 2018 Corporate Governance Code

### Committee membership and attendance

<b>Ishbel Macpherson</b> Date Joined: 1 February 2013	<b>4/4</b>	<b>Lawson Macartney</b> Date Joined: 1 December 2016	<b>4/4</b>
<b>Tony Rice</b> Date Joined: 5 May 2016	<b>4/4</b>	<b>Lisa Bright</b> Date Joined: 1 February 2019	<b>2/2</b>
<b>Julian Heslop</b> Date Joined: 1 January 2013	<b>4/4</b>		

### Dear Shareholder

I am pleased to present the Directors' Remuneration Report for the year ended 30 June 2019.

The report is divided into two sections: the Annual Report on Remuneration, followed by an abbreviated form of our Directors' Remuneration Policy (the full version can be found at [www.dechra.com](http://www.dechra.com)). The Annual Report on Remuneration provides details of the amounts earned in respect of the 2019 financial year and how the Directors' Remuneration Policy (the Policy) will be implemented in the 2020 financial year.

The Directors' Remuneration Report (excluding the Policy) will be subject to an advisory vote at the 2019 Annual General Meeting.

### Our Directors' Remuneration Policy

The Policy was approved by shareholders at the Annual General Meeting on 20 October 2017, with 98.88% of all votes cast in favour, and will remain in force until 2020. We review the application of this Policy regularly, with a view to ensuring it remains appropriate, linked to strategy and reflective of developing market practices.

No changes to the Policy are proposed for the forthcoming year. The performance metrics for the bonus and LTIP awards for 2020 are set out on page 104. An annual review of Executive salaries is undertaken in September along with all employees. This allows us to optimise the link between performance and reward for all employees. It is our expectation that any increases to the Executive Directors' salaries will be in line with the range of increases for the wider workforce.

### Executive Director Remuneration Decisions in 2019

The table below summarises the implementation of the Policy for Executive Directors in respect of the 2019 financial year.

Element	Implementation
<b>Salary</b>	Richard Cotton's and Tony Griffin's salaries were increased by 3.0%, which was broadly in line with the average range of increases awarded to employees throughout the Group. Ian Page notified the Committee that he did not wish to be considered for a salary increase in 2019 and, accordingly, his salary for 2019 was not increased
<b>Retirement Benefit</b>	Pension contribution of 14%
<b>Annual Bonus</b>	<p>Maximum opportunity of 100% of base salary</p> <p>We have delivered underlying profit before tax during the year of £117.4 million at AER, an improvement of 24.1% at constant exchange rates (25.3% at actual exchange rates) on the prior year. Reflecting the performance of the Group in relation to profit targets and the performance of Executive Directors against personal objectives as described on page 97, bonuses for the year equal to 72% of salary have been earned by Ian Page and Tony Griffin. Richard Cotton resigned from the Company in the year and consequently did not earn a bonus for the year.</p> <p>The annual bonus is subject to malus and clawback provisions</p>
<b>Long Term Incentive Plan</b>	<p>Awards of 200% for Ian Page, 150% for Richard Cotton, and 100% for Tony Griffin were granted during the year. These awards are subject to a two year holding period. Richard Cotton's award lapsed in connection with his resignation from the Company. LTIP awards granted to Ian Page and Tony Griffin in September 2016 are scheduled to vest on 16 September 2019:</p> <ul style="list-style-type: none"> <li>• as to 100% of the TSR element (50% of the total award) reflecting upper quartile performance; and</li> <li>• as to 100% of the underlying diluted EPS element (50% of the total award) reflecting that the compound annual growth in the underlying diluted EPS at 28.3% was above the maximum threshold of 25%.</li> </ul> <p>In aggregate, taking into account the ROCE underpin (reflecting that the ROCE at 15.5% had not fallen below 15.0%), the LTIP awards vested as to 100%.</p> <p>See page 98 for further details.</p> <p>Awards made under the LTIP are subject to malus and clawback provisions</p>

# Letter from the Remuneration Committee Chairman

continued

## Directorate Changes

As previously announced, Richard Cotton resigned as an Executive Director on 3 April 2019 and left the business on 28 June 2019. In accordance with the rules of the Company's LTIP, all of his LTIP awards lapsed. In addition, he was not entitled to a bonus for the year ended 30 June 2019.

## Global SAYE

The Committee recognises the benefits of employee share ownership and following shareholder approval at the Annual General Meeting in October 2018 the Directors have adopted a qualifying Employee Stock Purchase Plan for USA employees. We are proposing to make an initial offer to our USA employees in October 2019.

## Forward Looking

This is the final year under the current remuneration framework as we will seek approval for a new Directors' Remuneration Policy at the 2020 Annual General Meeting. Therefore, the Committee will be reviewing the current remuneration framework with its advisers during the forthcoming year with a view to ensuring that the remuneration package continues to:

- promote the long term success of Dechra;
- provide appropriate alignment between Dechra's strategic goals, shareholder returns and executive reward; and
- have a competitive mix of base salary and short and long term incentives, with appropriate performance conditions attached to variable remuneration.

The Committee will also look to revise the Policy to continue the alignment between remuneration and the evolving strategic direction of our business, as well as to align with the new UK Corporate Governance Code (2018 Code). In particular, it will seek to ensure that the Remuneration policy and practices are clear, simple, predictable, proportionate, identify and mitigate against risk, and are aligned to the Company's purpose, Values and strategy.

The 2018 Code and new regulations on the reporting of directors' remuneration were published during the year, and have introduced a number of remuneration reporting reforms. Compliance with the 2018 Code and new regulations is effective for Dechra's financial year beginning 1 July 2019, and will be reported on in Dechra's 2020 Annual Report. However, the Company has already adopted the following:

### New Regulations 2018

Chief Executive Pay Ratio See page 103

### 2018 UK Corporate Governance Code

Requirement for the Committee chair to have previously served on a remuneration committee for at least a year	The Committee complies with this requirement and the terms of reference have been amended accordingly
Minimum vesting and post-vesting holding periods for executive share awards extended to five years	The LTIP awards are subject to a three year vesting period and, in respect of awards granted from 2018 onwards, a two year holding period
Remuneration schemes and policies should enable the use of discretion to override formulaic outcomes	The performance conditions for the LTIP awards to be made in respect of the year ending 30 June 2020 and future years will include discretion to override formulaic outcomes, as described on page 104

The Board/Committee will address the following in the forthcoming year:

- Review of workforce remuneration and related policies, and the alignment of incentives and rewards with culture when setting the policy for Executive Director remuneration;
- Formal policy for post-employment shareholding requirements;
- The requirement to align pension arrangements to those of the wider workforce;
- Engagement with the workforce to explain how executive remuneration aligns with wider Group pay policy;
- The review of the Senior Executive Team's remuneration; and
- Share price impact and scenario reporting.

The Committee will also be considering the remuneration arrangement for the Chief Financial Officer once an appointment has been made.

## Shareholder Views

We consult with shareholders on policy and on any significant events and take shareholders' views into account before finalising our proposals. The Committee and I believe that ongoing dialogue with our major shareholders is of key importance. Should you have any queries in relation to this report, please contact me or the Company Secretary.

## Ishbel Macpherson

Remuneration Committee Chairman  
2 September 2019



# Remuneration at a Glance

## Remuneration Philosophy

### The Link between our Directors' Remuneration Policy and our Strategy

Dechra's Policy is designed to promote the long term success of the Group and to reward the creation of long term value for shareholders. The performance targets for all incentive elements are designed to reward high performance, whilst not encouraging inappropriate business risk taking.

The table below describes how certain remuneration elements are linked to our strategy.

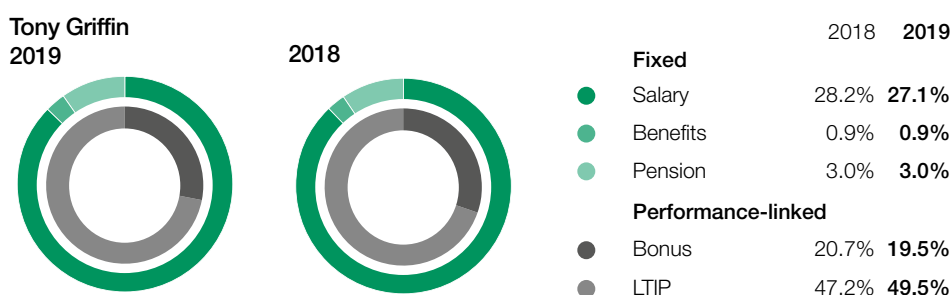
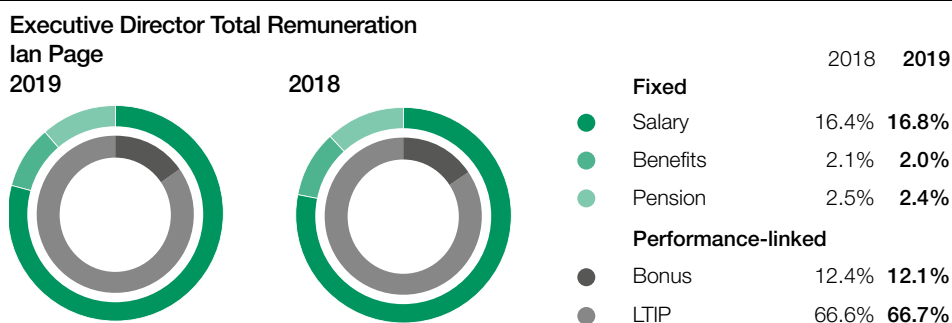
Remuneration Element	Strategic Growth Driver and Enabler	Link to our Key Performance Indicators
<p><b>Annual Bonus</b></p> <p>Our annual bonus incentivises the delivery of the long term strategy through the achievement of short term objectives.</p> <p>90% of the opportunity is based on a stretching profit target which requires performance above budget and market expectations to trigger the payment of a maximum bonus.</p> <p>The balance of the bonus is based on the achievement of personal objectives which reflect the priorities of the business, achievement of which is necessary to deliver the longer term strategy.</p>		<p>Sales Growth</p> <p>Strong sales performance is required to maximise profit</p>
<p><b>Long Term Incentive Plan</b></p> <p>The LTIP is designed to reward the generation of long term value for shareholders. Performance measures reflect our long term objectives including sustainable profit growth and the enhancement of shareholder value. Awards are based on growth in EPS and the delivery of shareholder returns. For the 2019 and 2020 financial year awards, the weightings are two thirds EPS and one third total shareholder return.</p> <p>The application of a ROCE underpin focuses Executives on using capital efficiently and appropriately to allow the business to capitalise on growth opportunities in new territories and markets whilst maintaining returns.</p> <p>The post vesting holding period aligns management with the long term interests of shareholders and the delivery of sustained performance.</p> <p>The performance conditions for the LTIP awards to be made in respect of the year ending 30 June 2020 and future years will include discretion to override formulaic outcomes.</p>		<p>Underlying Diluted EPS Growth</p> <p>Return on Capital Employed</p> <p>New Product Sales</p> <p>This measure encourages innovation, growth and sustainability</p>
<p><b>Generation of Long Term Value for Shareholders/Alignment of Interests</b></p> <p>The Policy is designed to promote long term Group success and to reward the generation of shareholder value. A significant proportion of the remuneration opportunity is linked to the achievement of stretching performance targets.</p> <p>The interests of shareholders and executives are further aligned by formal shareholding guidelines. Executive Directors are required to retain half of any shares acquired under the LTIP and, if relevant, any recruitment award (after sales to cover tax) until such time as their holding has a value equal to 200% of their base salary.</p>		

**How Did We Perform During 2019?**

**£117.4m**  
Underlying Profit Before Tax

**16.6%**  
Underlying Diluted EPS Growth (CER)

**15.5%**  
ROCE



# Directors' Remuneration Report

## 2019 Annual Report on Remuneration

The following section provides detail of remuneration earned by the Directors during the year in line with the Directors' Remuneration Policy approved by the shareholders at the Annual General Meeting held on 20 October 2017, along with details of how the Policy will be applied in the 2020 financial year. The sections of the 2019 Annual Report on Remuneration that are audited by PricewaterhouseCoopers LLP (PwC) are indicated on pages 96 to 102.

### Executive Directors' Remuneration (Audited)

#### Single Total Figure of Remuneration

The table below sets out the total remuneration for each person who has served as an Executive Director in the period ended 30 June 2019. The table shows the remuneration for each such person in respect of the year ended 30 June 2019 and the year ended 30 June 2018:

	Salaries		Benefits		Annual Bonus		Long Term Incentive		Pension		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Ian Page	500	500	60	65	360	380	1,984	2,036	70	77	2,974	3,058
Richard Cotton	275	356	26	29	–	272	–	906	38	40	339	1,603
Tony Griffin	309	303	10	10	223	223	565	508	34	32	1,141	1,076
<b>Total</b>	<b>1,084</b>	<b>1,159</b>	<b>96</b>	<b>104</b>	<b>583</b>	<b>875</b>	<b>2,549</b>	<b>3,450</b>	<b>142</b>	<b>149</b>	<b>4,454</b>	<b>5,737</b>

Please note the following methodologies have been used in respect of the above table:

- Salaries – this is the cash paid or received in respect of the relevant period.
- Benefits – this represents the taxable value of all benefits paid or received in respect of the relevant period. The benefits provided include the use of a fully expensed car, medical cover and life assurance. SAYE options granted in the year have also been included in the benefits column in respect of any year in which there was a grant. These have been valued using the fair value as per note 28 to the Group's financial statements.
- Annual Bonus – this is the amount of cash bonus paid in respect of the financial year.
- Long Term Incentives – this is the value of any long term incentives vesting where the performance period ended in the relevant period.
- Pension – this is the cash value of the employer contribution to the Group stakeholder personal pension scheme or, in the case of Tony Griffin, defined contribution pension plan plus the value of any salary supplement paid.
- The 2018 value assigned to the long term incentives for Ian Page and Tony Griffin was shown in last year's Annual Report as an estimate, with the value determined by reference to a share price of £27.707 (being the average market value of a share over the last quarter of the Company's financial period ended on 30 June 2018). This has been restated to show the actual value determined by reference to a price of £22.44 (being the market value of a share on 22 October 2018, the date of vesting). The 2018 value for Richard Cotton in last year's Annual Report was based on the value of his recruitment awards which vested half on 3 January 2018 and half on 22 October 2018. The value included in last year's Annual Report (£1,404,000) has been updated for the latest available information, including, in the case of the second half of the awards, a price of £22.44 (being the market value of a share on 22 October 2018, the date of vesting).
- Richard Cotton resigned as an Executive Director on 3 April 2019 and left the business on 28 June 2019. The salary and pension figure disclosed in the table relates to the period to 3 April 2019. Payments made to Richard Cotton after this date are set out on page 100.
- Tony Griffin's remuneration is paid in Euros but reported in Sterling for the purpose of this table. The exchange rate used for this purpose was 1.1286 for 2018 and 1.1345 for 2019. His salary was €351,100 for 2019 (reflecting two months at a salary of €342,537 and ten months at a salary of €352,813) and €341,144 for 2018 (reflecting two months at a salary of €334,182 and ten months at a salary of €342,537).

## Additional Disclosures in Respect of the Single Figure Table

### Salaries and Fees

As disclosed in the Directors' Remuneration Report in the 2018 Annual Report, the Executive Directors' base salaries were reviewed in September 2018, in alignment with the Group's performance development review calendar to provide a clearer link between performance and reward. Following that review, Richard Cotton's and Tony Griffin's salaries were increased by 3.0%, to £369,513 and €352,813 respectively, with effect from 1 September 2018, broadly in line with the average range of increases awarded to employees in the wider Group. Ian Page notified the Remuneration Committee (the Committee) that he did not wish to be considered for a salary increase in 2019.

The Committee's approach to Executive Directors' salaries for the year ending 30 June 2020 is summarised on page 104.

### Benefits

The Company provides benefits in line with market practice and each Executive Director has the use of a fully expensed car, medical cover and life assurance.

### Annual Bonus

The Company operates an annual cash incentive scheme for the Executive Directors. Annual bonuses were awarded by the Committee in respect of the 2019 financial year having regard to the performance of the Group and personal performance objectives for the year.

The amount achieved for the year ended 30 June 2019 against targets for the 2019 financial year is as follows:

Measure	Threshold (10% of salary)	Target (50% of salary)	Maximum (90% of salary)	Actual (at budgeted rates)	Ian Page	Tony Griffin
Underlying profit before tax	£99,920,050	£105,179,000	£115,696,900	£107,866,933	62%	62%
Personal Objectives (see table below)	Up to 10% of salary. The objectives are based on key aspects of delivering the Group's strategy <sup>1</sup>				10%	10%

1. The Committee considers that the objectives for the forthcoming financial year (2020) are commercially sensitive as they give our competitors insight into our business plans and therefore are not detailed in this report. They will be disclosed in the 2020 Annual Report.
2. Richard Cotton resigned as an Executive Director on 3 April 2019 and left the business on 28 June 2019 and therefore was not entitled to receive a bonus.

The personal objectives of each Executive Director for the year ended 30 June 2019 are set on an individual basis and are closely linked to the corporate, financial, strategic and other non-financial objectives of the Company. This enables the Committee to reward the Executive Directors' contribution to both the annual financial performance and the achievement of specific objectives. A summary of the objectives is set out below along with a description of the performance against them. The Committee reviewed the performance of each Executive Director against their specific objectives based on a report by the Chief Executive Officer and, with respect to the Chief Executive Officer, a report by the Chairman.

Director	Link to Strategic Enabler	Objective	Performance
Ian Page	Acquisition	Build the pipeline of M&A opportunities; and ensure strategic value is derived from the 2018 financial year acquisitions	Completed the acquisition of Laboratorios Vencofarma do Brasil Ltda (Venco) and derived significant value from the AST Farma and Le Vet acquisition
	Product Pipeline	Expand new product pipeline through acquisition, investment or partnering arrangements	Completion of licensing agreements and the launch of the Le Vet pipeline
	People	Recruit and onboard a new Non-Executive Director	Lisa Bright joined on 1 February 2019
	Manufacturing	Review the Group Manufacturing and Supply organisation and develop future proof structure to deliver strategic goals	Recruited Simon Francis to lead the Manufacturing and Supply organisation. restructured Quality and Supply Chain, adding key personnel
Tony Griffin	Acquisition	Integration of AST Farma and Le Vet	Achieved key milestones
	People	Support the development of the global marketing approach in key therapeutic areas	Key global roles implemented for CAP and Equine
	Customers	Develop Corporatisation Plan	Defined and communicated plan; milestones on track
	Manufacturing	Support Manufacturing and Supply Chain to ensure improved processes and more robust Sales and Operations planning	Restructured Supply and Demand teams preparing to implement Integrated Business Planning

# Directors' Remuneration Report

continued

## Long Term Incentive Plan

The LTIP awards granted on 19 September 2016 are due to vest on 19 September 2019. Ian Page and Tony Griffin were granted LTIP Awards on 19 September 2016, the performance targets for which are as follows: 50% of the award is subject to a performance condition based on the Company's total shareholder return (TSR) performance relative to the constituent companies of the FTSE 250 index (excluding investment trusts) over the performance period as follows:

TSR performance	Vesting percentage
Below median	0%
Median	25% of the TSR portion will vest
Between median and upper quartile	Pro rata vesting between 25% and 100% based on the Company's ranking in the comparator group
Upper quartile	100% of the TSR portion will vest

50% of each award is subject to a performance condition based on the growth in the Group's underlying diluted earnings per share (EPS) over the performance period as follows:

EPS compound annual growth rate (CAGR)	Vesting Percentage
<8% CAGR	0%
8% CAGR	25% of the EPS portion will vest
CAGR between 8% and 25%	Pro rata vesting between 25% and 100%
>25% CAGR*	100% of the EPS portion will vest

\* This reflects the EPS performance requirement for maximum vesting as increased by the Committee from the original level of 20%, to reflect the acquisition of AST Farma B.V. and Le Vet Beheer B.V., as disclosed in the Directors' Remuneration Report for the 2018 financial year.

Both the TSR element and the EPS element are subject to an additional return on capital employed (ROCE) performance measure. Unless the Group's ROCE is 10% or more in the final year of the performance period, the awards will lapse in full regardless of TSR and EPS performance. The percentage vesting will be reduced by 10% for every 1% that ROCE falls below 15%.

The Company's TSR performance was over 148.2% compared with a 55.8% TSR for the upper quartile company in the comparator group (FTSE 250 Index (excluding investment trusts)). Therefore, 100% of the TSR element will vest. In addition, the compound annual growth in the Group's underlying diluted EPS for the performance period was 28.3%. Accordingly, 100% of the EPS element will vest. Overall, taking into account that ROCE performance for 2019 was 15.5%, the LTIP awards will vest as to 100% of the maximum opportunity. In the single figure table on page 96, the value attributable to this award is calculated by multiplying the number of shares in respect of which the award is expected to vest by £27.085 (being the average market value of a share over the last quarter of the Company's financial period ended on 30 June 2019).

## SAYE

There were no exercises under the SAYE Scheme by Executive Directors during the year.

The aggregate gain made by the Executive Directors on share options and LTIP awards exercised during 2019 was £2,897,470 (2018: £3,497,837).

## Pension

Ian Page and Richard Cotton were both members of the Dechra Pharmaceuticals PLC Group Stakeholder personal pension scheme throughout the year. Richard Cotton elected to receive a salary supplement in lieu of the employer contribution over and above £10,000 and Ian Page elected to receive his entire pension contributions as a salary supplement.

Tony Griffin was a member of the Basispensioen, a defined benefit pension plan established in the Netherlands up to 31 December 2018. The table below sets out the arrangements for Tony Griffin for the period under review.

Accrued benefit at 1 July 2018	€274,000
Increase in accrued benefit excluding inflation allowance	€6,000
Increase in accrued benefit including inflation allowance	€9,000
Transfer value of benefit accrued during the period less member contributions	€282,000
Transfer value at 1 July 2018	€274,000
Transfer value at 31 December 2018	€283,000
Increase in transfer value over the period after member contribution	€8,000

The defined benefit pension plan was capped at €50,000. Pensionable salary over this cap was paid into a defined contribution plan. From 1 January 2015 there has been a cap on maximum amount of pensionable income set by the Dutch government, which for the period to 31 December 2018 was €105,075 and for the period to 30 June 2019 was €107,583. Tony Griffin elected to receive a salary supplement in lieu of the pension premium entitlement for earnings above this cap. The earliest date that a non-reduced pension is payable is 10 February 2040. From 1 January 2019, Tony Griffin has received contributions to a defined contribution pension scheme in the Netherlands in respect of earnings up to the cap and a salary supplement in respect of earnings above the cap.

Contributions made by Dechra Pharmaceuticals PLC on behalf of the Executive Directors during the year equated to no more than 14% of pensionable salary for each Executive Director.

**Non-Executive Directors' Remuneration (Audited)****Single Total Figure of Remuneration**

The table below sets out the total remuneration for each person who has served as a Non-Executive Director in the period ended 30 June 2019. The Chairman and the other Non-Executive Directors are paid a fee for their role. The table shows the remuneration for each such person in respect of the year ended 30 June 2019 and the year ended 30 June 2018:

	Additional responsibilities	Base fee £000		Additional fee £000		Total £000	
		2019	2018	2019	2018	2019	2018
<b>Tony Rice</b>	Chairman and Nomination Committee Chair	126	126	5	–	131	126
<b>Ishbel Macpherson</b>	Senior Independent Director and Remuneration Committee Chair	50	50	13	8	63	58
<b>Julian Heslop</b>	Audit Committee Chair	50	50	10	5	60	55
<b>Lawson Macartney</b>		50	50	–	–	50	50
<b>Lisa Bright*</b>	Employee Engagement Designated Non-Executive Director	21	–	2	–	23	–
<b>Total</b>		<b>297</b>	<b>276</b>	<b>30</b>	<b>13</b>	<b>327</b>	<b>289</b>

\* Lisa Bright was appointed on 1 February 2019.

The Senior Independent Director and the chairmen of the Audit Committee and Remuneration Committee receive an additional fee for those roles. From 1 July 2018, the Nomination Committee Chairman also received an additional fee for this role and on the appointment of the Employee Engagement Designated Non-Executive Director it was agreed that an additional fee should be paid for this role due to the additional time commitment required. As disclosed in the Directors' Remuneration Report in the 2018 Annual Report, it had been agreed that there would be no changes to the base fees (£126,000 for the Chairman and £50,000 for the Non-Executive Directors); however, there would be an increase to the additional fees as disclosed in the table below.

	2019 Fee £000	2018 Fee £000
<b>Office</b>		
Audit Committee Chairmanship additional fee	10	5
Nomination Committee Chairmanship additional fee	5	–
Remuneration Committee Chairmanship additional fee	8	5
Senior Independent Director additional fee	5	3
Employee Engagement Designated Non-Executive additional fee	5	–

The Committee's approach to the Chairman's and Non-Executive Directors' fees for the year ending 30 June 2020 is summarised on page 104.

# Directors' Remuneration Report

continued

## Further Information on Directors' Remuneration

### Long Term Incentive Arrangement and Share Scheme awards during the financial year

#### Long Term Incentive Awards (Audited)

Awards were made under the Dechra 2017 Long Term Incentive Plan on 26 October 2018, as set out in the table below.

	Type of award	Maximum opportunity	Number of shares	Face value at grant	% of award vesting at threshold	Performance Period
Ian Page	Nil cost option under the LTIP	200% of salary	46,168	£999,999	25%	1 July 2018 – 30 June 2021
Richard Cotton <sup>1</sup>	Nil cost option under the LTIP	150% of salary	25,589	£554,258	25%	1 July 2018 – 30 June 2021
Tony Griffin	Conditional award under the LTIP	100% of salary	14,444	£312,857	25%	1 July 2018 – 30 June 2021

1. Richard Cotton's award lapsed on 28 June 2019 when he left the Company

One third of each award is subject to a performance condition based on the Company's TSR performance over the performance period relative to the constituent companies of the FTSE 250 index (excluding investment trusts) as follows:

TSR performance	Vesting percentage
Below median	0%
Median	25% of the TSR portion will vest
Between median and upper quartile	Pro rata vesting between 25% and 100% based on the Company's ranking in the comparator group
Upper quartile	100% of the TSR portion will vest

Two thirds of each award is subject to a performance condition based on the growth in the Group's underlying diluted EPS over the performance period. As disclosed in the Directors' Remuneration Report in the 2018 Annual Report, the Committee concluded that the EPS growth target required for maximum vesting should be the same as for the March 2018 grant. Accordingly, the EPS target is as follows:

EPS compound annual growth rate (CAGR)	Vesting Percentage
<8% CAGR	0%
8% CAGR	25% of the EPS portion will vest
CAGR between 8% and 18%	Pro rata vesting between 25% and 100%
>18% CAGR	100% of the EPS portion will vest

Both the TSR element and the EPS element are subject to an additional ROCE performance measure. Unless the Group's ROCE is 10% or more in the final year of the performance period, the awards will lapse in full regardless of TSR and EPS performance.

Each award is subject to a two year holding period. Other than shares sold to satisfy tax liabilities arising in connection with the acquisition of shares, no shares acquired may be sold before the second anniversary of vesting.

#### SAYE (Audited)

There were no SAYE options granted to Executive Directors during the year ended 30 June 2019.

#### Payments to Past Directors (Audited)

Richard Cotton resigned as an Executive Director on 3 April 2019; he remained employed by the Company until 28 June 2019. The following payments were made during the period 3 April to 28 June 2019:

- £103,000 in relation to his salary; and
- £13,000 in relation to his pension.

Richard Cotton continued to receive private medical cover for him and his family and a fully insured car up to the last day of his employment with the Company. The value of these benefits for the full year is included in the Single Total Figure of Remuneration table on page 96.

He was not entitled to receive a bonus for the year ended 30 June 2019 and his outstanding LTIP and SAYE awards lapsed on 28 June 2019.

#### Payments for Loss of Office (Audited)

There were no payments for loss of office made to Directors during the period.

## Shareholding Guidelines and Statement of Directors' Shareholdings and Interests:

### Executive Directors Interest under Share Schemes (Audited)

Awards held under the Long Term Incentive Plan by each person who was a Director during the year ended 30 June 2019 are as follows:

	Award date	Number of shares at 30 June 2018	Granted during the year	Lapsed during the year	Exercised during the year	Number of shares at 30 June 2019	Status	Performance Period
Ilan Page	15 September 2015	90,721	–	–	90,721	–	Vested and exercised in the year	2015–2018
	19 September 2016	73,260	–	–	–	73,260	Unvested <sup>1</sup>	2016–2019
	2 March 2018 <sup>2</sup>	39,904	–	–	–	39,904	Unvested	2017–2020
	26 October 2018	–	46,168	–	–	46,168	Unvested	2018–2021
Richard Cotton	7 March 2017 <sup>3</sup>	21,033	–	–	21,033	–	Vested and exercised in the year	2015–2018
	2 March 2018 <sup>2</sup>	21,473	–	21,473	–	–	Lapsed	2017–2020
	26 October 2018	–	25,589	25,589	–	–	Lapsed	2018–2021
Tony Griffin	15 September 2015	22,641	–	–	22,641	–	Vested and exercised in the year	2015–2018
	19 September 2016	20,858	–	–	–	20,858	Unvested <sup>1</sup>	2016–2019
	2 March 2018	12,099	–	–	–	12,099	Unvested	2017–2020
	26 October 2018	–	14,444	–	–	14,444	Unvested	2018–2021

- Will vest on 19 September 2019 as to 100%.
- Each of Ian Page and Richard Cotton was granted a tax qualifying option over 1,197 shares at an exercise price of £25.06 as part of their LTIP award. These tax qualifying options are linked to the nil cost option such that, at the time of exercise, to the extent that there is a gain in the tax qualifying option, the nil cost option will be forfeited to the value of that gain.
- This award was a Recruitment Award granted to Richard Cotton as referred to on page 87 of 2018 Annual Report. This was granted outside the rules of the LTIP.

Executive Directors may participate in the SAYE Scheme on the same basis as other employees. Awards held under the SAYE Scheme by each person who was a Director during the year ended 30 June 2019 are as follows:

	Date of grant	Number of options	Option price	Exercise date
Ilan Page	12 October 2017	1,093	£16.46	December 2020
Richard Cotton	12 October 2017	1,093*	£16.46	December 2020

\* These options lapsed on 28 June 2019.

### Dilution Limits

Awards granted under Company LTIP, Executive Share Option Schemes and SAYE Schemes are met by the issue of new shares when the awards/options are exercised. The Committee monitors the number of shares issued under each of these schemes and their impact on dilution limits. The Company's usage of shares compared to the Investment Association dilution limits as at 30 June 2019 is as follows:

Executive Share Plans	All Share Plans
Limit: 5%	Limit: 10%
Usage: 2.3%	Usage: 3.1%

# Directors' Remuneration Report

continued

## Shareholdings (Audited)

### Executive Directors

In respect of the financial year ended 30 June 2019, the Company's shareholding guidelines required Executive Directors to have acquired and retained half of any shares acquired under the LTIP and, if relevant, any recruitment award (after sales to cover tax) until such time as their holding has a value equal to 200% of salary. Unvested share based incentives will not be allowed to count towards the holding requirements. Shares which are vested, but which remain subject to a holding period and/or clawback, may count towards the holding requirement on a net of assumed tax basis.

The holdings of each person who served as an Executive Director during the period ended 30 June 2019 and their families as at 30 June 2019 are as follows:

Name	Appointment date	Ordinary shares Number	Ordinary shares £000*	% of salary
Ian Page	13 June 1997	786,650	21,601	4320
Tony Griffin	1 November 2012	70,606	1,939	626
Richard Cotton	3 January 2017	63,384	1,741	471

\* Calculated using the share price as at 28 June 2019.

### Non-Executive Directors

By the third anniversary of their appointment to the Board, Non-Executive Directors are required to have acquired and retained a holding of Dechra shares equivalent to the value of at least 50% of their annual base fee. The holdings of the Non-Executive Directors and their families as at 30 June 2019 are as follows:

Name	Appointment date	Ordinary shares number	Ordinary shares £000*	% of base fee
Tony Rice	5 May 2016	40,000	1,098	872
Ishbel Macpherson	1 February 2013	5,848	161	321
Julian Heslop	1 January 2013	10,000	275	549
Lawson Macartney	1 December 2016	5,880	161	323
Lisa Bright	1 February 2019	–	–	–

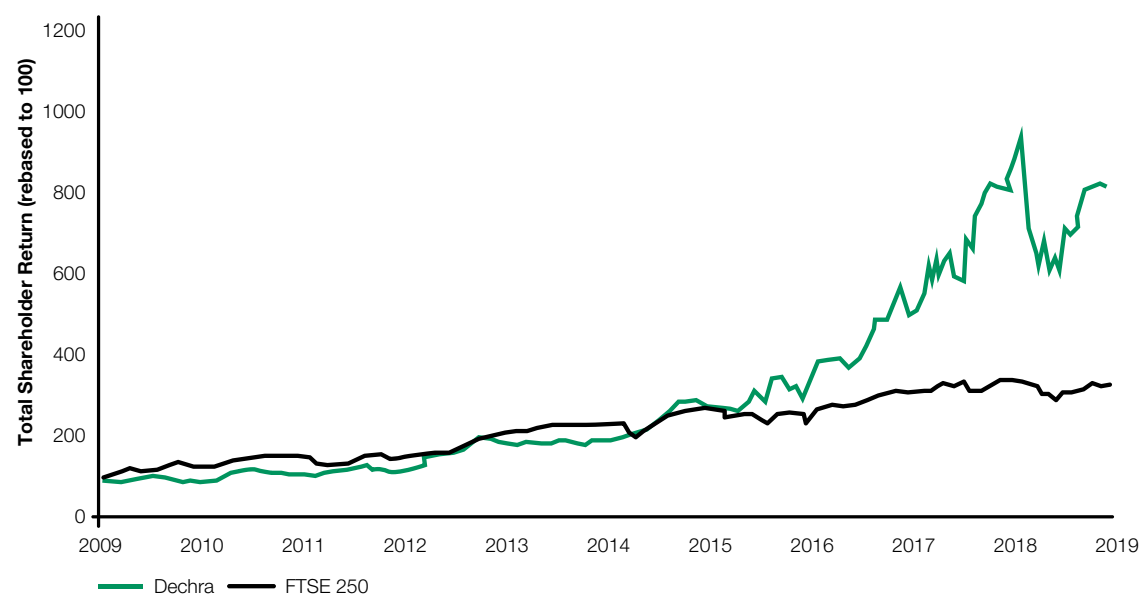
\* Calculated using the share price as at 28 June 2019.

There have been no changes in the holdings of the Company's continuing Directors between 30 June and 2 September 2019.

## Performance and Chief Executive Remuneration

### TSR

The graph below shows the TSR performance of the Company over the past ten financial years compared with the TSR over the same period for the FTSE 250 Total Return Index. Throughout the financial year ended 30 June 2019 the Company has been a constituent member of the FTSE 250; for this reason it is considered that the TSR performance of the FTSE 250 Index is the appropriate comparator for this report.





### Chief Executive Officer Remuneration for Ten Previous Years

Year ended	Total single figure remuneration £000	Annual bonus payout (% of maximum opportunity)	LTIP vesting (% of maximum number of shares)
30 June 2019	2,974	72	100.0
30 June 2018	3,058	76	100.0
30 June 2017	3,420	92	100.0
30 June 2016	2,480	72	96.25
30 June 2015	1,934	80	93.1
30 June 2014	1,589	80	100.0
30 June 2013	1,201	36	100.0
30 June 2012	682	60	0
30 June 2011	984	60	71.1
30 June 2010	768	44	100.0

### Percentage Change in Chief Executive Officer Remuneration

The table below sets out in relation to salary, taxable benefits and annual bonus the percentage change in pay for Ian Page and the average percentage change for all UK based employees, comparing pay in respect of the year ended 30 June 2018 and the year ended 30 June 2019. For these purposes, UK employees were chosen as a comparator group reflecting that Ian Page is UK based and the number of UK employees was sufficiently large to provide a robust comparison. Employees outside the UK were not included in the comparator group since country specific differences could distort the comparison.

	% change (2018–2019)		
	Salary	Taxable benefits <sup>1</sup>	Annual Bonus
Chief Executive Officer	–	(7.7%)	(5.3%)
Average per all UK based employees	8.3%	16.7%	(8.5%)

1. Excludes SAYE options granted during the year.

### Chief Executive Officer's Pay Ratio

The table below shows the ratio of the Chief Executive Officer's remuneration for 2019 and 2018 using the Single Total Figure as disclosed on page 96 to the full time equivalent remuneration of the UK employee whose remuneration was ranked at the 25th percentile, median and 75th percentile. Employees' pay was calculated on the same basis as the Single Total Figure Remuneration except that anyone who joined or left the business part way through the year has been excluded from the calculations along with anybody on reduced pay for illness, maternity, paternity, adoption and shared parental leave. Although we are not required to include this disclosure as the applicable regulations apply only for financial years starting on or after 1 January 2019, we have chosen to do so on a voluntary basis.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2018	Option A <sup>1</sup>	137:1	109:1	58:1
2019	Option A <sup>1</sup>	136:1	105:1	55:1

1. The applicable regulations provide for three methods of calculating the pay ratio. We have chosen Option A and have calculated the pay and benefits of all of the Group's UK employees in order to identify the employees at the 25th, median and 75th percentile. We have chosen this approach reflecting that guidance recognises this as the most statistically accurate method.

	2019 <sup>1</sup> Total pay and benefits £000	2018 <sup>2</sup> Total pay and benefits £000
Chief Executive Officer	2,974	3,058
25th percentile employee	22	22
Median employee	28	28
75th percentile employee	54	53

- The 2019 figure includes share options and awards, which have been valued by reference to £27.085 (being the average market value of a share over the last quarter of the Company's financial period ended 30 June 2019). SAYE options granted in 2018 and 2019 financial years have also been included in the benefits column in respect of any year in which there was a grant. These have been valued using the fair value as per note 28 to the Group's financial statements.
- The 2018 figure includes share options and awards, which have been valued by reference to the actual value for the LTIP of £22.44 and the value at the exercise date for the Approved and Unapproved Share Options (£25.00).

In 2019, there were a total of 380 UK employees (2018: 357 UK employees), 87 of which have been excluded for the above stated reasons (2018: 77), leaving 293 employees in the data set (2018: 280). Of these 178 worked in our Manufacturing business which is predominately shop floor workers (2018: 178). We believe that the final figures detailed above are representative of the majority of the data set.

# Directors' Remuneration Report

continued

## Relative Importance of Spend on Pay

The following table sets out the percentage change in distributions to shareholders (by way of dividend and share buyback) and total remuneration paid to or receivable by all Group employees comparing the year ended 30 June 2018 and the year ended 30 June 2019. The significant increase in the distributions to shareholders is directly attributable to the 8.8 million new shares issued at the time of the AST Farma and Le Vet acquisition.

	Year ended 30 June 2019	Year ended 30 June 2018	% change
	£000	£000	
Distributions to shareholders by way of dividend and share buyback	28,400	21,810	30.3%
Overall expenditure on pay	92,700	88,200	5.1%

## Implementation of the Directors' Remuneration Policy in the Year Ending 30 June 2020

The Directors' Remuneration Policy outlined on pages 106 to 110 will be implemented in the year ending 30 June 2020, as set out below.

### Salary and Fees

The next review of Executive Directors' salaries will be undertaken in September 2019. It is planned that the Executive Directors' salaries for 2020 will increase in line with the range of increases proposed for the wider workforce.

Following a review of the Non-Executive Directors' base and additional fees, it was agreed that no changes will be made to the additional fees for the year ending 30 June 2020, with the exception of the Remuneration Committee Chair additional fee which will increase from £8,000 to £10,000. With regards to the base fees, subject to shareholder approval of the resolution at the 2019 Annual General Meeting to amend Article 99 of the Articles of Association which will increase the cap on Non-Executive fees to £0.75 million, the fees will increase as follows:

	2019 Fee £000	2020 Fee £000
Chairman	126	130
Non-Executive Director	50	52

It is proposed that the base fee increases and the increase in the additional fee for Remuneration Committee Chair will apply with effect from 1 July 2019.

### Annual Bonus

No changes have been made to the bonus structure. Consequently, Executive Directors will have a bonus opportunity of 100% of salary for the year ending 30 June 2020, on the same basis as for the year ended 30 June 2019. Details of the bonus structure can be found on page 97. In the opinion of the Board, the performance targets applying to the annual bonus are commercially sensitive, and prospective disclosure could provide competitors with insight into the Group's business plans and expectations. However, the Company will disclose how any bonus earned relates to performance against targets on a retrospective basis when the targets are no longer considered commercially sensitive, as shown on page 97 in respect of bonuses for the Group's 2019 financial year.

### LTIP

The Committee proposes that LTIP awards for the year ending 30 June 2020 (the 2020 Grant) will be made at the level of 200% of salary for Ian Page and 100% of salary for Tony Griffin. The performance measures remain as per the grant of LTIP awards made on 26 October 2018, details of which can be found on page 100. In setting the EPS growth targets for the 2020 Grant, the Committee recognised that the base year for those awards will include a full year of AST Farma and Le Vet and also took into account the impact of the Akston licensing agreement on the R&D spend, and have reduced the maximum target from 18% to 16% but have maintained the minimum target recognising that significant growth is still forecast. The Committee will be considering the impact of this licensing agreement on the awards granted on 2 March 2018 (the 2018 Grant) and the awards granted on 26 October 2018 (the 2019 Grant) during the forthcoming year and will disclose any adjustments to the targets for those awards and the Committee rationale in the 2020 Directors' Remuneration Report.

Having regard to the provisions of the 2018 Code, the performance conditions for the 2020 Grant and future awards will include an ability on the part of the Committee to adjust the vesting outcome where the formulaic outcome is inappropriate in the context of underlying performance or other factors considered by the Committee to be relevant.

The awards will ordinarily be subject to a two year post vesting holding period.

## Consideration by the Directors of Matters relating to Directors' Remuneration Governance

The Board has overall responsibility for the Group's Remuneration Policy and the setting of the Non-Executive Directors' fees, although the task of determining and monitoring the remuneration packages of the Executive Directors and agreeing the Chairman's fee level has been delegated to the Committee. The task of determining and monitoring the remuneration packages for the SET has been delegated to the Committee in relation to the 2020 financial year onwards.

### Membership

Details of each member's attendance at the Committee's meetings is detailed on page 93. The Chief Executive Officer and Group HR Director both attended all meetings held during the financial year in order to assist on matters concerning remuneration of other senior executives within the Group. However, neither was present during the part of the meetings where their own remuneration was discussed.

### Responsibilities

The Committee has its own terms of reference, which are approved by the Board. These are reviewed on an annual basis so that they continue to adhere to best practice. During the 2019 financial year this review took place at the June 2019 meeting and they were amended to reflect the 2018 UK Corporate Governance Code requirements. Copies can be obtained via the Company website at [www.dechra.com](http://www.dechra.com). The Committee Chairman and the Company Secretary are available to shareholders to discuss the Remuneration Policy. An overview of the Committee's terms of reference is provided on page 76.

### Service Contracts and Letters of Appointment

Details of Executive Directors' service contracts and Non-Executive Directors' letters of appointment are set out below:

Name	Commencement date	Director	Notice Period	Company
Tony Rice	5 May 2016	3 months		3 months
Ian Page	1 September 2008	6 months		12 months
Tony Griffin	1 November 2012	6 months		12 months
Lisa Bright	1 February 2019	3 months		3 months
Julian Heslop	1 January 2013	3 months		3 months
Lawson Macartney	1 December 2016	3 months		3 months
Ishbel Macpherson	1 February 2013	3 months		3 months

There are no expiry dates applicable to either Executive or Non-Executive Directors' service contracts/letters of appointment. The Non-Executive Directors are entitled to compensation on termination of their appointment confined to three months' remuneration.

### Policy on External Appointments

The Company recognises that Executive Directors may be invited to become Non-Executive Directors of other companies and that this can help broaden the skills and experience of a Director. Executive Directors are only permitted to accept external appointments with the approval of the Board. No Executive Directors currently hold external appointments.

### Advisers

The following have provided advice to the Committee during the year in relation to its consideration of matters relating to Directors' remuneration:

- Chief Executive Officer, Chief Financial Officer, Group HR Director and Company Secretary; and
- Deloitte LLP (Deloitte).

Deloitte is retained to provide independent advice to the Committee as required. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK. Deloitte's fees for providing remuneration advice to the Committee were £9,000 for the year ended 30 June 2019. The Committee assesses from time to time whether this appointment remains appropriate or should be put out to tender and takes into account the Remuneration Consultants Group Code of Conduct when considering this. Deloitte was appointed by the Committee and has provided share scheme advice and general remuneration advice to the Company. During the year Deloitte also performed tax advisory work for Dechra.

### Alignment of Wider Workforce Pay

The Committee takes into account the general base salary increases for the wider employee population when determining the Executive Directors pay increases. The Committee also reviews, and from the 2020 financial year will determine, the pay increases awarded to the Senior Executive Team and approves the Long Term Incentive awards to this group as well as the share options granted to the senior employees below the SET.

### Statement of Voting at Previous Annual General Meeting

The Company remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. The following table sets out actual voting in respect of the advisory vote on the Directors' Remuneration Report at the Annual General Meeting on 19 October 2018, the binding vote on the Company's new SAYE scheme at that meeting, and the binding vote on the Remuneration Policy at the Company's Annual General Meeting on 20 October 2017:

Resolution	Votes for	% of vote	Votes against	% of vote	Votes withheld
To approve Remuneration Report	76,045,670	98.58	1,092,914	1.42	25,330
To approve Remuneration Policy	72,932,631	98.88	823,955	1.12	8,619
To approve the SAYE Scheme	76,738,556	99.45	423,701	0.55	1,658

### Ishbel Macpherson

Remuneration Committee Chairman  
2 September 2019

# Directors' Remuneration Report

continued

## Directors' Remuneration Policy

The Remuneration Policy was approved by shareholders at the Annual General Meeting held on 20 October 2017 and became effective from this date. The full Remuneration Policy as approved by shareholders is available at [www.dechra.com](http://www.dechra.com). We have set out a summary below of those parts of the Remuneration Policy which we consider shareholders will find most useful.

### Policy Table for Executive Directors:

Element	Purpose and link to strategy	Operation
<b>Base Salary</b>	Core element of fixed remuneration reflecting the individual's role and experience	Salaries are ordinarily reviewed annually taking into account a number of factors including the value of the individual, their skills and experience and performance  The Committee also takes into consideration: <ul style="list-style-type: none"> <li>• pay increases within the Group more generally; and</li> <li>• Group organisation, profitability and prevailing market conditions</li> </ul>
<b>Retirement Benefits</b>	Provide a competitive means of saving to deliver appropriate income in retirement	The Company operates a Group Stakeholder personal pension scheme  Tony Griffin participated in a defined benefit pension plan which has been established in the Netherlands. This is a funded career average pay arrangement, where pensionable salary is subject to a €50,000 cap. Pension contributions over this cap are paid into a defined contribution pension plan.  In appropriate circumstances, an Executive Director may receive a salary supplement in lieu of contributions to a pension scheme
<b>Benefits</b>	Provided on a market competitive basis	The Company provides benefits in line with market practice and includes the use of a fully expensed car (or car allowance), medical cover and life assurance scheme  Other benefits may be provided based on individual circumstances, which may include relocation costs and expatriate allowances
<b>Annual Bonus</b>	The executive bonus scheme rewards Executive Directors for achieving financial and strategic targets in the relevant year by reference to operational targets and individual objectives	Targets are reviewed annually and any pay-out is determined by the Committee after the year end based on targets set for the financial period  The Committee has discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance  Recovery provisions apply, as referred to below

Maximum opportunity	Performance measures
<p>Whilst there is no maximum salary, increases will normally be within the range of salary increases awarded (in percentage of salary terms) to other employees in the Group. However, higher increases may be awarded in certain circumstances, such as:</p> <ul style="list-style-type: none"> <li>• on promotion or in the event of an increase in scope of the role or the individual's responsibilities;</li> <li>• where an individual has been appointed to the Board at a lower than typical market salary to allow for growth in the role, in which case larger increases may be awarded to move salary positioning to a typical market level as the individual gains experience;</li> <li>• change in size and complexity of the Group; and/or</li> <li>• significant market movement</li> </ul> <p>Such increases may be implemented over such time period as the Committee deems appropriate</p>	<p>While no formal performance conditions apply, an individual's performance in role is taken into account in determining any salary increase</p>
<p>The Company contributes up to 14% of salary to a pension scheme on behalf of the Executive Directors, and/or as a salary supplement in lieu of pension contributions where appropriate</p>	<p>Not applicable</p>
<p>Whilst the Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value is set at a level which the Committee considers to be appropriately positioned taking into account relevant market levels based on the nature and location of the role and individual circumstances</p>	<p>Not applicable</p>
<p>The maximum bonus opportunity for Executive Directors is 100% of base salary</p>	<p>Operational targets (which may be based on financial or strategic measures) and individual objectives are determined to reflect the Company's strategy</p> <p>The personal objectives for:</p> <ul style="list-style-type: none"> <li>• the Chief Executive Officer are set by the Chairman;</li> <li>• other Executive Directors are set by the Chief Executive Officer</li> </ul> <p>The personal objectives are reviewed and endorsed by the Committee</p> <p>At least 75% of the bonus opportunity is based on financial measures (such as profit before tax)</p> <p>For financial measures, up to 15% of the maximum is earned for threshold performance, rising to up to 50% of the maximum for target performance and 100% of the maximum for maximum performance</p> <p>Vesting of the bonus in respect of strategic measures or individual objectives will be between 0% and 100% based on the Committee's assessment of the extent to which the relevant metric or objective has been met</p>

# Directors' Remuneration Report

continued

Element	Purpose and link to strategy	Operation
<b>Long Term Incentive Plan (LTIP)</b>	The LTIP provides a clear link between the remuneration of the Executive Directors and the creation of value for shareholders by rewarding the Executive Directors for the achievement of longer term objectives aligned to shareholders' interests	<p>Under the LTIP 2017, the Committee may grant awards as:</p> <ul style="list-style-type: none"> <li>• conditional shares;</li> <li>• nil (or nominal cost) options;</li> <li>• forfeitable shares;</li> <li>• market value share options with a per share exercise price equal to the market value of a share at the date of grant; or</li> <li>• cash settled equivalents (or may settle in cash a share award)</li> </ul> <p>Other than in the case of 'Qualifying LTIP awards' as referred to below, market value share options will not be granted to Executive Directors</p> <p>Awards will usually vest following the assessment of the applicable performance conditions, and will either:</p> <ul style="list-style-type: none"> <li>• not be released until the end of a holding period of two years beginning on the vesting date; or</li> <li>• be released at vesting so that the participant is entitled to acquire shares, but on the basis that he is not able to dispose of those shares (other than as regards sales to cover tax liabilities) until the end of the holding period</li> </ul> <p>An additional payment (in the form of cash or shares) may be made in respect of shares which vest under the LTIP to reflect the value of dividends which would have been paid on those shares during the period beginning with the date of grant and ending with the release date (this payment may assume that dividends had been reinvested in Dechra shares on a cumulative basis)</p> <p>Market value options may be granted under the LTIP as tax-advantaged Company Share Option Plan (CSOP) options, offering tax savings to the Group and the participant</p> <p>The Committee may at its discretion structure awards as Qualifying LTIP Awards, consisting of a CSOP option and an ordinary nil-cost LTIP award, with the ordinary award scaled back at exercise to take account of any gain made on exercise of the CSOP option</p> <p>Recovery provisions apply, as referred to below</p>
<b>All Employee Share Plans</b>	Provision of the Save As You Earn Scheme (SAYE) to Executive Directors creates staff alignment with the Group and provides a sense of ownership. Executive Directors may participate in such other all employee share plans as may be introduced from time to time	<p>Tax qualifying monthly savings scheme facilitating the purchase of shares at a discount</p> <p>Any other all employee share plan would be operated for Executive Directors in accordance with its rules and on the same basis as for other qualifying employees</p>

## Policy Table for Non-Executive Directors:

Element	Purpose and link to strategy	Operation
<b>Fees and benefits</b>	To provide fees within a market competitive range reflecting the experience of the individual, responsibilities of the role and the expected time commitment	<p>The Chairman's fees are determined by the Committee and the Non-Executive Directors' fees are determined by the Board following a recommendation from both the Chief Executive Officer and the Chairman</p> <p>Non-Executive Directors:</p> <ul style="list-style-type: none"> <li>• are not eligible to participate in any of the Company's share schemes, incentive schemes or pension schemes;</li> <li>• may be eligible to receive benefits such as travel and other reasonable expenses</li> </ul>

Maximum opportunity	Performance measures
<p>The maximum award level under the LTIP in respect of any financial year is 200% of salary</p> <p>If a Qualifying LTIP award is granted, the value of shares subject to the CSOP option will not count towards the limits referred to above, reflecting the provisions for the scale back of the ordinary LTIP award</p>	<p>Performance measures under the LTIP will be based on financial measures (such as, earnings per share growth, relative total shareholder return, return on capital employed and free cash flow)</p> <p>Awards will vest as to 25% for threshold performance, increasing to 100% for maximum performance</p>
<p>The limit on participation and the permitted discount under the SAYE scheme will be those set in accordance with the applicable tax legislation from time to time. The limit on participation under and other relevant terms of any other all employee share plan would be determined in accordance with the plan rules (and, where relevant, applicable legislation) and would be the same for the Executive Directors as for other relevant employees</p>	<p>There are no performance conditions attached to awards under the SAYE</p>
Maximum opportunity	Performance measures
<p>Fees are set taking into account the responsibilities of the role and expected time commitment. Non-Executive Directors are paid a basic fee with additional fees paid for:</p> <ul style="list-style-type: none"> <li>• the chairing of Committees;</li> <li>• the role of Senior Independent Director; and</li> <li>• the role of Employee Engagement Designated Non-Executive Director</li> </ul> <p>Where benefits are provided to Non-Executive Directors they will be provided at a level considered to be appropriate taking into account the individual circumstances</p>	<p>Not applicable</p>

# Directors' Remuneration Report

continued

## Recruitment Remuneration Policy

When hiring a new Executive Director, the Committee will typically align the remuneration package with the above Policy. When determining appropriate remuneration arrangements, the Committee may include other elements of pay which it considers are appropriate. However, this discretion is capped and is subject to the limits referred to below.

- Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate.
- Pension will only be provided in line with the above Policy.
- The Committee will not offer non-performance related incentive payments (for example a 'guaranteed sign-on bonus').
- Other elements may be included in the following circumstances:
  - an interim appointment being made to fill an Executive Director role on a short term basis;
  - if exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short term basis;
  - if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long term incentive award for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis;
  - if the Director will be required to relocate in order to take up the position, it is the Company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee.
- The Committee may also alter the performance measures, performance period, vesting period and holding period of the annual bonus or LTIP, subject to the rules of the LTIP, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the next Directors' Remuneration Report.
- The maximum level of variable remuneration which may be granted (excluding 'buyout' awards as referred to below) is 300% of salary.

The Committee may make payments or awards in respect of hiring an employee to 'buyout' remuneration arrangements forfeited on leaving a previous employer. In doing so, the Committee will take account of relevant factors including any performance conditions attached to the forfeited arrangements and the time over which they would have vested. The Committee will generally seek to structure 'buyout' awards or payments on a comparable basis to the remuneration arrangements forfeited. Any such payments or awards are excluded from the maximum level of variable remuneration referred to above. 'Buyout' awards will ordinarily be granted on the basis that they are subject to forfeiture or 'clawback' in the event of departure within 12 months of joining Dechra, although the Committee will retain discretion not to apply forfeiture or clawback in appropriate circumstances.

Any share awards referred to in this section will be granted as far as possible under Dechra's ordinary share plans. If necessary and subject to the limits referred to above, recruitment awards may be granted outside of these plans as permitted under the Listing Rules which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of an Executive Director.

Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue in accordance with their terms.

Fees payable to a newly appointed Chairman or Non-Executive Director will be in line with the policy in place at the time of appointment.

### Policy on Service Contracts:

Details of the Executive Directors' service contracts and Non-Executive Directors' letters of appointment are set out on page 105.

Whilst the Committee's policy is for the service contract of any newly appointed Executive Director to have a notice period of not more than 12 months, the Committee retains discretion to set an initial notice period of up to 24 months, reducing to 12 months after the initial 12 months of employment.

### Ishbel Macpherson

Remuneration Committee Chairman  
2 September 2019



# Directors' Report – Other Disclosures

The Directors present their annual report on the affairs of the Group, together with the audited Group financial statements for the year ended 30 June 2019. Certain disclosure requirements which form part of the Directors' Report are included elsewhere in this Annual Report. Therefore, this report should be read in conjunction with the Strategic Report (which includes the Corporate Social Responsibility Report) on pages 8 to 67 along with the Corporate Governance Report and Board Committee Reports. They are incorporated by reference into this Directors' Report and include:

- Details in respect of the Board of Directors;
- Details in respect of Directors' Indemnities;
- Statement of Directors' Responsibilities;
- Review of the Group's business during the year and any likely future developments;
- Details of acquisitions and disposals during the year;
- Going concern and viability statements;
- Approach to employees with disabilities and employee involvement; and
- Details in respect of Greenhouse Gas Emissions.

Information in relation to financial risk management (including the exposure to price, credit and liquidity risk) and post-balance sheet events can be found in notes 24 and 38 respectively to the Financial Statements.

## Amendment of the Articles of Association

The Company's Articles of Association may be amended by a special resolution of its shareholders. A resolution will be put to shareholders at the forthcoming Annual General Meeting to adopt new Articles of Association in order to increase the cap on the Non-Executive Director's fees to £0.75 million and to update the Company's existing Articles of Association with regards to the utilisation of hybrid meetings.

## Significant Agreements/Change of Control

As detailed in the Going Concern Statement on page 81, the Group has bank facilities with a group of banks comprising Bank of Ireland (UK) plc, BNP Paribas, Fifth Third Bank, HSBC Bank plc, Lloyds Bank plc, Raiffeisen Bank International AG and Santander UK plc (the Banks); these facilities include change of control provisions. Under this provision, a change of control of the Company could result in withdrawal of facilities. No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole.

The Company does not have agreements with any Director or employee that provide compensation for loss of office or employment resulting from a takeover, other than the Company share schemes. Under such schemes outstanding options and awards normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time. In the event of a change of control, unvested awards under the Long Term Incentive Plan will vest to the extent determined by the Remuneration Committee taking into account the relevant performance conditions and, unless the Remuneration Committee determines otherwise, the extent of vesting so determined shall be reduced to reflect the proportion of the relevant performance period that has elapsed.

The Directors consider that there are no contracted or other single arrangements, such as those with major suppliers, which are likely to influence, directly or indirectly, the performance of the business and its values. Furthermore, there are no contracts of significance subsisting during the financial year between any Group undertaking and a controlling shareholder or in which a Director is or was materially interested.

## Directors

The Articles of Association state that a Director may be appointed by an ordinary resolution of the shareholders or by the Directors, either to fill a vacancy or as an addition to the existing Board but so that the total number of Directors does not exceed the maximum number of Directors allowed pursuant to the Articles of Association. The maximum number of Directors currently allowed pursuant to the Articles of Association is ten.

The Articles of Association also state that the Board of Directors is responsible for the management of the business of the Company and in doing so may exercise all the powers of the Company subject to the provision of relevant legislation and the Company's Articles of Association. The powers of the Directors set out in the Articles of Association include those in relation to the issue and buy-back of shares.

## Overseas Branches

The Company, through its subsidiary Genera d.d., has established branches in Bosnia-Herzegovina and Serbia.

## Political Donations and Expenditure

No political donations were made during the year ended 30 June 2019 (2018: nil). The Group has a policy of not making any donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

# Directors' Report – Other Disclosures

continued

## Research and Development

The Group has a structured development programme with the aim of identifying and bringing to market new pharmaceutical products. Investment in development is seen as key to strengthen further the Group's competitive position. Further information in relation to product development can be found on pages 40 to 43. The expense on this activity for the year ended 30 June 2019 was £25.1 million (2018: £18.3 million) and a further £1.2 million (2018: £1.7 million) was capitalised as development costs.

## Results and Dividends

The results for the year and financial position at 30 June 2019 are shown in the Consolidated Income Statement on page 123 and Consolidated Statement of Financial Position on page 125. The Directors are recommending the payment of a final dividend of 22.10 pence per share which, if approved by shareholders, will be paid on 15 November 2019 to shareholders registered at 25 October 2019. The shares will become ex-dividend on 24 October 2019. An interim dividend of 9.50 pence per share was paid on 8 April 2019, making a total dividend for the year of 31.60 pence per share (2018: 25.50 pence per share). The total dividend payment is £32.5 million (2018: £26.1 million).

## Share Capital

The issued share capital of the Company for the year is set out in note 25 to the Consolidated Financial Statements. As at the end of the financial year 102,651,602 fully paid ordinary shares were in issue, which included 321,967 ordinary shares issued during the year in connection with the exercise of options under the Company's share option schemes.

The holders of shares are entitled to receive dividends when declared, to receive the Company's Report and Accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights. There are no restrictions on transfer or limitations on the holding of shares in the Company, nor are there any requirements to obtain prior approval in respect of any transfer of shares. The Directors are not aware of any agreements which limit the transfer of shares or curtail voting rights attached to those shares.

At the Annual General Meeting of the Company held on 19 October 2018, the Company was authorised to purchase up to 10,232,963 of its ordinary shares, representing 10% of the issued share capital of the Company as at 7 September 2018. No shares were purchased under this authority during the financial year. A resolution will be put to shareholders at the forthcoming Annual General Meeting to renew this authority for a further period of one year. Under the proposed authority shares purchased may be either cancelled or held in treasury.

The Directors require authority from shareholders to allot unissued share capital to the Company and to disapply shareholders' statutory pre-emption rights. Such authorities were granted at the 2018 Annual General Meeting and resolutions to renew these authorities will be proposed at the 2019 Annual General Meeting.

## Substantial Interests in Voting Rights

In accordance with the requirements in the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Conduct Authority, the Company had been notified of the following interests exceeding the 3% notification threshold as at the end of the financial year and a date not more than one month before the date of the notice of the Annual General Meeting.

	30 June 2019		14 August 2019	
	Aggregate voting rights	Percentage	Aggregate voting rights	Percentage
Standard Life Aberdeen	11,686,914	11.39	11,472,230	11.18
Fidelity Management & Research	9,251,752	9.01	9,272,915	9.03
BlackRock Inc	5,685,115	5.54	5,856,519	5.71
Royal London Mutual Assurance Society	4,445,623	4.33	4,396,255	4.28
The Vanguard Group, Inc	3,559,800	3.47	3,530,100	3.44
Aviva plc	3,093,151	3.01	3,109,875	3.03

## Auditor

A resolution to re-appoint PricewaterhouseCoopers LLP as external auditor and to authorise the Audit Committee to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

## Audit Information

Each of the Directors who held office at the date of the approval of the Directors' Report confirms that, so far as he or she is aware, there is no relevant audit information of which the external auditor is unaware, and each Director has taken all steps that he or she ought to have undertaken as a Director to make himself or herself aware of any relevant audit information and to establish that the external auditor is aware of that information.

The Directors' Report has been approved by the Board and signed on its behalf by:

## Melanie Hall

Company Secretary  
2 September 2019

# Statement of Directors' Responsibilities

## Statement of Directors' Responsibilities in Respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and Company Financial Statements in accordance with United Kingdom (UK) Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law).

Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group Financial Statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company Financial Statements, subject to any material departures disclosed and explained in the Financial Statements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company, and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors as at the date of the Annual Report, whose names and functions are set out on pages 72 and 75, confirm that to the best of their knowledge:

1. the Company Financial Statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
2. the Group Financial Statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
3. the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

Approved by the Board and signed on its behalf by:

### Ian Page

Chief Executive Officer  
2 September 2019

### Tony Rice

Non-Executive Chairman  
2 September 2019

# FINANCIAL STATEMENTS

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**STRONG  
FINANCIALS  
SUPPORTING  
STRATEGIC  
OPPORTUNITIES**

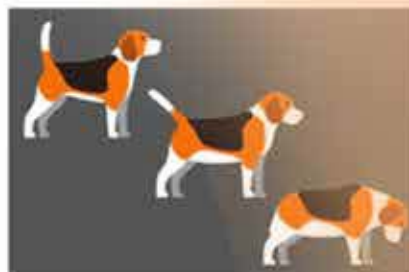
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## Interpreting ACTHST results

Broadly speaking, Vetoryl-treated dogs that present for a monitoring ACTHST will fall into one of three categories. You should choose the scenario most appropriate to your case before interpreting your ACTH stimulation test results.

*Click on the hotspots on the image to find out more*



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Life restored on every level

  
Dechra



# Independent Auditors' Report to the Members of Dechra Pharmaceuticals PLC

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## Report on the audit of the financial statements

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### Opinion

In our opinion:

- Dechra Pharmaceuticals PLC's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 30 June 2019 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated and Company Statements of Financial Position as at 30 June 2019; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income; the Consolidated Statement of Cash Flows; and the Consolidated and Company Statements of Changes in Shareholders' Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

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### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 July 2018 to 30 June 2019.

## Our audit approach

### Overview



- Overall Group materiality: £3.8 million, based on 3% of underlying operating profit.
- In determining overall Group materiality for the prior year, we considered a range of benchmarks that may be appropriate in the Group's circumstances and which are used to assess the performance of the Group. Applying our professional judgement, we determined Group overall materiality in the prior year to be £2.3 million.
- Overall Company materiality: £2.4 million (2018: £2.4 million), based on 0.5% of net assets.
- Following our assessment of the risks of material misstatement of the Group financial statements we performed audits of the complete financial information of 22 reporting units.
- In addition the Group engagement team audited the Company and certain centralised functions, including those covering the Group treasury operations, corporate taxation, and goodwill and intangible asset impairment assessments.
- The components on which audits of the complete financial information and centralised work was performed accounted for 91% of Group revenue, 90% of Group underlying operating profit and 92% of Group profit before tax.
- As part of our supervision process, the Group engagement team have reviewed the work of significant components, in addition to performing the audits of the in scope UK reporting locations.

Our assessment of the risk of material misstatement also informed our views of the areas of particular focus of our work which are listed below:

- Business combinations – assessment of the acquisition accounting in respect of Laboratorios Vencofarma do Brasil Ltda, Caledonian Holdings Limited and Caledonian Holdings Distribution Pty Limited;
- Impairment of intangible assets – assessment of the carrying value of acquired intangible assets and other relevant assets;
- Licensing agreements – recognition and subsequent remeasurement of acquired intangible assets in respect of licensing agreements; and
- Taxation – assessment of uncertain tax provisions.

### *The scope of our audit*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

### *Capability of the audit in detecting irregularities, including fraud*

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules, Tax legislation, Employment regulation, Health and Safety legislation, and other legislation specific to the industries in which the Group operates, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure to manipulate the financial performance of the business, and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management, internal audit and the Group's legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Review of internal audit reports in so far as they related to the financial statements;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Reading key correspondence with regulatory authorities, such as the Medicines & Healthcare products Regulatory Agency;
- Enquiries with component auditors;
- Identifying and testing unusual journal entries which increase revenue or reduce expenditure to manipulate the financial performance of the business;
- Consideration of the policy for the recognition of revenue and performed substantive testing to ensure compliance with this policy, namely in respect of the cut-off of revenue recognised in Dechra Veterinary Products NA; and
- Assessing key judgements and estimates made by management for evidence of inappropriate bias. Key judgements and estimates include the business combinations, impairment of intangible assets, licensing agreements, and uncertain tax positions. Details of our procedures in these areas are included in our key audit matters below.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

# Independent Auditors' Report to the Members of Dechra Pharmaceuticals PLC

continued

## Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><b>Business combinations – assessment of the acquisition accounting in respect of Laboratorios Vencofarma do Brasil Ltda, Caledonian Holdings Limited and Caledonian Holdings Distribution Pty Limited.</b></p> <p>Refer to the Audit Committee Report on page 86, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 128, and note 32 (Acquisitions).</p> <p>The Group completed the acquisition of the entire share capital of Laboratorios Vencofarma do Brasil Ltda on 17 December 2018 and the acquisition of the trade and assets of Caledonian Holdings Limited and Caledonian Holdings Distribution Pty Limited on 8 October 2018.</p> <p>We focused on this area because the accounting for business combinations including the valuation of the opening balance sheet position is inherently judgemental.</p> <p>IFRS 3 (revised) requires that consideration is given to the existence and measurement of separately identifiable intangible assets that have been acquired as part of each respective acquisition agreement. For the acquisitions significant value has been attributed to the developed technology, brand, in process research and development, and existing product rights, the recognition of which is dependent on cash flow forecasts including future business growth, product development and the application of an appropriate discount rate, all of which are subjective.</p> <p>The calculation of deferred tax liabilities arising on the separately identifiable intangible assets is reliant on the correct application of local tax regulations and applicable rates.</p>	<p>We read the sale and purchase agreement in order to understand the nature of the transaction and ensure that relevant clauses that impact the accounting had been considered by the Directors. Additionally we agreed the consideration paid back to the terms of the sale and purchase agreement.</p> <p>We reviewed and challenged management's assessment of the acquired assets and liabilities to ensure that the identification process was complete and accurate.</p> <p>We obtained the cash flow forecasts supporting the valuation of those intangible assets identified and agreed that these were consistent with those approved by the Board as part of the acquisition process. In addition, we performed look-back tests to assess the accuracy of the Group's forecasts and assumptions, and performed sensitivity analysis over the key assumptions to determine if a reasonable change could have a significant impact over the value recorded.</p> <p>We engaged our valuation specialists who confirmed that the methodology used to value each intangible asset is in line with expectation. Our valuation specialists also agreed that the discount rates were consistent with those applied by companies of comparable size, geographical spread and within the relevant industry.</p> <p>For the remaining fair values of other assets and liabilities acquired, we performed substantive testing, including attending a stock count and performing a physical asset verification exercise close to the acquisition date where material.</p> <p>We recalculated the deferred tax liabilities arising on the acquired intangibles assets and agreed that relevant tax rates have been used.</p> <p>Additionally, we reviewed the disclosure note associated with the acquisition and confirmed that this was appropriate.</p>
<p><b>Impairment of intangible assets – assessment of the carrying value of acquired intangible assets and other relevant assets.</b></p> <p>Refer to the Audit Committee Report on page 86, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 128, and note 12 (Intangible assets).</p> <p>The directors exercise judgement as to whether impairment triggers, which require a full impairment assessment to be performed, have been identified in relation to intangible assets.</p> <p>Where a full impairment assessment is required to support the carrying value of the assets held, the directors have prepared a discounted cash flow which includes a number of assumptions. The assumption which is deemed to be the most significant in these forecasts is in respect of the future performance of products. The long term growth and discount rate are also considered to be subjective.</p>	<p>We reviewed the forecast financial performance of individual intangible assets and held discussions with management in respect of future market conditions to identify any potential indicators of impairment.</p> <p>We reviewed management's impairment model and reperformed all calculations within the discounted cash flow. We agreed that the current and future cash flow forecasts used as the basis of the model are consistent with previous performance. Valuation specialists were utilised to benchmark, within a reasonable range, the discount rate assumptions and certain growth rates to economic and industry averages and the cost of capital for other comparable companies respectively. We assessed the sufficiency of headroom through the performance of sensitivity analysis on key assumptions, confirming that an impairment is not reasonably possible.</p> <p>Additionally, we reviewed the disclosure note associated with the impairment review and confirmed that this was appropriate.</p>



**Key audit matter****Licensing agreements – recognition and subsequent remeasurement of acquired intangible assets in respect of licensing agreements.**

Refer to the Audit Committee Report on page 86, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 128, and note 33 (Deferred and contingent consideration).

**New licensing agreements**

On 26 February 2019, a license and distribution agreement to market and supply an injectable solution was acquired.

The in-licensing agreement has been recorded at cost and will be amortised straight line over the period of the contract of 15 years from the date validation studies carried out in respect of the first three commercial and full-scale batches of the licensed product have been successfully completed.

The milestone and other payments of the contract are forecast to reflect the probability of a successful product launch and subsequent performance under the contractual terms of the agreement. The future payments are contingent on these factors and therefore represent an area of judgement.

On 19 November 2018, a licensing agreement was entered into in the equine market. A commercially stable product is yet to be achieved and thus in accordance with the Group's accounting policies set out within note 1 (g) all milestone payments have been expensed to the Income Statement.

**Remeasurement of existing agreements**

During the year related liabilities in respect of the exclusive distribution agreement for StrixNB and DispersinB with Kane Biotech Inc., the in-licensing agreement with Animal Ethics Pty Ltd for Tri-Solfen® and the Injectable Solution with Anzac Animal Health LLC were reassessed for the timing and quantum of future contingent cash flows. The variability of the timing and quantum of the future cash flows represents an area of judgement.

**Taxation – assessment of uncertain tax provisions**

Refer to the Audit Committee Report on page 86, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 129, and note 9 (Income Tax Expenses).

The Group operates in a complex multi-national tax environment and there are open tax matters and areas of judgement with various overseas tax authorities. In addition, from time to time the Group enters into commercial transactions with complicated accounting and tax consequences.

Judgement is required in assessing the level of provisions required in respect of uncertain tax provisions.

**How our audit addressed the key audit matter**

- New in-licensing agreements*

We obtained management's model and reperformed the calculations forming the basis of the valuation.

We have performed sensitivities on the expected timing of contractual milestones and agreed that those adopted are consistent with those approved by the Board. Through the performance of sensitivity analysis, we have confirmed that a material misstatement is not reasonably possible.

Our valuation specialists also confirmed that the discount rate was consistent to those applied by other companies of comparable size, geographical spread and within the relevant industry.

- Remeasurement of existing agreements*

We obtained management's model and reperformed the calculations forming the basis of the valuation.

We have assessed the changes made to the assumptions underpinning the licensing agreements with Kane Biotech Inc., Animal Ethics Pty Ltd. and Anzac Animal Health LLC. In doing so we corroborated the revised cash flow assumptions to updated forecasts and performed sensitivity analysis to take into consideration reasonably possible alternatives.

Additionally, we reviewed the disclosure note associated with licensing agreements and confirmed that this was appropriate.

In conjunction with our UK, US and international tax specialists, we evaluated and challenged management's judgements in respect of estimates of tax exposures and contingencies in order to assess the adequacy of the Group's tax provisions. This included obtaining and evaluating certain third party tax advice that the Group has obtained to assess the appropriateness of any assumptions used.

In understanding and evaluating management's judgements, we considered the status of recent and current tax authority audits and enquiries, the outturn of previous claims, judgemental positions taken in tax returns and current year end estimates and developments in the tax environment.

Additionally, we reviewed the disclosure note associated with uncertain tax provisions and confirmed that this was appropriate.

We determined that there were no key audit matters applicable to the Company to communicate in our report.

**How we tailored the audit scope**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group is structured along three segments being European Pharmaceuticals, North American Pharmaceuticals and Pharmaceuticals Research and Development, with each division set up to manage operations on both a regional and functional basis, consisting of a number of reporting units.

The Group Financial Statements are a consolidation of 73 active reporting units comprising the Group's operating businesses and centralised functions. These reporting units maintain their own accounting records and controls and report to the head office finance team in the UK.

Accordingly, of the Group's 73 active reporting units we identified 22 which, in our view, required a full audit of their complete financial information in order to ensure that sufficient audit evidence was obtained. The reporting units on which a full audit of their complete financial information was performed accounted for 91% of Group revenue, 90% of underlying operating profit and 92% of profit before tax. Of these reporting units, 17 were considered to be significant components due to their size or risk characteristics, being those units located in the UK, the USA, Denmark, the Netherlands and Germany.

# Independent Auditors' Report to the Members of Dechra Pharmaceuticals PLC

continued

The Group consolidation, Financial Statements disclosures and a number of centralised functions were audited by the Group engagement team at the head office. These included, but were not limited to, central procedures on treasury operations, corporate taxation and goodwill and intangible asset impairment assessments. We also performed Group level analytical procedures on all of the remaining out of scope active reporting units to identify any unusual transactions. The Company was also subject to a full scope audit.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting component units. As a result, overseas significant components in the USA, Denmark and the Netherlands were visited and the work of all significant components reviewed by senior members of the Group audit team, whilst the Group engagement team were responsible for the audit of all in scope UK reporting units. In addition, the Group audit team were in contact at each stage of the audit, in line with detailed instructions issued and through global planning calls and further regular written communication. Specifically, for all component teams, the Group team discussed in detail the planned audit approach at the component level, were in attendance at local audit close meetings and following independent review, discussed the detailed reported findings of the audit with each component team.

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
<b>Overall materiality</b>	£3.8 million (2018: £2.3 million).	£2.4 million (2018: £2.4 million).
<b>How we determined it</b>	3% of underlying operating profit.  In the prior year, we considered a range of benchmarks that may be appropriate in the Group's circumstances and which are used to assess the performance of the Group and applied professional judgement in determining Group overall materiality to be £2.3 million.  In the current year we have revised our rationale to be based on underlying operating profit.	0.5% of net assets.
<b>Rationale for benchmark applied</b>	We have revised our rationale as we believe the Group's principal measure of performance and earnings is underlying operating profit. Management uses this measure as it believes that it eliminates material non-operational items that may obscure the key trends and factors in determining the Group's operational performance. Furthermore it is this measure which represents the primary focus for management and key stakeholders.  We took these considerations into account in determining our materiality and concluded that this represents an appropriate benchmark for assessing the performance of the Group.	The Company is the ultimate holding Company of the Dechra Group of Companies and with no trading activity, net assets is considered to be the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.02 million and £2.4 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.2 million (Group audit) (2018: £0.2 million) and £0.2 million (Company audit) (2018: £0.2 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## Going concern

In accordance with ISAs (UK) we report as follows:

### Reporting obligation

We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.

We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

### Outcome

We have nothing material to add or to draw attention to.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

We have nothing to report.

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## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

### *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

### *Corporate Governance Statement*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 70 to 82) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 70 to 82) with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company. (CA06)

### *The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group*

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 82 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 82 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

### *Other Code Provisions*

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 87, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
  - The section of the Annual Report on page 86 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
  - The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.
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# Independent Auditors' Report to the Members of Dechra Pharmaceuticals PLC

continued

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## *Directors' Remuneration*

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

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## **Responsibilities for the financial statements and the audit**

### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities set out on page 113, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## **Other Required Reporting**

### **Companies Act 2006 Exception Reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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## **Appointment**

Following the recommendation of the audit committee, we were appointed by the directors on 23 October 2015 to audit the financial statements for the year ended 30 June 2016 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 30 June 2016 to 30 June 2019.

**Andrew Hammond** (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Birmingham  
2 September 2019

# Consolidated Income Statement

For the year ended 30 June 2019

		2019			2018		
		Underlying	Non-underlying*	Total	Underlying	Non-underlying*	Total
	Note	£m	(notes 4 & 5) £m	£m	£m	(notes 4 & 5) £m	£m
<b>Revenue</b>	2	481.8	–	481.8	407.1	–	407.1
Cost of sales		(203.6)	(5.1)	(208.7)	(179.6)	(5.1)	(184.7)
<b>Gross profit</b>		278.2	(5.1)	273.1	227.5	(5.1)	222.4
Selling, general and administrative expenses		(125.7)	(76.5)	(202.2)	(110.0)	(52.0)	(162.0)
Research and development expenses		(25.1)	(6.8)	(31.9)	(18.3)	(8.0)	(26.3)
<b>Operating profit</b>	2	127.4	(88.4)	39.0	99.2	(65.1)	34.1
Finance income	3	0.7	–	0.7	1.5	–	1.5
Finance expense	4	(10.5)	(1.0)	(11.5)	(6.9)	0.5	(6.4)
Share of loss of investments accounted for using the equity method	6	(0.2)	(0.2)	(0.4)	(0.1)	(0.2)	(0.3)
<b>Profit before taxation</b>	7	117.4	(89.6)	27.8	93.7	(64.8)	28.9
Income taxes	9	(24.9)	28.0	3.1	(19.2)	26.4	7.2
<b>Profit for the year</b>		92.5	(61.6)	30.9	74.5	(38.4)	36.1
Attributable to:							
Owners of the parent		92.5	(61.6)	30.9	74.5	(38.4)	36.1
Non-controlling interests		–	–	–	–	–	–
<b>Profit for the year</b>		92.5	(61.6)	30.9	74.5	(38.4)	36.1
Earnings per share							
<b>Basic</b>	11			30.15p			37.24p
<b>Diluted</b>	11			30.07p			37.04p
<b>Dividend per share (interim paid and final proposed for the year)</b>	10			31.60p			25.50p

\* The Group presents a number of non-GAAP Alternative Performance Measures (APMs). This allows investors to understand better the underlying performance of the Group, by excluding non-underlying items as set out in note 5.

# Consolidated Statement of Comprehensive Income

For the year ended 30 June 2019

	2019 £m	2018 £m
Profit for the year	30.9	36.1
Other comprehensive income/(expense):		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit pension scheme	-	-
Income tax relating to components of other comprehensive income/(expense)	-	-
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	3.8	(0.4)
Income tax relating to components of other comprehensive income/(expense)	-	-
	3.8	(0.4)
<b>Total comprehensive income for the period</b>	<b>34.7</b>	<b>35.7</b>
Attributable to:		
Owners of the parent	34.7	35.7
Non-controlling interests	-	-
	34.7	35.7

# Consolidated Statement of Financial Position

At 30 June 2019

	Note	2019 £m	Restated* 2018 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	12	687.0	709.8
Property, plant and equipment	13	58.4	45.3
Investments	6	10.1	10.5
Deferred tax assets	15	0.9	3.8
<b>Total non-current assets</b>		<b>756.4</b>	769.4
<b>Current assets</b>			
Inventories	16	104.0	86.6
Current tax receivables	20	7.9	–
Trade and other receivables	17	99.9	81.6
Cash and cash equivalents	18	80.3	79.7
<b>Total current assets</b>		<b>292.1</b>	247.9
<b>Total assets</b>		<b>1,048.5</b>	1,017.3
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	21	(1.2)	(1.2)
Trade and other payables	19	(95.5)	(75.7)
Deferred and contingent consideration	33	(5.1)	(8.8)
Current tax liabilities	20	(16.3)	(5.9)
<b>Total current liabilities</b>		<b>(118.1)</b>	(91.6)
<b>Non-current liabilities</b>			
Borrowings	21	(306.9)	(289.9)
Deferred income		–	(0.2)
Deferred and contingent consideration	33	(30.9)	(28.0)
Employee benefit obligations	23	–	(3.0)
Provisions	22	(2.0)	(2.8)
Deferred tax liabilities	15	(81.5)	(96.8)
<b>Total non-current liabilities</b>		<b>(421.3)</b>	(420.7)
<b>Total liabilities</b>		<b>(539.4)</b>	(512.3)
<b>Net assets</b>		<b>509.1</b>	505.0
<b>EQUITY</b>			
Issued share capital	25	1.0	1.0
Share premium account		277.9	276.7
Own shares	26	–	(0.4)
Foreign currency translation reserve		21.6	17.8
Merger reserve		84.4	84.4
Retained earnings		124.2	125.5
<b>Total equity attributable to equity holders of the parent</b>		<b>509.1</b>	505.0
Non-controlling interests	27	–	–
<b>Total equity</b>		<b>509.1</b>	505.0

\* Restated as detailed in note 1

The financial statements were approved by the Board of Directors on 2 September 2019 and are signed on its behalf by:

**Ian Page**  
Chief Executive Officer  
2 September 2019

**Tony Rice**  
Non-Executive Chairman  
2 September 2019

Company number: 3369634

# Consolidated Statement of Changes in Shareholders' Equity

For the year ended 30 June 2019

	Attributable to owners of the parent						Total £m	Non- controlling interests £m	Total equity £m
	Issued share capital £m	Share premium account £m	Own shares £m	Foreign currency translation reserve £m	Merger reserve £m	Retained earnings £m			
<b>Year ended 30 June 2018</b>									
At 1 July 2017	0.9	173.4	(0.7)	18.2	1.8	107.4	301.0	1.6	302.6
Profit for the period	-	-	-	-	-	36.1	36.1	-	36.1
Foreign currency translation differences for foreign operations, net of tax	-	-	-	(0.4)	-	-	(0.4)	-	(0.4)
Total comprehensive income	-	-	-	(0.4)	-	36.1	35.7	-	35.7
Transactions with owners:									
Dividends paid	-	-	-	-	-	(21.8)	(21.8)	-	(21.8)
Share-based payments	-	-	-	-	-	4.3	4.3	-	4.3
Shares issued (Restated)*	0.1	103.3	-	-	82.6	-	186.0	-	186.0
Recycle of own shares to retained earnings	-	-	0.3	-	-	(0.3)	-	-	-
Acquisition of non-controlling interests	-	-	-	-	-	(0.2)	(0.2)	(1.6)	(1.8)
Total contributions by and distributions to owners	0.1	103.3	0.3	-	82.6	(18.0)	168.3	(1.6)	166.7
<b>At 30 June 2018 (Restated)*</b>	1.0	276.7	(0.4)	17.8	84.4	125.5	505.0	-	505.0
<b>Year ended 30 June 2019</b>									
At 1 July 2018	1.0	276.7	(0.4)	17.8	84.4	125.5	505.0	-	505.0
Change in accounting policy	-	-	-	-	-	(4.9)	(4.9)	-	(4.9)
At 1 July 2018 (Restated)†	1.0	276.7	(0.4)	17.8	84.4	120.6	500.1	-	500.1
Profit for the period	-	-	-	-	-	30.9	30.9	-	30.9
Foreign currency translation differences for foreign operations, net of tax	-	-	-	3.8	-	-	3.8	-	3.8
Total comprehensive income	-	-	-	3.8	-	30.9	34.7	-	34.7
Transactions with owners:									
Dividends paid	-	-	-	-	-	(28.4)	(28.4)	-	(28.4)
Share-based payments	-	-	-	-	-	1.5	1.5	-	1.5
Shares issued	-	1.2	-	-	-	-	1.2	-	1.2
Recycle of own shares to retained earnings	-	-	0.4	-	-	(0.4)	-	-	-
Total contributions by and distributions to owners	-	1.2	0.4	-	-	(27.3)	(25.7)	-	(25.7)
<b>At 30 June 2019</b>	1.0	277.9	-	21.6	84.4	124.2	509.1	-	509.1

\* Restated as detailed in note 1 Accounting Policies.

† Restated as detailed in note 36 Changes in Accounting Policies.

## Foreign Currency Translation Reserve

The foreign currency translation reserve contains exchange differences on the translation of subsidiaries with a functional currency other than Sterling and exchange gains or losses on the translation of liabilities that hedge the Company's net investment in foreign subsidiaries.

## Merger Reserve

The merger reserve represents the excess of fair value over nominal value of shares issued in consideration for the acquisition of subsidiaries where statutory merger relief has been applied in the financial statements of the Parent Company.



# Consolidated Statement of Cash Flows

For the year ended 30 June 2019

	Note	2019 £m	2018 £m
<b>Cash flows from operating activities</b>			
<b>Operating profit</b>		<b>39.0</b>	34.1
Non-underlying items		<b>88.4</b>	65.1
<b>Underlying operating profit</b>		<b>127.4</b>	99.2
Adjustments for:			
Depreciation	13	<b>5.7</b>	4.8
Amortisation and impairment	2	<b>4.1</b>	2.6
Release of government grant		<b>(0.5)</b>	–
Profit on disposal of tangible assets	7	<b>(0.3)</b>	–
Gain on curtailment of pension scheme	23	<b>(3.5)</b>	–
Equity settled share-based payment expense	28	<b>2.3</b>	2.4
<b>Underlying operating cash flow before changes in working capital</b>		<b>135.2</b>	109.0
Increase in inventories		<b>(14.1)</b>	(22.5)
Increase in trade and other receivables		<b>(11.7)</b>	(9.5)
Increase in trade and other payables		<b>6.3</b>	8.6
<b>Cash generated from operating activities before interest, taxation and non-underlying items</b>		<b>115.7</b>	85.6
Cash outflows in respect of non-underlying items		<b>(7.4)</b>	(4.4)
<b>Cash generated from operating activities before interest and taxation</b>		<b>108.3</b>	81.2
Interest paid		<b>(9.2)</b>	(5.7)
Income taxes paid		<b>(17.3)</b>	(11.5)
<b>Net cash inflow from operating activities</b>		<b>81.8</b>	64.0
<b>Cash flows from investing activities</b>			
Proceeds from disposal of tangible assets		<b>0.3</b>	–
Acquisition of subsidiaries (net of cash acquired)		<b>(39.7)</b>	(227.3)
Acquisition of non-controlling interests	27	<b>–</b>	(1.8)
Purchase of property, plant and equipment	13	<b>(12.0)</b>	(4.9)
Capitalised development expenditure	12	<b>(1.0)</b>	(1.3)
Purchase of other intangible non-current assets	12	<b>(9.5)</b>	(6.4)
<b>Net cash outflow from investing activities</b>		<b>(61.9)</b>	(241.7)
<b>Cash flows from financing activities</b>			
Proceeds from the issue of share capital		<b>1.2</b>	103.3
New borrowings		<b>44.1</b>	133.4
Expenses of raising borrowing facilities		<b>(0.2)</b>	(3.9)
Repayment of borrowings		<b>(36.8)</b>	(17.2)
Dividends paid	10	<b>(28.4)</b>	(21.8)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(20.1)</b>	193.8
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(0.2)</b>	16.1
Cash and cash equivalents at start of period	18	<b>79.7</b>	61.2
Exchange differences on cash and cash equivalents		<b>0.8</b>	2.4
<b>Cash and cash equivalents at end of period</b>	18	<b>80.3</b>	79.7
<b>Reconciliation of net cash flow to movement in net borrowings</b>			
Net (decrease)/increase in cash and cash equivalents		<b>(0.2)</b>	16.1
New borrowings		<b>(44.1)</b>	(133.4)
Repayment of borrowings		<b>36.8</b>	17.2
Expenses of raising borrowing facilities		<b>0.2</b>	3.9
Acquisition of subsidiary borrowings		<b>(2.8)</b>	–
Exchange differences on cash and cash equivalents		<b>0.8</b>	2.4
Retranslation of foreign borrowings		<b>(6.2)</b>	3.3
Other non-cash changes		<b>(0.9)</b>	(0.9)
<b>Movement in net borrowings in the period</b>		<b>(16.4)</b>	(91.4)
Net borrowings at start of period		<b>(211.4)</b>	(120.0)
<b>Net borrowings at end of period</b>	29	<b>(227.8)</b>	(211.4)

Cash conversion is defined as cash generated from operating activities before interest and taxation as a percentage of underlying operating profit.

# Notes to the Consolidated Financial Statements

## 1. Accounting Policies

Dechra Pharmaceuticals PLC is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the United Kingdom. The address of its registered office is 24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, England. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below, these have been applied consistently in all years presented with the exception of the adoption of new accounting standards as outlined below.

### (a) Statement of Compliance

These consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRSs) and IFRS Interpretations Committee (IFRS IC) as adopted by the European Union, and the Companies Act 2006 applicable to companies reporting under IFRS. The Company has elected to prepare its Parent Company financial statements in accordance with FRS 101 and they are separately presented on pages 171 to 180.

### (b) Basis of Preparation

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 8 to 67. The Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Refer to the Corporate Governance Report on page 81 for details.

The consolidated financial statements are presented in Sterling, rounded to the nearest million. They are prepared on a going concern basis and under the historical cost convention, except where IFRSs require an alternative treatment. The principal variations relate to derivative financial instruments, cash settled share-based transactions, contingent consideration and assets and liabilities acquired through business combinations that are stated at fair value.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of accounting estimates and for management to exercise its judgement in the process of applying the Group's accounting policies. These judgements and estimates are based on historical experience and management's best knowledge of the amounts, events or actions under review and the actual results may ultimately differ from these estimates. Areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are, where necessary, disclosed separately.

#### Prior Year Restatement

The comparative amounts for 30 June 2018 have been restated to provide for the statutory merger relief from share premium on shares issued by the company when acquiring shares in AST Farma and Le Vet in February 2018. During the measurement period the share premium amount has been reclassified to the merger reserve. As a consequence share premium has been reduced by £82.6 million and the merger reserve increased by £82.6 million. The impact on net assets is nil.

#### Critical Judgements in Applying the Group's Accounting Policies and Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, the Directors have made the following judgements and estimates that have the most significant effect on the amounts recognised in the financial statements. The key sources of estimation uncertainty which may cause a material adjustment to the carrying amount of assets and liabilities are also discussed below.

#### (i) Carrying value of Goodwill and Indefinite Life Intangible Assets

The Group determines whether goodwill and indefinite life assets are impaired at least on an annual basis or whenever there is an indication of impairment. This requires an estimation of the value in use of the cash generating units to which they are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The determination of an appropriate discount rate involves estimation, and is based on the advice of third party valuers. Further detail on the assumptions used in determining value in use calculations is provided in note 14.

#### (ii) Valuation of Assets & Liabilities acquired through Business Combinations

Judgement is required as part of the purchase price allocation of a business combination, specifically around the identification of acquired assets and liabilities, such as product rights, commercial relationships, pharmacological processes and brand intangibles. The identification is based on the Group's industry experience and the advice of third party valuers. As part of a business combination, fair values are attributed to the identifiable assets and liabilities of the acquired business. This requires a number of estimates to be made, including future cash flows of the acquired business and the determination of an appropriate discount rate. The Group will generally engage an independent valuer to advise on the determination of these fair values. Further details can be found in note 32.

#### (iii) Valuation of Licensing Agreements and associated Deferred Considerations

The recognition of intangible assets and associated deferred considerations in respect of licensing agreements are recorded initially at fair value. This is based on management's best estimate of the timing, likelihood and quantum of future cash flows discounted at an appropriate discount rate. The assumptions relating to future cash flows are based on management's industry expertise and assessment of project viability. The determination of an appropriate discount rate also involves estimation and is based on the advice of third party valuers. A range of discount rates between 2.4% and 12.5% have been determined as being appropriate as applicable for each specific deferred consideration liability. Further details can be found in note 33.

## 1. Accounting Policies continued

### (iv) Uncertain Tax Positions

Provision is made for any uncertain tax positions that the Group may be exposed to at the statement of financial position date. Uncertain tax positions are considered on an individual basis. Where management considers it probable that an additional outflow will result from any given position, a provision is made. Such provisions are measured using management's best estimate and where appropriate, consideration of external advice.

At 30 June 2019 the Group held a current provision of £3.8 million (2018: £2.6 million) in respect of uncertain tax positions. The resolution of these tax matters may take many years.

### (v) Non-underlying Items

The Group presents a number of non-GAAP measures. This is to allow investors to understand the underlying performance of the Group, excluding items associated with areas such as: amortisation of acquired intangibles; remeasurement and accounting for the passage of time in respect of contingent considerations; unwind of fair value adjustments to inventory arising from business combinations; non-recurring expenses relating to Brexit; expenses relating to acquisition and subsequent integration activities; rationalisation of the manufacturing organisation; loss on extinguishment of debt; and the revaluation of deferred tax balances following substantial tax legislation changes. Management utilise this measure to isolate the impact of exceptional, one-off or non-trading related items and consequently the classification of these items requires judgement. Further details can be found in note 5.

### Adoption of New and Revised Standards

The following standards, amendments to standards or interpretations have been adopted for the first time from 1 July 2018. Please refer to note 36 for more detail on the impact of adoption on the financial statements.

- IFRS 15 'Revenue from contracts with customers' provides a single, principles-based approach to the recognition of revenue from all contracts with customers, reflecting the transfer of goods and services at a value that the Group expects to be entitled to receive.
- IFRS 9 'Financial Instruments' introduces changes to the classification, measurement and de-recognition of financial assets and financial liabilities, provides a new impairment model for financial assets based on expected losses and stipulates a new hedge accounting model.

### New Standards and amendments to Standards or Interpretations

The following standards, amendments to standards or interpretations are mandatory for the first time from 1 July 2019;

- IFRS 16 'Leases'; is effective for accounting periods on or after 1 January 2019 and will replace existing accounting standards. The Standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of £16.4 million.
- The Group will adopt IFRS16 from 1 July 2019 using the modified retrospective approach with the right of use asset on transition equalling the lease liability. The cumulative effect of initially adopting IFRS16 will be recognised as an increase to assets and liabilities at 1 July 2019 with no restatement of comparative information. The Group intends to avail itself of the exemptions for short term leases and leases of low value items.
- Based on the information currently available the estimated impact of the adoption of IFRS 16 is:
  - the recognition of additional fixed assets and lease liabilities of approximately £14.0 million on the Consolidated Statement of Financial Position at 1 July 2019;
  - an increase in operating profit of £0.2 million due to the differential between the IAS 17 lease cost and the IFRS 16 depreciation cost;
  - a decrease in profit before tax of £0.2 million due to the differential between the IAS 17 lease cost and the IFRS 16 depreciation and interest cost.

There are no other new standards, amendments to existing standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

### (c) Basis of Consolidation

#### Subsidiary Undertakings

Subsidiary undertakings are fully consolidated from the date on which control is transferred to the Group. They cease to be consolidated from the date that the Group no longer has control. All subsidiary undertakings have been consolidated. Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation. Non-controlling interests represent the portion of shareholders' earnings and equity attributable to third party shareholders. The financial statements of all subsidiary undertakings are prepared to the same reporting date as the Company, with the exception of Genera Pharma d.o.o., Laboratorios Vencofarma do Brasil Ltda and Dechra-Brovel S.A. de C.V. (all of which prepare local financial statements to 31 December each year, in line with local tax authority regulations).

# Notes to the Consolidated Financial Statements

continued

## 1. Accounting Policies continued

### (c) Basis of Consolidation continued

#### Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the change in net assets of the investee after the date of acquisition. Intangible assets identified as part of the notional purchase price allocation are amortised over the useful life of each asset, with the Group's share recognised as a charge in the income statement.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. Distributions received from an associate reduce the carrying amount of the investment.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to share of profit/(loss) of associates in the income statement.

Gains and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investors' interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (d) Foreign Currency Translation

#### (i) Functional and Presentational Currency

The consolidated financial statements are presented in Sterling, which is the Group's presentational currency, and are rounded to the nearest hundred thousand, except where it is deemed relevant to disclose the amounts to the nearest million. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

#### (ii) Foreign Currency Translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, with the exception of differences on transactions that are subject to effective cash flow hedges, which are recognised in other comprehensive income.

#### (iii) Foreign Operations

The income and expenses are translated to Sterling at the average rate for the period being reported. The assets and liabilities of foreign operations are translated to Sterling at the closing rate at the reporting date. Foreign currency differences on all translations are recognised in other comprehensive income in the foreign currency translation reserve, a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. On disposal of a foreign entity, accumulated exchange differences previously recognised in other comprehensive income are recognised in the income statement in the same period in which the gain or loss on disposal is recognised.

### (e) Accounting for Financial Assets and Liabilities, Derivative Financial Instruments and Hedging Activities

#### Financial Assets

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Management determines the classification of its financial assets at initial recognition in accordance with IFRS 9, which defines 3 categories that debt instruments may be classified as, depending on the purpose for which the assets are held. These categories are;

- Amortised cost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through the profit and loss (FVPL)

Amortised cost relates to assets that are held for collection of contractual cash flows. Where those cash flows represent solely payments of principal and interest, they are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the income statement. All material financial assets of the Group are held at amortised cost.

## 1. Accounting Policies continued

### (e) Accounting for Financial Assets and Liabilities, Derivative Financial Instruments and Hedging Activities continued

#### Financial Assets continued

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Gains and losses (both realised and unrealised) arising from changes in the value of financial assets held at fair value through the income statement are included in the income statement in the period in which they arise.

#### Derivative Financial Instruments

The Group uses derivative financial instruments to manage its exposure to interest rate risks. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are remeasured to fair value at each reporting date.

#### Cash Flow Hedges

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognised in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised immediately in the income statement. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs.

#### Net Investment Hedge

For hedges of net investments in foreign operations, where the hedge is effective movements are recognised in other comprehensive income. Ineffectiveness is recognised in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

#### Trade Receivables

Trade receivables are recorded at aggregate invoice value (including value added tax or other sales taxes) less loss allowances, which are calculated using the expected loss model. Where trade receivables contain a significant financing component, they are then carried at amortised cost using the effective interest rate method, less loss allowances. Other receivables are recorded at their transaction value.

The Group assesses, on a forward-looking basis, the expected credit losses associated with its trade and other receivables. The Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Where there is a specific risk surrounding a receivable then a credit loss allowance of 100% is applied.

#### Trade and Other Payables

Trade and other payables are initially recognised at fair value and subsequently at amortised cost.

#### Borrowings and Borrowing Costs

Borrowings are recognised initially at fair value net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has a right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs directly attributable to the acquisition, construction, or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

### (f) Property, Plant and Equipment

#### Owned Assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

#### Leased Assets

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by finance leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

# Notes to the Consolidated Financial Statements

continued

## 1. Accounting Policies continued.

### (f) Property, Plant and Equipment continued

#### Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Land is not depreciated. Assets in the course of construction are not depreciated until the date the assets become available for use. The estimated useful lives are as follows:

- freehold buildings 25 years
- short leasehold buildings period of lease
- plant and fixtures 3 to 15 years
- motor vehicles 4 years

The residual value, where significant, is reassessed annually.

### (g) Intangible Assets

#### Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred before 1 July 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the separable assets, liabilities and contingent liabilities acquired.

Acquisitions after this date fall under the provisions of 'Revised IFRS 3 Business Combinations (2009)'. For these acquisitions, transaction costs, other than share and debt issue costs, are expensed as incurred and subsequent adjustments to the fair value of consideration payable are recognised in the income statement.

Contingent consideration is measured at fair value based on an estimate of the expected future payments.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is allocated to cash generating units and is tested annually for impairment.

#### Research and Development Costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense is incurred.

The Group is also engaged in development activity with a view to bringing new pharmaceutical products to market. Due to the strict regulatory process involved, there is inherent uncertainty as to the technical feasibility of development projects often until regulatory approval is achieved, with the possibility of failure even at a late stage. The Group considers that this uncertainty means that the criteria for capitalisation are not met unless it is highly probable that regulatory approval will be achieved and the project is commercially viable. Internally generated costs of development are capitalised, once the criteria are met, in the consolidated statement of financial position unless those costs cannot be measured reliably or it is not probable that future economic benefits will flow to the Group, in which case the relevant costs are expensed to the income statement as incurred.

Where development costs are capitalised, the expenditure includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

#### Acquired Intangible Assets

Intangible assets recognised as a result of a business combination are stated at fair value at the date of acquisition less accumulated amortisation and impairment losses.

#### Other Intangible Assets

Other intangible assets that are acquired by the Group are stated at cost (including future milestone and royalty payments as applicable) less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and other intangibles is recognised in the income statement as an expense is incurred.

### (h) Intangible Assets Subsequent Expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates or extends the asset life. All other expenditure is expensed as incurred.

#### Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite or is otherwise stated below. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each consolidated statement of financial position date. Intangible assets are amortised from the date that they are available for use. Assets in the course of construction are not amortised until the date the assets become available for use.

## 1. Accounting Policies continued

### (h) Intangible Assets Subsequent Expenditure continued

#### Amortisation continued

The estimated useful lives are as follows:

• software	5 to 7 years
• capitalised development costs	5 to 10 years or period of patent
• patent rights	period of patent
• marketing authorisations	indefinite life or period of marketing authorisation
• product rights	10 to 15 years
• commercial relationships	7 years
• brand	3 to 10 years
• acquired capitalised development costs	5 to 15 years
• pharmacological process	10 years

The pharmacological process and capitalised developed technology from the acquisitions of Putney Inc. and AST Farma B.V. and Le Vet Beheer B.V. respectively are amortised on a reducing balance method at a rate of 20% over a 10 year life based on the expected profile of future cash flows. All amortisation on a reducing balance methodology is recognised within selling and general administrative expenses with the exception of that in respect of the pharmacological process which is recognised within research and development expenses.

The amortisation of the intangible assets are classified as an administrative expense because they relate to the right to sell and distribute the product. Within the acquired intangibles the product rights encompass market authorisations, and the capitalised development costs encompass product authorisations subject to regulatory approval. The pharmacological process is classified as a research and development expense as it relates to the process of taking a product through to registration.

When considering the basis of amortisation for our acquired intangibles, we consider a number of factors: the different market conditions which surround the intangible, the age of the products within developed technology and their corresponding place within the lifecycle of the product.

### (i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is determined on the first-in, first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

### (j) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### (k) Impairment

The carrying amounts of the Group's assets are reviewed at each consolidated statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each consolidated statement of financial position date and when there is an indication that the asset is impaired.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating units (group of units), and then to reduce the carrying amount of the other assets in the units (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

# Notes to the Consolidated Financial Statements

continued

## 1. Accounting Policies continued

### (l) Dividends paid

Dividends are recognised in the period in which they are approved by the Company's shareholders or, in the case of an interim dividend, when the dividend is paid.

### (m) Employee Benefits

#### Pensions

The Group operates a stakeholder personal pension scheme for certain employees. Obligations for contributions are recognised as an expense in the income statement as incurred.

Dechra Veterinary Products SAS and Dechra Veterinary Products BV participate in state-run pension arrangements. These are not considered to be material to the Group financial statements and are accounted for as defined contribution schemes, with contributions being recognised as an expense in the income statement as incurred.

The Group sponsored defined benefit arrangements in certain countries, the most material being a defined benefit pension plan in the Netherlands. This was a funded career average pay arrangement, where pensionable salary was subject to a cap. The arrangement was funded through an insurance contract.

From 1 January 2019 the employee pension benefit in the Netherlands is being provided through contributions to a defined contribution scheme and the Group's obligations under the previous pension arrangements ceased.

The Group's net obligation in previous years in respect of defined benefit pension plans was calculated by estimating the amount of future benefit that employees had earned in return for their service in the current and prior periods.

That benefit was discounted to determine its present value, and the fair value of any plan assets is deducted. The liability discount rate is the yield at the Statement of Financial Position date using AA rated corporate bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation was performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses that arose in calculating the Group's obligation in respect of a scheme were recognised immediately in reserves and reported in the consolidated statement of comprehensive income. Where the calculation resulted in a benefit to the Group, the asset recognised was limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

#### Share-based Payment Transactions

The Group operates a number of equity settled share-based payment programmes that allow employees to acquire shares in the Company. The Group also operates a Long Term Incentive Plan for Directors and Senior Executives.

The fair value of shares or options granted is recognised as an employee expense over the vesting period on a straight-line basis in the income statement with a corresponding movement to equity reserves. Fair values are determined by use of an appropriate pricing model and by reference to the fair value of the options granted. The amount to be expensed over the vesting period is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

At each consolidated statement of financial position date, the Group revises its estimates of the number of share incentives that are expected to vest. The impact of the revisions of original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity reserves, over the remaining vesting period.

The fair values of grants under the Long Term Incentive Plan have been determined using the Monte Carlo simulation model, as performed by a qualified third party valuation expert.

The fair values of options granted under all other share option schemes have been determined using the Black-Scholes option pricing model, as performed by a qualified third party valuation expert.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

National Insurance contributions payable by the Company on the intrinsic value of share-based payments at the date of exercise are treated as cash settled awards and revalued to market price at each consolidated statement of financial position date.

#### Bonus and Commission Payments

The Group operates sales incentives schemes for certain employees and third party sales representatives in particular territories. The related bonuses and commissions are accrued in line with the related sales revenues.



## 1. Accounting Policies continued

### (n) Revenue Recognition

Revenue from the sale of goods is measured at the fair value of the consideration and excludes intra-group sales and value added and similar taxes. The primary performance obligation is the transfer of goods to the customer. Revenue from the sale of goods is recognised when control of the goods is transferred to the customer, at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods. Revenue from third party manufacturing consists principally of the production of goods to customer specification together with the provision of technical services. Revenues from third party manufacturing are recognised upon completion of the work order, either the completion and agreed delivery of the product, or upon full provision of the service.

As sales arrangements differ from time to time (for example by customer and by territory), each arrangement is reviewed to ensure that revenue is recognised when control of the goods have passed to the customer.

This review and the corresponding recognition of revenue encompasses a number of factors which include, but are not limited to the following:

- reviewing delivery arrangements and whether the buyer has accepted title – we recognise the revenue at the point at which full title has passed; and/or
- where distribution arrangements are in place, recognising when the goods pass to the third party customer (for example by reviewing insurance arrangements) and recognising revenue at the point at which title has passed.

Provision for rebates, returns, discounts and other variable consideration is reflected in the transaction price at the point of recognition to the extent that it is highly probable there will not be a significant reversal. The methodology and assumptions used to estimate rebates and returns are based on the most likely method of calculation. This is adjusted in light of contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using wholesaler and other third party analysis, and internally generated information.

### (o) Leases

#### Operating Leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement evenly over the period of the lease, as an integral part of the total lease expense.

#### Finance Leases

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the effective interest rate method.

### (p) Net Financing Costs

Net financing costs comprise interest payable on borrowings, unwinding of discount on provisions and deferred considerations measured at amortised cost, interest receivable on funds invested, gains and losses on hedging instruments that are recognised in the income statement (see accounting policy (e)) and gains or losses on the retranslation of financial assets and liabilities denominated in foreign currencies. Interest income is recognised in the income statement as it accrues. The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

### (q) Contingent Considerations

The Group has adopted the financial liability model when accounting for contingent consideration in respect of licensing agreements. The estimated future amounts payable for contingent consideration are recorded on initial recognition at the present value of the future cash flow payable, discounted with an appropriate discount rate, with a corresponding intangible asset recorded. The unwind of the liability, reflecting discounting for the passage of time, is recognised within the income statement as a finance expense and calculated using a risk-free discount rate. Contingent considerations are remeasured at each reporting date and any downward remeasurement of the related liability is adjusted against the intangible, with any excess over the carrying value of the intangible recognised in the income statement. Any upwards remeasurement is recognised as an increase to the intangible asset.

### (r) Provisions

Provisions for legal claims, environmental remediation, deferred rent and advanced grants for property, plant and equipment are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required on settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

# Notes to the Consolidated Financial Statements

continued

## 1. Accounting Policies continued

### (s) Basis of Charge for Taxation

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognised in the income statement except to the extent that it relates to a business combination or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the consolidated statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the consolidated statement of financial position liability method and represents the tax payable or recoverable on most temporary differences which arise between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes (the tax base). Temporary differences are not provided on: goodwill that is not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and do not arise from a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, and is based upon tax rates enacted or substantively enacted at the consolidated statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is not probable that the related tax benefit will be realised against future taxable profits. The carrying amounts of deferred tax assets are reviewed at each consolidated statement of financial position date.

In respect of uncertain tax positions, where an outflow of funds is believed to be probable and a reliable estimate of the outcome of the dispute can be made, management provides for its best estimate of the liability. In calculating any such liability a risk based approach is applied which takes into account, as appropriate, the probability that the Group would be able to obtain compensatory adjustments under international tax treaties.

The estimated annual benefit of global intellectual property and innovation incentives is accounted for within current and deferred tax.

Current and deferred tax credits received in respect of share-based payments are recognised in the income statement to the extent that they do not exceed the standard rate of taxation on the income statement charge for share-based payments. Credits in excess of the standard rate of taxation are recognised directly in equity.

### (t) Earnings per Share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the period. Diluted EPS is determined by adjusting the profit attributable to ordinary shareholders and the weighted average number of ordinary shares in issue for the effects of all potential dilutive ordinary shares, which comprise share options granted to employees.

The Group has also chosen to present an alternative EPS measure, with profit adjusted for non-underlying items. A reconciliation of this alternative measure to the statutory measure required by IFRS is given in the Financial Review on page 26. A breakdown of the non-underlying items is given in notes 4 and 5.

## 2. Operating Segments

The Group has three reportable segments, as discussed below, which are based on information provided to the Board of Directors, which is deemed to be the Group's chief operating decision maker. Several operating segments which have similar economic characteristics have been aggregated into the reporting segments. In undertaking this aggregation the assessment determined that the aggregated segments have similar products, production processes, customers and overall regulatory environment.

The European Pharmaceuticals Segment comprises Dechra Veterinary Products EU, Dechra Veterinary Products International and Dechra Pharmaceuticals Manufacturing. This Segment operates internationally and manufactures and markets Companion Animal, Equine, Food producing Animal Products and Nutrition. This Segment also includes third party manufacturing and other non-core activities sales. The Segment expanded during the year with the acquisition of Laboratorios Vencofarma do Brasil Ltda (Venco) and the trade and assets of Caledonian Holdings Ltd.

The North American Pharmaceuticals Segment consists of Dechra Veterinary Products US, Putney, Dechra Veterinary Products Canada, and Dechra-Brovel, which sells Companion Animal, Equine Products and Food producing Animal Products in those territories. The Segment also includes our manufacturing unit based in Melbourne, Florida.

The Pharmaceuticals Research and Development Segment includes all of the Group's pharmaceutical research and development activities. From a Board perspective, this Segment has no revenue income.

## 2. Operating Segments continued

Reconciliation of reportable segment revenues, profit or loss and liabilities and other material items:

	2019 £m	Restated* 2018 £m
<b>Revenue by segment</b>		
European Pharmaceuticals – total	304.0	258.7
NA Pharmaceuticals – total	177.8	148.4
	<b>481.8</b>	407.1
<b>Operating profit/(loss) by segment</b>		
European Pharmaceuticals	100.3	77.0
NA Pharmaceuticals	59.2	48.3
Pharmaceuticals Research and Development	(25.1)	(18.3)
<b>Segment operating profit</b>	<b>134.4</b>	107.0
Corporate and other unallocated costs	(7.0)	(7.8)
<b>Underlying operating profit</b>	<b>127.4</b>	99.2
Amortisation of acquired intangibles	(76.8)	(54.1)
Remeasurement of contingent consideration	0.1	0.1
Expenses relating to Brexit	(0.9)	–
Fair value uplift of inventory acquired through business combinations	(5.1)	(5.1)
Rationalisation of manufacturing organisation	(2.0)	(2.9)
Expenses relating to acquisitions and subsequent integration activities	(3.7)	(3.1)
<b>Total operating profit</b>	<b>39.0</b>	34.1
Finance income	0.7	1.5
Finance expense	(11.5)	(6.4)
Share of losses in investment accounted for using the equity method	(0.4)	(0.3)
<b>Profit before taxation</b>	<b>27.8</b>	28.9
<b>Total liabilities by segment</b>		
European Pharmaceuticals	(80.9)	(79.6)
NA Pharmaceuticals	(44.0)	(31.0)
Pharmaceuticals Research and Development	(2.1)	(1.4)
<b>Segment liabilities</b>	<b>(127.0)</b>	(112.0)
Corporate loans and revolving credit facility	(308.1)	(291.1)
Corporate accruals and other payables	(6.5)	(6.5)
Current and deferred tax liabilities	(97.8)	(102.7)
	<b>(539.4)</b>	(512.3)
<b>Revenue by product category</b>		
CAP*	340.2	272.7
Equine*	34.4	28.4
FAP	57.3	48.7
Nutrition	29.1	29.4
Other	20.8	27.9
	<b>481.8</b>	407.1
<b>Additions to intangible non-current assets by segment (including through business combinations)</b>		
European Pharmaceuticals	48.6	370.2
NA Pharmaceuticals	–	6.9
Pharmaceuticals Research and Development	0.3	0.4
Corporate and central costs	0.5	0.5
	<b>49.4</b>	378.0

\* Restated for the reallocation of £6.0 million of revenue from the Equine category to the CAP category in 2018.

# Notes to the Consolidated Financial Statements

continued

## 2. Operating Segments continued

	2019 £m	2018 £m
<b>Additions to Property, Plant and Equipment by segment (including through business combinations)</b>		
European Pharmaceuticals	17.4	4.9
NA Pharmaceuticals	0.3	0.2
Pharmaceuticals Research and Development	0.4	0.2
Corporate and central costs	0.1	0.2
	<b>18.2</b>	<b>5.5</b>
<b>Depreciation and amortisation by segment</b>		
European Pharmaceuticals	68.1	41.8
NA Pharmaceuticals	17.8	19.0
Pharmaceuticals Research and Development	0.3	0.3
Corporate and central costs	0.4	0.4
	<b>86.6</b>	<b>61.5</b>
The total depreciation, amortisation and impairment charge is made up of the following:		
<b>Non-underlying</b>		
Amortisation – selling, general and administrative expenses	70.0	46.1
Amortisation – research and development expenditure	6.8	8.0
	<b>76.8</b>	<b>54.1</b>
<b>Underlying</b>		
Amortisation and impairment	4.1	2.6
Depreciation	5.7	4.8
	<b>9.8</b>	<b>7.4</b>

### Geographical Information

The following table shows revenue based on the geographical location of customers and non-current assets based on the country of domicile of the entity holding the asset:

	2019 Revenue £m	2019 Non- current assets £m	2018 Revenue £m	2018 Non- current assets £m
UK	56.4	20.1	56.1	18.9
Germany	48.2	3.7	40.4	2.4
Rest of Europe	163.5	443.8	138.3	493.9
USA	169.1	175.8	139.8	180.1
Rest of World	44.6	113.0	32.5	74.1
	<b>481.8</b>	<b>756.4</b>	<b>407.1</b>	<b>769.4</b>

## 3. Finance Income

	2019 £m	2018 £m
Finance income arising from:		
– Cash and cash equivalents	–	0.2
– Foreign exchange gains	0.7	1.3
	<b>0.7</b>	<b>1.5</b>

#### 4. Finance Expense

	2019	2018
	£m	£m
<b>Underlying</b>		
Finance expense arising from:		
– Financial liabilities at amortised cost	10.5	6.8
– Net Interest on net defined benefit obligations	–	0.1
Underlying finance expense	10.5	6.9
<b>Non-underlying</b>		
Loss on extinguishment of debt	–	0.4
Fair value and other movements on deferred and contingent consideration	1.0	(0.9)
Non-underlying finance expense/(income)	1.0	(0.5)
Total finance expense	11.5	6.4

#### 5. Non-underlying Items

Non-underlying items charged/(credited) comprise:

	2019	2018
	£m	£m
Amortisation of acquired intangibles		
– classified within selling, general and administrative expenses	70.0	46.1
– classified within research and development expenses	6.8	8.0
Remeasurement of contingent consideration	(0.1)	(0.1)
Fair value uplift of inventory acquired through business combinations	5.1	5.1
Expenses relating to Brexit	0.9	–
Expenses relating to acquisitions and subsequent integration activities	3.7	3.1
Rationalisation of manufacturing organisation	2.0	2.9
Non-underlying operating profit items	88.4	65.1
Amortisation in relation to Medical Ethics Pty Ltd	0.2	0.2
Loss on extinguishment of debt	–	0.4
Fair value and other movements on deferred and contingent consideration	1.0	(0.9)
Non-underlying profit before tax items	89.6	64.8
Tax on non-underlying profit before tax items	(20.0)	(16.4)
Revaluation of deferred tax balances following the change in Dutch tax rates/US tax rates	(8.0)	(10.0)
Non-underlying profit after tax items	61.6	38.4

Amortisation of acquired intangibles reflects the amortisation of the fair values of future cash flows recognised on acquisition in relation to the identifiable intangible assets acquired, including a full year impact in 2019 of the amortisation of the acquired intangible relating to AST Farma and Le Vet Beheer BV.

The remeasurement of the contingent consideration balance relates to the net credit to the income statement on the reassessment of future milestone and royalty payments on a licensing agreement.

The fair value uplift of inventory acquired through business combinations is recognised in accordance with IFRS 3 'Business Combinations' to record the inventory acquired at fair value and its subsequent release into the income statement.

Expenses relating to Brexit represents regulatory and technology transfer costs incurred in advance of Brexit that are not expected to be recurring.

Expenses relating to acquisitions and subsequent integration activities represents costs incurred during the acquisition and integration of Venco (£1.3 million), Caledonian (£0.1 million), and AST Farma and Le Vet (£2.1 million).

Rationalisation of manufacturing organisation relates to the income statement cost associated with this strategic programme. Costs since the inception of the programme have been £4.9 million. The total planned spend on this project is now £7.6 million.

# Notes to the Consolidated Financial Statements

continued

## 6. Interests in Associate

### (a) Losses in Associate

Set out below is the summarised financial information of Medical Ethics Pty Ltd for the year ended 30 June, which is accounted for using the equity method. This is not Dechra Pharmaceuticals PLC's share of the results.

	2019 £m	2018 £m
Revenue	0.4	0.8
Pre-tax loss from continuing operations	(1.4)	(0.1)
Post-tax loss from continuing operations	(0.8)	(0.1)

	2019 £m	2018 £m
Non-current assets	1.9	1.9
Current assets	4.1	5.2
	6.0	7.1
Non-current liabilities	-	-
Current liabilities	(0.2)	(0.4)
	(0.2)	(0.4)
Net assets of associate	5.8	6.7

### (b) Interest in Associate

	2019 £m	2018 £m
1 July	10.5	10.8
Share of underlying loss after tax	(0.2)	(0.1)
Share of amortisation of intangible asset identified on acquisition	(0.2)	(0.2)
30 June	10.1	10.5

In 2017 the Group acquired a 33.0% interest in Medical Ethics Pty Ltd, which is the holding company of Animal Ethics Pty Ltd. The company is incorporated in Australia, which is also the principal place of business. The registered address is c/o Level 3, 649 Bridge Road, Richmond, Victoria 3121, Australia. The company has share capital consisting solely of ordinary shares, which are directly owned by the Group. Medical Ethics Pty Ltd is a private company and there is no quoted market price available for its shares. There are no contingent liabilities relating to the Group's interest in the associate.

The Group's share of the loss arising from its investment in Medical Ethics includes the effect of amortising the fair value adjustments, which are treated as non-underlying.

On 5 July 2019 the Group acquired a further 15.0% of the issued share capital of Medical Ethics Pty Ltd for a total consideration of AUD13.5 million (£8.0 million). Following the acquisition the Group will hold 48.0% of the issued share capital of Medical Ethics. Please also refer to note 38.

### (c) Reconciliation of summarised financial information presented to the carrying amount of its interest in associates

	2019 £m
Opening interest in associate	1.9
Fair value of associate acquired	-
Post-tax loss from continuing operations	(0.2)
Amortisation of notional intangible asset recognised on acquisition	(0.2)
Interest in associate	1.5
Goodwill	8.6
Carrying value of investment in associate	10.1

## 7. Profit Before Taxation

The following items have been included in arriving at profit before taxation of continuing operations:

	2019 £m	2018 £m
Cost of inventories recognised as an expense	158.8	140.4
Impairment of inventories included in above figure	2.1	2.0
Depreciation of property, plant and equipment – owned assets	5.7	4.8
Amortisation of intangible assets	80.9	56.6
Profit on disposal of property, plant and equipment	(0.3)	–
Impairment of intangible assets – underlying	–	0.1
Recognition/(release) of impairment of receivables	0.6	(0.1)
Operating lease rentals payable	3.3	2.8
Research and development expenditure as incurred	25.1	18.3
Net pension (credit)/expense in relation to defined benefit pension scheme (see note 23)	(2.8)	0.8
Auditors' remuneration	1.0	1.4
Analysis of total fees paid to the Auditors:		
Audit of these financial statements	0.4	0.4
Audit of financial statements of subsidiaries pursuant to legislation	0.5	0.5
Other assurance services – audit related assurance services*	0.1	–
Other assurance services – transaction services	–	0.5
<b>Total fees paid to Auditors</b>	<b>1.0</b>	<b>1.4</b>

\* This includes £0.04 million (2018: £0.04 million) in relation to the review of the Half-Yearly Report.

## 8. Employees

The average numbers of staff employed by the Group during the year, which includes Directors, were:

	2019 Number	2018 Number
Manufacturing	591	480
Distribution	151	128
Administration	989	829
<b>Total</b>	<b>1,731</b>	<b>1,437</b>

The costs incurred in respect of these employees were:

	2019 £m	2018 £m
Wages and salaries	78.8	72.0
Social security costs	10.5	9.2
Other pension costs	4.5	3.7
Curtailment of defined benefit pension scheme (see note 23)	(3.5)	–
Share-based payments charge (see note 28)	2.4	3.3
<b>Total</b>	<b>92.7</b>	<b>88.2</b>

Related party transactions – the remuneration of key management was as follows:

	2019 £m	2018 £m
Short term employee benefits	5.7	5.5
Post-employment benefits	0.3	0.3
Share-based payments charge	1.4	1.6
	<b>7.4</b>	<b>7.4</b>

Key management comprises the Board and the Senior Executive Team. Details of the remuneration, shareholdings, share options, pension contributions and payments for loss of office of the Executive Directors are included in the Directors' Remuneration Report on pages 93 to 105.

The Group operates a stakeholder personal pension scheme for certain employees and contributed between 4% and 14% of pensionable salaries. The Group also participates in state-run pension arrangements for certain employees in Dechra Veterinary Products SAS and Dechra Veterinary Products BV. Total pension contributions amounted to £4.5 million (2018: £3.7 million). Contributions to defined benefit pension schemes included in the above figures total £0.3 million (2018: £0.7 million).

# Notes to the Consolidated Financial Statements

continued

## 9. Income Tax Expense

	2019 £m	2018 £m
Current tax		
– UK corporation tax	1.0	2.3
– overseas tax at prevailing local rates	16.5	11.5
– adjustment in respect of prior years	1.6	(0.4)
<b>Total current tax expense</b>	<b>19.1</b>	13.4
Deferred tax		
– origination and reversal of temporary differences	(14.0)	(9.2)
– adjustment in respect of tax rates	(8.0)	(11.2)
– adjustment in respect of prior years	(0.2)	(0.2)
<b>Total deferred tax credit</b>	<b>(22.2)</b>	(20.6)
<b>Total income tax credit in the Consolidated Income Statement</b>	<b>(3.1)</b>	(7.2)

The tax on the Group's profit before taxation differs from the standard rate of UK corporation tax of 19.0% (2018: 19.0%). The differences to this rate are explained below:

	2019 £m	2018 £m
Profit before taxation	27.8	28.9
Tax at 19.0% (2018: 19.0%)	5.3	5.5
Effect of:		
– expenses not deductible	1.2	0.5
– acquisition expenses	0.4	0.7
– research and development related tax credits	(0.1)	(0.1)
– patent box tax credits	(2.6)	(2.6)
– impact of financing (income not taxable)	(0.9)	(0.5)
– share in results of associates	(0.1)	–
– effects of overseas tax rates	0.4	1.0
– movement in unrecognised deferred tax	–	0.1
– adjustment in respect of prior years	1.3	(0.6)
– change in tax rates	(8.0)	(11.2)
<b>Total income tax credit in the Consolidated Income Statement</b>	<b>(3.1)</b>	(7.2)

Recurring items in the tax reconciliation include: research and development related tax credits and patent box incentives; expenses not deductible; and the impact of financing. The effective tax rate is -11.2% (excluding non-underlying items the effective tax rate is 21.2%).

### Tax (Charge)/Credit Recognised Directly in Equity

	2019 £m	2018 £m
Deferred tax on employee benefit obligations	–	–
<b>Tax recognised in Consolidated Statement of Comprehensive Income</b>	<b>–</b>	–
Corporation tax on equity settled transactions	0.4	1.0
Deferred tax on equity settled transactions	(1.2)	0.9
<b>Total tax recognised in Equity</b>	<b>(0.8)</b>	1.9

The UK current tax rate used for the period is 19.0% which is the enacted rate from 1 April 2017. Finance Act 2016 which was substantively enacted in September 2016 included provisions to reduce the rate of corporation tax to 17.0% with effect from 1 April 2020. Deferred tax has been calculated using the rate of 19.0% and 17.0% based on the timing of when each individual deferred tax balance is expected to reverse in the future.

The Dutch current tax rate used for the period is 25.0%, however this rate is reducing to 22.5% in 2020 and to 20.5% in 2021. The tax rate applied for deferred tax purposes is based on the timing of when each individual deferred tax balance is expected to reverse in the future. The impact of revaluing the deferred tax balances has been included within non-underlying items.

In the results to 30 June 2018 US tax reform gave rise to a transitional one-off non-underlying tax credit of £10.0 million primarily due to the revaluation of the US deferred tax assets and liabilities following the reduction in the US Federal rate from 35.0% to 21.0%.

Similarly, deferred tax arising in other overseas jurisdictions has been based on the enacted rate.



## 9. Income Tax Expense continued

### EU CFC Challenge

In October 2017 the European Commission (the Commission) opened a State Aid investigation into the Group Financing Exemption in the UK Controlled Foreign Company (CFC) rules. On 25 April 2019 the Commission issued its decision on the CFC Group Financing Exemption concluding that part of the UK measures were unlawful and incompatible instructing the UK Government to recover the State Aid. The UK Government filed an annulment appeal on 12 June 2019. In common with other UK-based international companies Dechra have financing arrangements in line with the current UK legislation. We have calculated the maximum potential State Aid claimed as £4.0 million excluding penalties and interest.

### Future Tax Charge

The Group's future tax charge, and its effective tax rate could be affected by several factors including the impact of the implementation of the OECD's Base Erosion and Profit Shifting ('BEPS') actions, and changes in applicable tax rates and legislation in the territories in which it operates.

## 10. Dividends

	2019 £m	2018 £m
Final dividend paid in respect of prior year but not recognised as a liability in that year: 18.17 pence per share (2018: 15.33 pence per share)	18.6	14.3
Interim dividend paid: 9.50 pence per share (2018: 7.33 pence per share)	9.8	7.5
Total dividend 27.67 pence per share (2018: 22.66 pence per share) recognised as distributions to equity holders in the period	28.4	21.8
Proposed final dividend for the year ended 30 June 2019: 22.10 pence per share (2018: 18.17 pence per share)	22.7	18.6
Total dividend paid and proposed for the year ended 30 June 2019: 31.60 pence per share (2018: 25.50 pence per share)	32.5	26.1

In accordance with IAS 10 'Events After the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2019 has not been accrued for in these financial statements. It will be shown as a deduction from equity in the financial statements for the year ending 30 June 2020. There are no income tax consequences. The final dividend for the year ended 30 June 2018 is shown as a deduction from equity in the year ended 30 June 2019.

## 11. Earnings per Share

Earnings per ordinary share has been calculated by dividing the profit attributable to equity holders of the parent after taxation for each financial period by the weighted average number of ordinary shares in issue during the period.

	2019 Pence	2018 Pence
Basic earnings per share		
– Underlying*	90.24	76.85
– Basic	30.15	37.24
Diluted earnings per share		
– Underlying*	90.01	76.45
– Diluted	30.07	37.04

The calculations of basic and diluted earnings per share are based upon:

	2019 £m	2018 £m
Earnings for underlying basic and underlying diluted earnings per share	92.5	74.5
Earnings for basic and diluted earnings per share	30.9	36.1

	Number	Number
Weighted average number of ordinary shares for basic earnings per share	102,504,510	96,942,002
Impact of share options	257,838	509,209
Weighted average number of ordinary shares for diluted earnings per share	102,762,348	97,451,211

\* Underlying measures exclude non-underlying items as defined in note 1.

At 30 June 2019, there are 421,486 options (2018: 231,551) that are excluded from the EPS calculations as they are not dilutive for the period presented but may become dilutive in the future.

# Notes to the Consolidated Financial Statements

continued

## 12. Intangible Assets

	Goodwill £m	Software £m	Development costs £m	Patent rights £m	Marketing authorisations £m	Acquired intangibles £m	Total £m
<b>Cost</b>							
At 1 July 2017	128.1	12.7	11.7	5.3	1.0	409.4	568.2
Additions	–	4.2	1.7	0.9	–	8.7	15.5
Acquisitions through business combinations	102.3	–	–	(2.1)	–	262.3	362.5
Remeasurement	–	–	–	–	–	(3.1)	(3.1)
Disposals	–	–	(0.2)	(0.2)	–	–	(0.4)
Foreign exchange adjustments	(1.1)	(0.2)	–	–	(0.1)	(3.3)	(4.7)
At 30 June 2018 and 1 July 2018	229.3	16.7	13.2	3.9	0.9	674.0	938.0
Additions	–	2.8	1.2	–	–	7.9	11.9
Acquisitions through business combinations	18.8	0.1	–	0.4	–	18.2	37.5
Remeasurement	–	–	–	–	–	(1.5)	(1.5)
Disposals	–	–	(0.3)	–	–	–	(0.3)
Foreign exchange adjustments	4.0	0.1	(0.1)	–	–	11.2	15.2
<b>At 30 June 2019</b>	<b>252.1</b>	<b>19.7</b>	<b>14.0</b>	<b>4.3</b>	<b>0.9</b>	<b>709.8</b>	<b>1,000.8</b>
<b>Accumulated Amortisation</b>							
At 1 July 2017	–	2.9	6.1	3.1	–	159.8	171.9
Charge for the year	–	0.8	1.2	0.5	–	54.1	56.6
Acquisitions through business combinations	–	–	–	(0.4)	–	–	(0.4)
Impairment	–	0.1	–	–	–	–	0.1
Disposals	–	–	(0.2)	(0.2)	–	–	(0.4)
Foreign exchange adjustments	–	(0.1)	–	–	–	0.5	0.4
At 30 June 2018 and 1 July 2018	–	3.7	7.1	3.0	–	214.4	228.2
Charge for the year	–	2.5	1.3	0.3	–	76.8	80.9
Foreign exchange adjustments	–	(0.1)	0.1	–	–	4.7	4.7
<b>At 30 June 2019</b>	<b>–</b>	<b>6.1</b>	<b>8.5</b>	<b>3.3</b>	<b>–</b>	<b>295.9</b>	<b>313.8</b>
<b>Net book value</b>							
<b>At 30 June 2019</b>	<b>252.1</b>	<b>13.6</b>	<b>5.5</b>	<b>1.0</b>	<b>0.9</b>	<b>413.9</b>	<b>687.0</b>
At 30 June 2018	229.3	13.0	6.1	0.9	0.9	459.6	709.8

The assets within patent rights comprises the rights to Equidone® (which was launched in the USA during 2011, and has a carrying value of £0.3 million with a remaining amortisation period of 2 years), and the in-licensed products within Canada (acquired in 2016 with a carrying value of £0.3 million and has a remaining amortisation period of 7.5 years). During the year, £0.4 million was added to patent rights within EU Pharmaceuticals Segment from the acquisition of Venco.

£0.8 million of the marketing authorisations relate to the Vativex® range of products. Ownership of the marketing authorisations rests with the Group in perpetuity. There are not believed to be any legal, regulatory or contractual provisions that limit their useful lives. Vativex is an established range of products which are relatively simple in nature and there are a limited number of players in the market. Accordingly, the Directors believe that it is appropriate that the marketing authorisations are treated as having indefinite lives for accounting purposes.

Goodwill is allocated across cash generating units that are expected to benefit from that business combination. Key assumptions made in this respect are given in note 14.

During the year, the contingent consideration in relation to development milestones and sales milestones of the acquired intangibles has been remeasured and to the extent possible remeasured against the intangibles.

## 12. Intangible Assets continued

In accordance with the disclosure requirements of IAS 38 'Intangible Assets', the components of acquired intangibles are summarised below:

	Commercial relationships £m	Pharmacological process £m	Brand £m	Capitalised development costs £m	Product rights £m	Total £m
<b>Cost</b>						
At 1 July 2017	1.7	50.5	13.3	114.5	229.4	409.4
Additions	–	–	–	–	8.7	8.7
Acquisitions through business combinations	4.9	–	2.4	255.0	–	262.3
Remeasurement	–	–	–	–	(3.1)	(3.1)
Foreign exchange adjustments	0.1	(0.9)	(0.3)	(2.2)	–	(3.3)
At 30 June 2018 and 1 July 2018	6.7	49.6	15.4	367.3	235.0	674.0
Additions	–	–	–	–	7.9	7.9
Reclassification*	–	–	–	2.9	(2.9)	–
Acquisitions through business combinations	–	–	0.6	17.6	–	18.2
Remeasurement	–	–	–	–	(1.5)	(1.5)
Foreign exchange adjustments	0.1	1.8	0.3	5.8	3.2	11.2
<b>At 30 June 2019</b>	<b>6.8</b>	<b>51.4</b>	<b>16.3</b>	<b>393.6</b>	<b>241.7</b>	<b>709.8</b>
<b>Accumulated Amortisation</b>						
At 1 July 2017	0.6	12.2	2.3	20.4	124.3	159.8
Charge for the year	0.7	8.0	2.1	26.9	16.4	54.1
Foreign exchange adjustments	–	–	–	0.1	0.4	0.5
At 30 June 2018 and 1 July 2018	1.3	20.2	4.4	47.4	141.1	214.4
Charge for the year	2.3	6.8	1.6	55.0	11.1	76.8
Reclassification*	–	–	–	0.2	(0.2)	–
Foreign exchange adjustments	0.1	0.9	0.1	1.7	1.9	4.7
<b>At 30 June 2019</b>	<b>3.7</b>	<b>27.9</b>	<b>6.1</b>	<b>104.3</b>	<b>153.9</b>	<b>295.9</b>
<b>Net book value</b>						
<b>At 30 June 2019</b>	<b>3.1</b>	<b>23.5</b>	<b>10.2</b>	<b>289.3</b>	<b>87.8</b>	<b>413.9</b>
At 30 June 2018	5.4	29.4	11.0	319.9	93.9	459.6

\* Apex IPR&D acquired October 2016 has been reclassified from Patent rights to Capitalised development costs.

# Notes to the Consolidated Financial Statements

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## 12. Intangible Assets continued

The table below provides further detail on the acquired intangibles and their remaining amortisation period.

Significant assets	Description	Carrying value £m	Sub-Total carrying value £m	Remaining amortisation period
Intangible assets arising from the acquisition of Dermapet	Product, marketing and distribution rights	20.4	20.4	6 ½ years
Intangible assets arising from the acquisition of Genetrix	Product, marketing and distribution rights	0.8	0.8	1 ½ years
Intangible assets arising from the acquisition of Eurovet	Technology, product, marketing and distribution rights	25.3	25.3	3 years
Intangible assets arising from the acquisition of PSPC Inc	Product, marketing and distribution rights	3.2	3.2	5 years
Intangible asset acquired from Pharmaderm Animal Health	Marketing and distribution rights	0.5	0.5	3 years
HY-50 intangible asset acquired from Bexinc Limited	Marketing and distribution rights	1.3	1.3	2 ½ years
Intangible assets arising from the acquisition of Genera	Product, brand, technology, marketing and distribution rights	0.8 0.4 7.4		3 ½ years 6 ½ years 11 ½ years
			8.6	Genera – total
Intangible assets arising from the acquisition of Putney	Product, brand, technology, pharmacological process, marketing and distribution rights	6.8 23.9 46.8		7 years 7 years 9 years
			77.5	Putney – total
Intangible asset arising from the acquisition of Apex	Product and technology	13.4		14 years
		2.1		11 years
		0.2		2 years
			15.7	Apex – total
Intangible asset related to Animal Ethics	Marketing and distribution rights	27.3	27.3	10 years
Intangible asset related to a US dental licensing agreement	Marketing and distribution rights	0.6	0.6	8 years
Intangible asset related to Bioveta	Marketing and distribution rights	2.1	2.1	10 years
Intangible asset related to an injectable solution licensing agreement	Marketing and distribution rights	6.1	6.1	10 years
Intangible assets arising from the acquisition of RxVet	Brand	0.1	0.1	½ year
Intangible assets arising from the acquisition of AST Farma and Le Vet	Product, brand, technology, marketing and distribution rights	72.1 108.3 15.3 1.4 1.8		8 ½ years 7 ½ years 9 years 1 ½ years 3 ½ years
			198.9	AST Farma and Le Vet – total
Intangible asset related to Premune	Product	0.1	0.1	2 years
Intangible assets related to an injectable solution licensing agreement	Marketing and distribution rights	7.9	7.9	15 years
Intangible assets arising from the acquisition of Caledonian	Product, brand, technology, marketing and distribution rights	3.9	3.9	4 ½ years
Intangible assets arising from the acquisition of Venco	Product, brand, technology, marketing and distribution rights	11.9 0.7 0.6 0.4		9 ½ years 4 ½ years 7 ½ years 1 ½ years
			13.6	Venco – total
			413.9	

## 13. Property, Plant and Equipment

	Freehold land and buildings £m	Short leasehold buildings £m	Motor vehicles £m	Plant and fixtures £m	Total £m
<b>Cost</b>					
At 1 July 2017	39.2	4.4	0.4	36.4	80.4
Additions	0.1	–	0.1	5.2	5.4
Acquired through business combinations	–	–	–	0.1	0.1
Disposals	–	(0.2)	–	(1.7)	(1.9)
Foreign exchange adjustments	0.1	–	–	–	0.1
At 30 June 2018 and 1 July 2018	39.4	4.2	0.5	40.0	84.1
Additions	2.5	–	–	9.0	11.5
Acquired through business combinations	4.5	–	0.2	2.0	6.7
Disposals	–	–	(0.1)	(2.1)	(2.2)
Foreign exchange adjustments	0.4	–	(0.2)	0.5	0.7
<b>At 30 June 2019</b>	<b>46.8</b>	<b>4.2</b>	<b>0.4</b>	<b>49.4</b>	<b>100.8</b>
<b>Accumulated Depreciation</b>					
At 1 July 2017	12.1	2.7	0.2	20.2	35.2
Charge for the year	1.2	0.3	0.1	3.2	4.8
Disposals	(0.2)	(0.3)	–	(1.4)	(1.9)
Foreign exchange adjustments	0.1	–	–	0.6	0.7
At 30 June 2018 and 1 July 2018	13.2	2.7	0.3	22.6	38.8
Charge for the year	1.2	0.3	0.1	4.1	5.7
Disposals	–	–	(0.1)	(2.1)	(2.2)
Foreign exchange adjustments	0.1	–	(0.1)	0.1	0.1
<b>At 30 June 2018</b>	<b>14.5</b>	<b>3.0</b>	<b>0.2</b>	<b>24.7</b>	<b>42.4</b>
<b>Net book value</b>					
<b>At 30 June 2019</b>	<b>32.3</b>	<b>1.2</b>	<b>0.2</b>	<b>24.7</b>	<b>58.4</b>
At 30 June 2018	26.2	1.5	0.2	17.4	45.3
				<b>2019</b>	2018
				<b>£m</b>	£m
Contracted capital commitments				<b>0.8</b>	1.5
Assets in the course of construction included above				<b>4.7</b>	0.2

# Notes to the Consolidated Financial Statements

continued

## 14. Impairment Reviews

Goodwill and indefinite life assets are tested for impairment annually, or more frequently if there are indications that amounts might be impaired. The impairment tests involve determining the recoverable amount of the relevant asset or cash generating unit, which corresponds to the higher of the fair value less costs to sell or its value in use. In the Group's case, the recoverable amount is based on the value in use calculations.

Intangible assets that are being amortised are reviewed for indicators of impairment annually, and in the event that impairment indicators exist, a full value in use calculation is performed. A review was performed to ensure that the carrying value of individual products capitalised are reflective of the projected cash flow generation and that no impairment indicators exist. No impairment was recognised on these assets.

Value in use calculations are performed by forecasting the future cash flows attributable to the asset being tested (or the relevant cash generating unit in respect of goodwill). The forecast cash flows are discounted at an appropriate rate as described below.

The cash flow forecasts are derived as follows:

- The latest available Board approved business plan for the first two years;
- The business plan is extrapolated by applying a growth rate for years three, four and five of 3% (2018: 3%) for Dechra Veterinary Products EU and Dechra Veterinary Products NA and 11% (2018: 3%) for Dechra Veterinary Products International; and
- Thereafter, a terminal value is calculated based on year five cash flows, and assuming a long term growth rate of 0% (2018: 0%) for Dechra Veterinary Products EU and Dechra Veterinary Products NA and 1.5% (2018: 0%) for Dechra Veterinary Products International.

The projections covered a period of five years as we believe this to be the most appropriate timescale over which to review and consider annual performances before applying a fixed terminal value.

Value in use calculations were performed at 30 June 2019 for the following assets:

	2019			
	Goodwill carrying value £m	Indefinite life assets carrying value £m	Total value £m	Pre-tax discount rate %
<b>Cash generating unit</b>				
Dechra Veterinary Products EU	169.4	0.9	170.3	12.4
Dechra Veterinary Products NA	54.9	–	54.9	12.5
Dechra Veterinary Products International	27.8	–	27.8	17.1
	<b>252.1</b>	<b>0.9</b>	<b>253.0</b>	

	2018			
	Goodwill carrying value £m	Indefinite life assets carrying value £m	Total value £m	Pre-tax discount rate %
<b>Cash generating unit</b>				
Dechra Veterinary Products EU	167.5	0.9	168.4	11.6
Dechra Veterinary Products NA	52.9	–	52.9	11.2
Dechra Veterinary Products International	8.9	–	8.9	14.7
	<b>229.3</b>	<b>0.9</b>	<b>230.2</b>	

## 14. Impairment Reviews continued

### Key Assumptions

The key assumptions implicit in the impairment review are those regarding the Board approved business plan, medium and long term growth rates and the discount rate.

The Board approved business plan incorporates a number of key input assumptions, most notably regarding market growth expectations, the competitive and legislative environments, lifecycle management, selling prices, product margins and direct costs. The assumptions applied in the business plan are based on past experience and the Group's expectation of future market changes and, where applicable, are consistent with external sources of information.

The medium and long term growth rates used (as set out above) reflect a cautious estimate of expected future growth in the Group's markets, are no higher than those implicit in the Group's strategic planning process, and do not exceed the long term growth rates in the countries in which each CGU operates.

The pre-tax discount rates have been estimated using a market participant rate, which is adjusted after consideration of market information, and risk adjusted dependent upon the specific circumstances of each asset or cash generating unit.

### Sensitivity Analysis

We have performed sensitivity analyses around the key assumptions and have concluded that no reasonable changes in key assumptions would cause the recoverable amount to be less than the carrying value.

## 15. Deferred Taxes

### (a) Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Intangible assets	-	-	(80.8)	(98.4)	(80.8)	(98.4)
Property, plant and equipment	-	-	(5.2)	(3.4)	(5.2)	(3.4)
Inventories	1.1	0.9	-	-	1.1	0.9
Receivables/payables	1.4	1.2	-	-	1.4	1.2
Share-based payments	1.0	2.4	-	-	1.0	2.4
Losses	1.6	2.1	-	-	1.6	2.1
R&D tax credits	-	1.2	-	-	-	1.2
Employee benefit obligations	0.3	1.0	-	-	0.3	1.0
	<b>5.4</b>	<b>8.8</b>	<b>(86.0)</b>	<b>(101.8)</b>	<b>(80.6)</b>	<b>(93.0)</b>

### (b) Unrecognised Deferred Tax

The aggregate amount of gross temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised is £1.8 million (2018: £1.8 million). The estimated unprovided deferred tax liability in relation to these temporary differences is £0.1 million (2018: £0.1 million).

Deferred tax assets in relation to losses amounting to £0.7 million (2018: £0.9 million) have not been recognised due to uncertainty over their recoverability. Included within unrecognised losses are £0.7 million of losses which expire prior to 2030. Other losses may be carried forward indefinitely.

# Notes to the Consolidated Financial Statements

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## 15. Deferred Taxes continued

### (c) Movements during the Year

	Balance at 30 June 2017 £m	Recognised in income £m	Acquired through business combinations £m	Recognised in equity/OCI £m	Foreign exchange adjustments £m	Balance at 30 June 2018 £m
Intangible assets	(61.3)	26.6	(64.6)	–	0.9	(98.4)
Property, plant and equipment	(3.8)	0.4	–	–	–	(3.4)
Inventories	0.8	2.0	(2.0)	–	0.1	0.9
Receivables/payables	3.5	(2.3)	–	–	–	1.2
Share-based payments	1.6	(0.1)	–	0.9	–	2.4
Losses	8.4	(6.1)	–	–	(0.2)	2.1
R&D tax credits	1.3	0.1	–	–	(0.2)	1.2
Employee benefit obligations	1.0	–	–	–	–	1.0
	(48.5)	20.6	(66.6)	0.9	0.6	(93.0)

	Restated* Balance at 30 June 2018 £m	Recognised in income £m	Acquired through business combinations £m	Recognised in equity/OCI £m	Foreign exchange adjustments £m	Balance at 30 June 2019 £m
Intangible assets	(98.4)	25.6	(5.1)	–	(2.9)	(80.8)
Property, plant and equipment	(3.4)	(0.3)	(1.4)	–	(0.1)	(5.2)
Inventories	0.9	1.0	(0.7)	–	(0.1)	1.1
Receivables/payables	2.8	(1.6)	–	–	0.2	1.4
Share-based payments	2.4	(0.2)	–	(1.2)	–	1.0
Losses	2.1	(0.5)	–	–	–	1.6
R&D tax credits	1.2	(1.1)	–	–	(0.1)	–
Employee benefit obligations	1.0	(0.7)	–	–	–	0.3
	(91.4)	22.2	(7.2)	(1.2)	(3.0)	(80.6)

\* The receivables/payables deferred tax asset at 1 July 2019 has been restated as detailed in note 36 Changes to Accounting Policies.

Deferred tax assets and liabilities are analysed in the statement of financial position after offset, to the extent there is a legally enforceable right, of balances within countries as follows:

	2019 £m	2018 £m
Deferred tax assets	0.9	3.8
Deferred tax liabilities	(81.5)	(96.8)
	(80.6)	(93.0)

## 16. Inventories

	2019 £m	2018 £m
Raw materials and consumables	25.2	18.0
Work in progress	8.8	6.1
Finished goods and goods for resale	70.0	62.5
	104.0	86.6

Included in finished goods and goods for resale £nil (2018: £5.2 million) of inventory held at net realisable value having been acquired through business combinations.

## 17. Trade and Other Receivables

	2019 £m	2018 £m
Trade receivables	91.1	76.0
Other receivables	4.9	3.0
Prepayments and accrued income	3.9	2.6
	99.9	81.6



**18. Cash and Cash Equivalents**

	2019	2018
	£m	£m
Cash at bank and in hand	80.3	79.7

**19. Trade and Other Payables**

	2019	2018
	£m	£m
Trade payables	31.9	33.0
Other payables	1.9	12.3
Other taxation and social security	5.1	4.4
Accruals and deferred income	56.6	26.0
	95.5	75.7

**20. Current Tax Liabilities**

	2019	2018
	£m	£m
Corporation tax receivable	7.9	–
Corporation tax payable	(16.3)	(5.9)
	(8.4)	(5.9)

**21. Borrowings**

	2019	2018
	£m	£m
Current liabilities:		
Bank loans	1.2	1.2
	1.2	1.2
Non-current liabilities:		
Bank loans	309.6	293.3
Arrangement fees netted off	(2.7)	(3.4)
	306.9	289.9
Total borrowings	308.1	291.1

At 30 June 2019, £128.8 million was drawn against the £235.0 million Revolving Credit Facility maturing 25 July 2024. The facility is not secured on any specific assets of the Group but is supported by a joint and several cross guarantee structure. Interest is charged on this facility at a minimum of 1.30% over LIBOR and a maximum of 2.20% over LIBOR, dependent upon the Leverage (the ratio of Total Net Debt to Adjusted EBITDA) of the Group. As at 30 June 2019, interest being charged on this facility is 1.70% above LIBOR. All covenants were met during the year ended 30 June 2019.

At 30 June 2019, £179.3 million was drawn against the £350.0 million Term Loan Facility maturing 31 December 2020. The facility is not secured on any specific assets of the Group but is supported by a joint and several cross guarantee structure. Interest is charged on this facility at a minimum of 1.10% over LIBOR and a maximum of 2.00% over LIBOR, dependent upon the Leverage (the ratio of Total Net Debt to Adjusted EBITDA) of the Group. As at 30 June 2019, interest being charged on this facility is 1.50% above LIBOR. All covenants were met during the year ended 30 June 2019. The availability period of the Term Loan Facility expires on 31 December 2020.

Arrangement fees of £0.2 million were incurred on the two facilities during the year, these being released to the income statement over the life of the facility.

No interest has been capitalised during the year (2018: £nil).

Genera also has borrowing facilities of £5.8 million, of which £2.7 million was drawn down at 30 June 2019. Interest is fixed at 3.1%.

The maturity of the bank loans and overdrafts is as follows:

	2019	2018
	£m	£m
Payable:		
Within one year	1.2	1.2
Between one and two years	180.5	1.3
Between two and five years	129.1	292.0
	310.8	294.5

Further information on the interest profile of borrowings is shown in note 24.

# Notes to the Consolidated Financial Statements

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## 22. Provisions

	Deferred Rent £m	Provision for PPE grant £m	Environmental Health & Safety £m	Total £m
At start of period	(0.5)	(1.8)	(0.5)	<b>(2.8)</b>
Provision recognised	–	–	–	–
Provision utilised	–	0.5	0.2	<b>0.7</b>
Foreign exchange differences	–	0.1	–	<b>0.1</b>
At end of period	(0.5)	(1.2)	(0.3)	<b>(2.0)</b>

The Group has received advanced payment for rental income on its facilities in Portland. This has been recognised at amortised cost and is being utilised over the period of the rental contract.

Genera has received advanced funding (PPE grant) for the refurbishment of the manufacturing facility for a third party manufacturing contract. The funding has been recognised at amortised cost and is being utilised over the life of the property, plant and equipment.

On the acquisition of Genera, the Group established a fair value provision to address existing legal and environmental compliance. A provision is recognised at the present value of the costs to be incurred for the remediation of the manufacturing site.

## 23. Employee Benefit Obligations

In the prior year and for the period to 31 December 2018 the Group sponsored a defined benefit pension scheme in the Netherlands. This was a funded career average pay arrangement, where pensionable salary was subject to a cap and was financed through an insurance contract. The scheme ceased on 31 December 2018.

From 1 January 2019 the employee pension benefit in the Netherlands is being provided through contributions to a new defined contribution scheme and the Group's obligations under the previous pension arrangement ceased. Accordingly the Group ceased to recognise assets and liabilities in respect of the previous arrangement from 1 January 2019 and recognised a curtailment gain of £3.5 million through the income statement.

The other defined benefit pension arrangements operated by the Company are unfunded: Jubilee awards of £0.1 million (2018: £0.1 million) for employees in the Netherlands are recognised within other payables in the Consolidated Statement of Financial Position as at 30 June 2019.

The pension cost relating to the defined benefit pension arrangement in the Netherlands was assessed in accordance with the advice of an independent qualified actuary using the projected unit method.

The major actuarial assumptions used by the actuary were:

	31 December 2018	30 June 2018
Discount rate	<b>1.90%</b>	1.90%
Inflation assumption	<b>1.90%</b>	1.90%
Salary growth	<b>2.40%</b>	2.40%
Rate of increase in accrued pensions of active members	<b>0.34%</b>	0.34%
Rate of increase in pensions in payment	<b>0.00%</b>	0.00%
Rate of increase in pensions in deferment	<b>0.00%</b>	0.00%

In valuing the liabilities of the pension scheme at 31 December 2018 and 30 June 2018, mortality assumptions were made as indicated below.

The mortality assumption follows the Prognosetafel AG2016 (2018: Prognosetafel AG2016) mortality tables with an experience adjustment in line with the ES-P2 tables as published by the Dutch Alliance of Insurers.

Assumed life expectations on retirement age	Male	Female
Retiring today (age 68)	18.7	20.6
Retiring in 20 years (age 48)	20.8	22.7

The assumptions used by the Group are the best estimates chosen by the Directors from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

	2019 £m	2018 £m
Present value of funded defined benefit obligations	–	(20.3)
Fair value of scheme assets	–	17.3
<b>Net pension scheme deficit</b>	<b>–</b>	<b>(3.0)</b>

## 23. Employee Benefit Obligations continued

### Movements in Present Value of Defined Benefit Obligations

	2019 £m	2018 £m
Defined benefit obligation at beginning of the period	20.3	17.9
Service cost	0.6	1.2
Interest cost	0.2	0.4
Employee contributions	0.1	0.2
Benefits paid	-	-
Remeasurements:		
– Loss from change in financial assumptions	0.1	0.6
– Gain from change in demographic assumptions	(0.3)	-
– Experience losses	-	0.6
Settlement	(17.5)	-
Curtailement	(3.5)	(0.6)
Foreign exchange difference on translation	-	-
<b>Defined benefit obligations at end of the period</b>	<b>-</b>	<b>20.3</b>

### Movements in Fair Value of Scheme Assets

	2019 £m	2018 £m
Fair value of scheme assets at beginning of the period	17.3	14.9
Interest income	0.2	0.3
Additional charges	(0.1)	(0.1)
Employer contributions	0.3	0.7
Employee contributions	0.1	0.2
Benefits paid	-	-
Remeasurements:		
– Premium adjustment	0.1	0.3
– Return on plan assets	(0.3)	0.9
Settlement	(17.5)	-
Foreign exchange difference on translation	(0.1)	0.1
<b>Fair value of scheme assets at end of the period</b>	<b>-</b>	<b>17.3</b>

### Analysis of the Amount (Credited)/Charged to the Income Statement

	2019 £m	2018 £m
Service cost	0.6	1.2
Net interest cost	-	0.1
Gain on curtailment of pension scheme	(3.5)	(0.6)
Additional charges	0.1	0.1
<b>Net pension (credit)/expense</b>	<b>(2.8)</b>	<b>0.8</b>

### Cumulative Analysis of the Amount Charged to the Other Statement of Consolidated Income

	2019 £m	2018 £m
Amounts charged in previous periods	0.5	0.5
Actuarial (gain)/loss on defined benefit pension scheme	-	-
<b>Net pension expense</b>	<b>0.5</b>	<b>0.5</b>

# Notes to the Consolidated Financial Statements

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## 23. Employee Benefit Obligations continued

### Scheme Assets

The Group's defined benefit pension scheme in the Netherlands was financed through an insurance contract. Under this contract, a market price for the assets in respect of this insurance contract was not available. In accordance with IAS 19 for such insurance policies, an asset value was calculated by discounting expected future cash flows. The discount rate used for this calculation reflected the risk associated with the scheme assets and the maturity or expected disposal date of those assets.

The fair value of the scheme's assets was as follows:

	2019 £m	2018 £m
Total fair value of assets	-	17.3
Actual return on scheme assets	-	1.5
Discount rate used to value assets	-	1.90%

The long term rate of return on pension plan assets was determined by aggregating the expected return for each asset class over the strategic asset allocation as at the year end. This rate of return was then adjusted for any expected profit sharing based on market related returns on notional loans.

### History of Amounts in the Current Period

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Present value of funded defined benefit obligations	-	(20.3)	(17.9)	(17.4)	(7.2)
Fair value of scheme assets	-	17.3	14.9	13.6	5.9
Deficit in the scheme	-	(3.0)	(3.0)	(3.8)	(1.3)

## 24. Financial Instruments and Related Disclosures

The Group's financial instruments comprise cash deposits, bank loans and overdrafts, finance lease obligations, derivatives used for hedging purposes and trade receivables and payables.

### Treasury Policy

The Group reports in Sterling and pays dividends out of Sterling profits. The role of the Group's treasury activities is to manage and monitor the Group's external and internal funding requirements and change to financing risks in support of the Group's corporate activities.

The Board of Directors has approved a policy which governs all treasury activities.

The Group uses a variety of financial instruments, including derivatives, to finance its operations and to manage market risks from these operations. Derivatives, principally comprising forward foreign currency contracts, foreign currency options and interest rate swaps, are used to hedge against changes in foreign currencies and interest rates. Hedges of net investments in foreign operations are also used in the management of foreign currency risk.

The Group does not hold or issue derivative financial instruments for speculative purposes and the Group's treasury policy specifically prohibits such activity. All transactions in financial instruments are undertaken to manage the risks arising from underlying business activities, not for speculation.

During the year the Group has implemented physical cash pooling. This has resulted in increased cash being held in Dechra Pharmaceuticals PLC as the Master Account Holder.

## 24. Financial Instruments and Related Disclosures continued

### Capital Management

The capital structure of the Group consists of net borrowings and shareholders' equity. At 30 June 2019, net borrowing was £227.8 million (2018: net borrowing was £211.4 million), whilst shareholders' equity was £509.1 million (2018: £505.0 million).

The Group maintains a strong capital base so as to maintain investors', creditors' and market confidence and to sustain future development of the business.

The Group manages its capital structure to maintain a prudent balance between debt and equity that allows sufficient headroom to finance the Group's product development programme and appropriate acquisitions. There were no changes in the Group's approach to capital management during the year.

The Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades. The Group's operating subsidiaries are generally cash generative and none are subject to externally imposed capital requirements.

There are financial covenants associated with the Group's borrowings, which are interest cover, and net debt to underlying EBITDA. The Group complied with these covenants in 2019 and 2018.

Operating cash flow is used to fund investment in the development of new products as well as to make the routine outflows of capital expenditure, tax, dividends and repayment of maturing debt.

The Group's policy is to maintain borrowing facilities centrally which are then used to finance the Group's operating subsidiaries, either by way of equity investments or loans.

### Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- liquidity risk
- market risk
- credit risk

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.

### Liquidity Risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet liabilities as they fall due. Cash flows and covenants of the Group are monitored half-yearly. These are reviewed to ensure sufficient financial headroom exists for at least a 12 month period.

The Group manages its funding requirements through the following lines of credit:

- £235.0 million multi-currency revolving credit facility, with an accordion of £125.0 million;
- £350.0 million Term Loan facility; and
- £5.8 million bank loans;

The Group's revised borrowing facilities at 30 June 2019 are detailed in note 21.

### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates, will affect the Group's income or the value of its holding of financial instruments.

### Interest Rate Risk Management

The majority of the Group's borrowings bear interest at floating rates linked to base rate or LIBOR and are consequently exposed to cash flow interest rate risk.

### Foreign Exchange Risk Management

Foreign currency transaction exposure arising on normal trade flows is not hedged. The Group matches receipts and payments in the relevant foreign currencies as far as possible. To this end, bank accounts are maintained for all the major currencies in which the Group trades. Translational exposure in converting the income statements of foreign subsidiaries into the Group's presentational currency of Sterling is not hedged.

The Group hedges selectively expected currency cash flows outside normal trading activities. The Group has designated a US Dollar loan of \$97.0 million as a net investment hedge of US Dollar net assets.

# Notes to the Consolidated Financial Statements

continued

## 24. Financial Instruments and Related Disclosures continued

### Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group considers its maximum credit risk to be £96.0 million (2018: £79.0 million), which is the total carrying value of the Group's financial assets excluding cash and cash equivalents.

Cash is only deposited with highly rated banks in line with our treasury policy.

The Group offers trade credit to customers in the normal course of business. Trade and bank references are obtained prior to extending credit.

Our principal customers are pharmaceutical wholesalers and distributors. The failure of a large wholesaler could have a material adverse impact on the Group's financial results.

The largest customer of the Group sits within the NA Pharmaceuticals segment and accounted for approximately 22.0% of gross trade receivables at 30 June 2019 (2018: 21.2%). This customer accounted for 20.4% (2018: 19.8%) of total Group revenues. One other customer accounted for more than 10% of total Group revenues (2018: one).

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

### Fair Value of Financial Assets and Liabilities

The following table presents the carrying amounts and the fair values of the Group's financial assets and liabilities at 30 June 2019 and 30 June 2018. The following assumptions were used to estimate the fair values:

- Cash and cash equivalents – approximated to the carrying amount.
- Derivatives (Interest rate swaps) – based upon the amount that the Group would receive or pay to terminate the instrument at the balance sheet date, being the market price of the instrument.
- Receivables and payables – approximated to the carrying amount.
- Bank loans and overdrafts – based upon discounted cash flows using discount rates based upon facility rates renegotiated at the year end.

### Analysis of Financial Instruments

The financial instruments of the Group measured at amortised cost are analysed as follows:

	2019		2018	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
<b>Financial assets</b>				
Cash and cash equivalents	80.3	80.3	79.7	79.7
	80.3	80.3	79.7	79.7
Financial assets measured at amortised cost				
– trade receivables	91.1	91.1	76.0	76.0
– other receivables	4.9	4.9	3.0	3.0
	96.0	96.0	79.0	79.0
Total financial assets	176.3	176.3	158.7	158.7
<b>Financial liabilities</b>				
Bank loans and overdrafts	(310.8)	(310.8)	(294.5)	(294.5)
Trade payables	(31.9)	(31.9)	(33.0)	(33.0)
Other payables	(1.9)	(1.9)	(12.3)	(12.3)
Accruals	(56.6)	(56.6)	(26.0)	(26.0)
Deferred and contingent consideration	(36.0)	(36.0)	(36.8)	(36.8)
Total financial liabilities	(437.2)	(437.2)	(402.6)	(402.6)
Net financial liabilities	(260.9)	(260.9)	(243.9)	(243.9)

## 24. Financial Instruments and Related Disclosures continued

### Fair Value Hierarchy

The table below analyses the Group's financial instruments carried at fair value, by valuation method. Where possible, quoted prices in active markets are used (Level 1). Where such prices are not available, the asset or liability is classified as Level 2, provided all significant inputs to the valuation model used are based on observable market data. If one or more of the significant inputs to the valuation model is not based on observable market data, the instrument is classified as Level 3. There were no transfers between Level 1 and Level 2 during the year.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>30 June 2019</b>				
Financial instruments held at fair value through the profit and loss	-	-	-	-
Derivative financial liabilities	-	-	-	-
Deferred and contingent consideration	-	-	(36.0)	(36.0)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>(36.0)</b>	<b>(36.0)</b>
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>30 June 2018</b>				
Available for sale financial instruments	-	-	-	-
Derivative financial liabilities	-	-	-	-
Deferred and contingent consideration	-	-	(36.8)	(36.8)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>(36.8)</b>	<b>(36.8)</b>

Deferred and contingent consideration is recorded at fair value based on risk-adjusted future cash flows discounted using appropriate interest rates, which are reviewed annually. The inputs relating to future cash flows will include cash flows relating to the relevant contractual arrangements. There would be no material effect on the amounts stated from any reasonably probable change in such inputs at 30 June 2019. Refer to note 4 for amounts recognised in the Consolidated Income Statement in the year.

### Credit Risk

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics, and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 30 June 2019 and the corresponding historical losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The loss allowance provision as at 30 June 2019 is determined as follows:

	Not due £m	Past due (up to one month) £m	Past due (one to three months) £m	Past due (over three months) £m	Total £m
<b>30 June 2019</b>					
Expected loss rate	0.03%	0.03%	0.03%	75.0%	
Gross carrying amount - trade receivables	85.8	4.2	1.3	0.9	92.2
Loss allowance	-	-	-	0.2	0.2
Specific loss allowance	0.2	-	-	0.7	0.9
<b>Total loss allowance</b>	<b>0.2</b>	<b>-</b>	<b>-</b>	<b>0.9</b>	<b>1.1</b>

The loss allowance provisions for trade receivables as at 30 June 2018 is not materially different to the balance reported and therefore no restatement is necessary through the opening retained earnings for 1 July 2018.

# Notes to the Consolidated Financial Statements

continued

## 24. Financial Instruments and Related Disclosures continued

### Credit Risk continued

The movement in the loss allowances for trade debtors at 30 June 2019 reconcile to the opening loss allowances as follows:

	2019 £m	2018 £m
At start of period	0.6	3.2
Impairment provision recognised/(released)	0.6	(0.1)
Impairment provision utilised	(0.1)	(2.5)
At end of period	1.1	0.6

### Liquidity Risk – Contracted Cash Flows of Financial Liabilities

The following table shows the cash flow commitments of the Group in respect of financial liabilities at 30 June 2019 and 30 June 2018. Where interest is at floating rates, the future interest payments have been estimated using current interest rates:

	Deferred and contingent consideration £m	Bank loans and overdrafts £m	Trade and other payables £m	Total £m
<b>At 30 June 2019</b>				
Carrying value	(36.0)	(308.1)	(33.8)	(377.9)
Arrangement fees netted off	–	(2.7)	–	(2.7)
Future interest	(26.4)	(1.9)	–	(28.3)
<b>Total committed cash flow</b>	<b>(62.4)</b>	<b>(312.7)</b>	<b>(33.8)</b>	<b>(408.9)</b>
Payable:				
Within 6 months	(2.9)	(2.6)	(33.8)	(39.3)
Between 6 months and 1 year	(2.7)	(0.6)	–	(3.3)
Between 1 and 2 years	(10.7)	(180.7)	–	(191.4)
Between 2 and 3 years	(9.3)	–	–	(9.3)
Between 3 and 4 years	(3.2)	–	–	(3.2)
Between 4 and 5 years	(3.8)	–	–	(3.8)
Over 5 years	(29.8)	(128.8)	–	(158.6)
	<b>(62.4)</b>	<b>(312.7)</b>	<b>(33.8)</b>	<b>(408.9)</b>
<b>At 30 June 2018</b>				
Carrying value	(36.8)	(291.1)	(45.3)	(373.2)
Arrangement fees netted off	–	(3.4)	–	(3.4)
Future interest	(25.2)	(1.4)	–	(26.6)
<b>Total committed cash flow</b>	<b>(62.0)</b>	<b>(295.9)</b>	<b>(45.3)</b>	<b>(403.2)</b>
Payable:				
Within 6 months	(5.0)	(1.9)	(45.3)	(52.2)
Between 6 months and 1 year	(4.2)	(0.6)	–	(4.8)
Between 1 and 2 years	(4.7)	(1.3)	–	(6.0)
Between 2 and 3 years	(9.4)	(134.3)	–	(143.7)
Between 3 and 4 years	(3.0)	–	–	(3.0)
Between 4 and 5 years	(3.9)	(157.8)	–	(161.7)
Over 5 years	(31.8)	–	–	(31.8)
	<b>(62.0)</b>	<b>(295.9)</b>	<b>(45.3)</b>	<b>(403.2)</b>



## 24. Financial Instruments and Related Disclosures continued

### Foreign Currency Exposure

The Sterling equivalents of financial assets and liabilities denominated in foreign currencies at 30 June 2019 and 30 June 2018 were:

	Australian Dollar £m	Danish Krone £m	Euro £m	US Dollar £m	Other £m
<b>At 30 June 2019</b>					
<b>Financial assets</b>					
Trade receivables	-	-	7.8	0.5	1.6
Other receivables	-	-	0.1	-	-
Cash balances	0.6	-	31.7	15.2	15.7
	0.6	-	39.6	15.7	17.3
<b>Financial liabilities</b>					
Bank loans and overdrafts	-	(2.2)	(2.7)	(92.2)	-
Trade payables	-	-	(2.7)	(0.4)	-
Other payables	-	-	(0.7)	(0.3)	-
Deferred consideration	(21.9)	-	(6.7)	(6.6)	-
	(21.9)	(2.2)	(12.8)	(99.5)	-
Net balance sheet exposure	(21.3)	(2.2)	26.8	(83.8)	17.3
	Australian Dollar £m	Danish Krone £m	Euro £m	US Dollar £m	Other £m
<b>At 30 June 2018</b>					
<b>Financial assets</b>					
Trade receivables	-	1.6	3.9	1.1	0.1
Other receivables	-	-	-	0.4	0.2
Cash balances	0.8	1.3	1.5	10.3	4.0
	0.8	2.9	5.4	11.8	4.3
<b>Financial liabilities</b>					
Bank loans and overdrafts	-	-	(7.6)	(107.9)	-
Trade payables	-	-	(5.8)	(0.2)	(0.3)
Deferred consideration	(24.1)	-	(2.0)	(9.6)	-
	(24.1)	-	(15.4)	(117.7)	(0.3)
Net balance sheet exposure	(23.3)	2.9	(10.0)	(105.9)	4.0

### Sensitivity Analysis

#### Interest Rate Risk

A 2.0% increase in annual interest rates compared to those ruling at 30 June 2019 would reduce Group profit before taxation and equity by £6.0 million (2018: £4.4 million).

#### Foreign Currency Risk

The Group has significant cash flows and net financial assets and liabilities in Danish Krone, US Dollar and Euro. The Group does not hedge either economic exposure or the translation exposure arising from the profits of non-Sterling businesses. The Group is hedging certain foreign currency translations through the designation of a US Dollar loan as a net investment hedge of US Dollar net assets.

During 2019, we have been exposed to transactional and translational currency risk. In addition to the transactional gain of £0.7 million being recognised in the Consolidated Income Statement, £3.8 million foreign exchange gain translational impact was recognised in the Consolidated Statement of Comprehensive Income in the year.

As part of our acquisition strategy, we seek to balance the foreign exchange debt and related interest payable risk associated with non-Sterling acquisitions with the underlying related income and assets in foreign currencies.

The following table shows the impact on the Group's profit after taxation of a 10% appreciation of Sterling against each of these currencies compared to the rates prevailing at the year end date. In this analysis, only financial assets and liabilities held on the balance sheet at the year end are assessed and are only considered sensitive to foreign exchange rates where they are not in the functional currency of the entity that holds them. There is no impact on other equity reserves.

	Profit after taxation £m
Danish Krone	(0.2)
US Dollar	-
Euro	3.7

# Notes to the Consolidated Financial Statements

continued

## 24. Financial Instruments and Related Disclosures continued

The sensitivities on the previous page represent the Directors' view of reasonably possible changes in each risk variable, not worst case scenarios or stress tests. The outputs from the sensitivity analysis are estimates of the impact of the effect of changes in market risks assuming that the specified changes occur at the year end and are applied to the risk exposures at that date. Accordingly, they show the impact on profitability and the balance sheet from such movements.

Actual results in the future may differ materially from these estimates due to commercial actions taken to mitigate any potential losses from such rate movements, to the interaction of more than one sensitivity occurring and to further developments in global financial markets. As such, this table should not be considered as a projection of likely future gains and losses.

## 25. Share Capital

	Ordinary shares of 1 pence each			
	2019		2018	
	£m	Number	£m	Number
Allotted, called up and fully paid at start of year	1.0	102,329,635	0.9	93,178,756
New shares issued	–	321,967	0.1	9,150,879
Allotted, called up and fully paid at end of year	1.0	102,651,602	1.0	102,329,635

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital. At the 2009 Annual General Meeting, the shareholders approved a resolution whereby all provisions relating to the Company's authorised share capital were removed from the Company's constitutional documents.

During the year, 321,967 new ordinary shares of 1 pence each (2018: 358,302 new ordinary shares of 1 pence each) were issued following the exercise of options under the Long Term Incentive Plan, the Approved, the Unapproved and the SAYE share option schemes. The consideration received was £1,239,011 (2018: £1,026,837). The holders of ordinary shares are entitled to receive dividends as declared or approved at General Meetings from time to time and are entitled to one vote per share at such meetings of the Company.

During the 2018 financial year, the Company issued 5,121,952 shares of 1 pence each by way of a placing at an issue price of 2050 pence per share on 30 January 2018. The placing generated net proceeds of £102.3 million after costs of £2.7 million. The placing price of 2050 pence per share was a 0.6% discount to the closing mid-market price per ordinary share on 24 January 2018, being the last practical date prior to the announcement of the placing. The Company issued 3,670,625 shares of 1 pence each to the sellers of AST Farma B.V. and Le Vet Beheer B.V. at an issue price of 2031 pence per share on 13 February 2018. The issue price of 2031 pence per share was the average of the middle market closing price of an ordinary share for the 30 days up to and including 24 January 2018 (being the last business day prior to the announcement of the acquisition), as derived from the Daily Official List.

## 26. Own Shares

	2019	2018
	£m	£m
At start of the period	0.4	0.7
Recycled to retained earnings	(0.4)	(0.3)
Purchase of own shares	–	–
At end of period	–	0.4

The own shares reserve represents the cost of shares in Dechra Pharmaceuticals PLC purchased in the market and held by the Group's Employee Benefit Trust to satisfy options under the Group's share options schemes (see note 28 for details). There were no ordinary shares held by the Employee Benefit Trust at 30 June 2019 (2018: 21,033).

## 27. Non-Controlling Interests

Following the acquisition of Genera in October 2015, the following non-controlling interest has been recorded in the Group financial statements:

	2019	2018
	£m	£m
At start of period	–	1.6
Additional consideration paid to non-controlling interests	–	(1.8)
Loss on acquisition of remaining non-controlling interests	–	0.2
Profit/(loss) for the period	–	–
Foreign exchange differences	–	–
At end of period	–	–

On 1 February 2018, the Group completed the buy-out of the remaining minority interest (4.87% of the voting shares) in Genera for HRK14.8 million (£1.8 million).

## 28. Share-based Payments

During the year, the Company operated the Unapproved Share Option Scheme, the Approved Share Option Scheme, the Long Term Incentive Plan and the Save As You Earn (SAYE) Share Option Scheme as described below:

### Unapproved and Approved Share Option Schemes

Under these Schemes, options are granted to certain Executives and employees of the Group (excluding Executive Directors) to purchase shares in the Company at a price fixed at the average market value over the three days prior to the date of grant. For the options to vest, there must be an increase in earnings per share of at least 12% above the growth in the UK Retail Prices Index (RPI) over a three year period. Once vested, options must be exercised within ten years of the date of grant.

### Long Term Incentive Plan 2008

Vesting is dependent on two performance conditions which must be satisfied over a three year performance period commencing from the start of the financial year within which the award is granted. 50% of the award will vest dependent on the Company's TSR performance against an appropriate comparator group. 50% of the award will vest subject to a performance condition based on annual earnings per share targets. Each of the TSR and EPS elements is subject to an additional ROCE underpin. Unless the Company's ROCE is 10% or more in the final year of the performance period, the award will lapse in full.

### SAYE Option Scheme

This scheme is open to all UK employees. Participants save a fixed amount of up to £500 per month for either three or five years and are then able to use these savings to buy shares in the Company at a price fixed at a 20% discount to the market value at the start of the savings period. Prior to 16 October 2012, participants were able to save for a seven year period. The SAYE options must ordinarily be exercised within six months of the completion of the relevant savings period. The exercise of these options is not subject to any performance criteria.

### Long Term Incentive Plan 2017

#### (a) Long Term Incentive Plan Awards

Vesting is dependent on three performance conditions which must be satisfied over a three year performance period commencing from the start of the financial year within which the award is granted. One third of each award is subject to a performance condition based on the Company's TSR performance over the performance period relative to an appropriate comparator over the performance period. Two thirds of each award is subject to a performance condition based on the growth in the Group's underlying diluted EPS over the performance period. Both the TSR element and the EPS element are subject to an additional ROCE performance measure. Unless the Group's ROCE is 10% or more in the final year of the performance period, the awards will lapse in full regardless of TSR and EPS performance. For the purposes of this note they are detailed under the heading Long Term Incentive Plan.

#### (b) Qualifying LTIP Awards

In addition, awards can be structured as Qualifying LTIP Awards, consisting of a Company Share Option Plan (CSOP) option and a nil-cost LTIP award, with the ordinary award scaled back at exercise to take account of any gain made on exercise of the CSOP option. The Qualifying LTIP Awards are granted to the UK Senior Executive Team which includes the UK resident Executive Directors. The performance conditions are the same as those attached to the awards granted under Approved Share Option Schemes and Long Term Incentives Plan 2017. For the purposes of this note they are detailed under the heading Long Term Incentive Plan (Qualifying LTIP Awards).

#### (c) Market Value Options

Market value options may be granted under the LTIP 2017 as tax-advantaged CSOP options and as Unapproved share options. These options are granted to certain Executives and employees of the Group (excluding Executive Directors) to purchase shares in the Company at a price fixed at the average market value over the three days prior to the date of grant. For the options to vest, there must be an increase in earnings per share of at least 12% above the growth in the UK Retail Prices Index (RPI) over a three year period. Once vested, options must be exercised within ten years of the date of grant. For the purposes of this note they are detailed under the headings Unapproved and Approved Share Option Schemes.

## Notes to the Consolidated Financial Statements

continued

## 28. Share-based Payments continued

Year ended 30 June 2019

	Exercise Period	Exercise price per share Pence	At 1 July 2018 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2019 Number
<b>Unapproved Share Option Scheme</b>							
10 October 2008†*	2011–2018	364.63	2,722	–	–	(2,722)	–
30 March 2009†*	2012–2019	381.15	8,709	(6,532)	–	(2,177)	–
1 March 2010†*	2013–2020	418.81	2,177	–	–	–	2,177
28 February 2011†*	2014–2021	461.97	3,221	(3,221)	–	–	–
10 September 2012†	2015–2022	541.00	13,000	(13,000)	–	–	–
16 September 2013†	2016–2023	721.00	6,765	(3,765)	–	–	3,000
11 September 2014†	2017–2024	763.00	14,341	(7,341)	–	–	7,000
15 September 2015†	2018–2025	975.00	41,255	(22,436)	–	164	18,983
18 March 2016†	2019–2026	1118.00	950	(475)	–	–	475
19 September 2016	2019–2026	1369.00	78,352	–	–	(6,000)	72,352
2 March 2018	2020–2028	2506.00	112,310	–	–	(13,671)	98,639
26 October 2018	2021–2028	2166.00	–	–	130,209	(10,173)	120,036
			283,802	(56,770)	130,209	(34,579)	322,662
<b>Approved Share Option Scheme</b>							
16 September 2013†	2016–2023	721.00	500	–	–	–	500
11 September 2014†	2017–2024	763.00	4,659	(2,659)	–	–	2,000
15 September 2015†	2018–2025	975.00	13,440	(12,485)	–	–	955
18 March 2016†	2019–2026	1118.00	5,050	(5,050)	–	–	–
19 September 2016	2019–2026	1369.00	9,148	–	–	–	9,148
2 March 2018	2021–2028	2506.00	9,190	–	–	(1,197)	7,993
26 October 2018	2021–2028	2166.00	–	–	4,291	(1,385)	2,906
			41,987	(20,194)	4,291	(2,582)	23,502
<b>Long Term Incentive Plan</b>							
15 September 2015	2018–2019	–	155,834	(155,834)	–	–	–
22 March 2016	2019	–	8,786	(5,857)	–	(2,929)	–
19 September 2016	2019–2020	–	149,463	–	–	(5,494)	143,969
10 October 2016	2019–2020	–	5,319	–	–	(5,319)	–
7 March 2017	2019	–	21,033	(21,033)	–	–	–
2 March 2018	2020–2021	–	28,240	–	–	–	28,240
26 October 2018	2021–2022	–	–	–	124,268	(25,589)	98,679
			368,675	(182,724)	124,268	(39,331)	270,888
<b>Long Term Incentive Plan (Qualifying LTIP Awards)</b>							
2 March 2018	2021–2028	2506.00	7,530	–	–	(2,394)	5,136
2 March 2018	2020–2021	–	74,281	–	–	(25,064)	49,217
26 October 2018	2021–2028	2166.00	–	–	1,350	–	1,350
26 October 2018	2021–2022	–	–	–	3,115	–	3,115
1 March 2019	2022–2029	2429.00	–	–	1,235	–	1,235
1 March 2019	2022–2023	–	–	–	4,940	–	4,940
			81,811	–	10,640	(27,458)	64,993
<b>SAYE Option Scheme</b>							
7 April 2014	2017–2019	552.00	20,101	(18,471)	–	(1,630)	–
13 October 2014	2017–2020	614.00	16,378	(431)	–	(2,528)	13,419
12 October 2015	2018–2021	792.00	79,761	(63,536)	–	(852)	15,373
13 October 2016	2019–2022	1095.00	42,484	(519)	–	(2,773)	39,192
12 October 2017	2020–2023	1646.00	69,548	(355)	–	(7,617)	61,576
29 November 2018	2021–2024	1974.00	–	–	34,527	(1,138)	33,389
			228,272	(83,312)	34,527	(16,538)	162,949
<b>Total</b>			1,004,547	(343,000)	303,935	(120,488)	844,994
Weighted average exercise price*			759.65p	360.10p	958.52p	772.84p	994.14p

\* Adjusted to reflect the bonus element of the Rights Issue — there has been no impact on the overall fair value of options in issue.

† Total share options exercisable at 30 June 2019 are 35,090.

## 28. Share-based Payments continued

Year ended 30 June 2018

	Exercise Period	Exercise price per share Pence	At 1 July 2017 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2018 Number
<b>Unapproved Share Option Scheme</b>							
2 April 2008†*	2011–2018	336.15	3,266	(3,266)	–	–	–
10 October 2008†*	2011–2018	364.63	2,722	–	–	–	2,722
30 March 2009†*	2012–2019	381.15	8,709	–	–	–	8,709
1 March 2010†*	2013–2020	418.81	2,177	–	–	–	2,177
28 February 2011†*	2014–2021	461.97	3,221	–	–	–	3,221
10 September 2012†	2015–2022	541.00	26,000	(13,000)	–	–	13,000
16 September 2013†	2016–2023	721.00	17,765	(11,000)	–	–	6,765
11 September 2014†	2017–2024	763.00	44,009	(25,668)	–	(4,000)	14,341
15 September 2015	2018–2025	975.00	48,060	(2,000)	–	(4,805)	41,255
18 March 2016	2019–2026	1118.00	950	–	–	–	950
19 September 2016	2019–2026	1369.00	88,852	–	–	(10,500)	78,352
2 March 2018	2020–2028	2506.00	–	–	114,113	(1,803)	112,310
			245,731	(54,934)	114,113	(21,108)	283,802
<b>Approved Share Option Scheme</b>							
2 April 2008†*	2011–2018	336.15	1,088	(1,088)	–	–	–
1 March 2010†*	2013–2020	418.81	466	(466)	–	–	–
28 February 2011†*	2014–2021	461.97	44	(44)	–	–	–
16 September 2013†	2016–2023	721.00	3,249	(2,749)	–	–	500
11 September 2014†	2017–2024	763.00	10,991	(6,332)	–	–	4,659
15 September 2015	2018–2025	975.00	13,440	–	–	–	13,440
18 March 2016	2019–2026	1118.00	5,050	–	–	–	5,050
19 September 2016	2019–2026	1369.00	9,148	–	–	–	9,148
2 March 2018	2020–2028	2506.00	–	–	10,387	(1,197)	9,190
			43,476	(10,679)	10,387	(1,197)	41,987
<b>Long Term Incentive Plan</b>							
15 September 2014	2017–2018	–	195,258	(195,258)	–	–	–
15 September 2015	2018–2019	–	155,834	–	–	–	155,834
22 March 2016	2019–2019	–	8,786	–	–	–	8,786
19 September 2016	2019–2020	–	149,463	–	–	–	149,463
10 October 2016	2019–2020	–	5,319	–	–	–	5,319
7 March 2017	2018	–	21,033	(21,033)	–	–	–
7 March 2017	2019	–	21,033	–	–	–	21,033
2 March 2018	2020–2021	–	–	–	28,240	–	28,240
			556,726	(216,291)	28,240	–	368,675
<b>Long Term Incentive Plan (Qualifying LTIP Awards)</b>							
2 March 2018	2021–2028	2506.00	–	–	7,530	–	7,530
2 March 2018	2020–2021	–	–	–	74,281	–	74,281
			–	–	81,811	–	81,811
<b>SAYE Option Scheme</b>							
13 December 2010*	2013–2017	375.64	4,542	(4,542)	–	–	–
16 October 2012	2015–2018	471.00	7,576	(7,576)	–	–	–
7 April 2014	2017–2019	552.00	22,383	(2,282)	–	–	20,101
13 October 2014	2017–2020	614.00	100,129	(82,034)	–	(1,717)	16,378
12 October 2015	2018–2021	792.00	82,804	(997)	–	(2,046)	79,761
13 October 2016	2019–2022	1095.00	49,429	–	–	(6,945)	42,484
12 October 2017	2020–2023	1646.00	–	–	73,108	(3,560)	69,548
			266,863	(97,431)	73,108	(14,268)	228,272
<b>Total</b>			1,112,796	(379,335)	307,659	(36,573)	1,004,547
Weighted average exercise price*			430.64p	270.69p	1405.23p	1251.43p	759.65p

\* Adjusted to reflect the bonus element of the Rights Issue — there has been no impact on the overall fair value of options in issue.

† Total share options exercisable at 30 June 2018 are 56,094.

# Notes to the Consolidated Financial Statements

continued

## 28. Share-based Payments continued

The weighted average exercise price of options eligible to be exercised at 30 June 2019 was 862.72p (2018: 596.85p). For options exercised during the year, the weighted average market price at the date of exercise was 2,365.36p (2018: 2,142.35p). The weighted average remaining contractual lives of options outstanding at the Consolidated Statement of Financial Position date was 4.3 years (2018: 3.8 years).

Outstanding options on all Long Term Incentive Plan, Approved and Unapproved plans prior to 30 June 2018 were exercisable at 30 June 2019. No options issued under SAYE plans were exercisable at 30 June 2019 (2018: nil).

The fair values for shares granted under the Unapproved, Approved and SAYE Option Schemes have been calculated using the Black–Scholes option pricing model. The fair values of shares awarded under the Long Term Incentive Plan have been calculated using a Monte Carlo simulation model which takes into account the market-based performance conditions attaching to those shares. The assumptions used in calculating fair value are as follows:

### Long Term Incentive Plan

Date of grant	07/03/17	10/10/16	19/09/16	22/03/16	15/09/15
Number of shares awarded	21,033	5,319	149,463	8,786	220,621
Share price at date of grant	1652p	1389p	1379p	1200p	990p
Exercise price	Nil	Nil	Nil	Nil	Nil
Expected life	2 years	3 years	3 years	3 years	3 years
Risk-free rate	0.12%	0.12%	0.12%	0.46%	0.68%
Volatility	22%	22%	22%	22%	22%
Dividend yield	1.54%	1.54%	1.54%	1.61%	0.54%
Fair value per share	1500p	1108p	1108p	1021p	764p

### Unapproved and Approved Share Option Schemes

Date of grant	26/10/18 & 01/03/19	02/03/18	19/09/16	18/03/16	15/09/15
Number of shares awarded	6,876	17,917	106,000	6,000	74,000
Share price at date of grant	2188p	2548p	1379p	1185p	990p
Exercise price	2166p	2506p	1369p	1188p	975p
Expected life	6.5 years	6.5 years	6.5 years	6.5 years	6.5 years
Risk-free rate	1.05%	1.20%	0.47%	1.02%	1.47%
Volatility	28%	23%	26%	26%	27%
Dividend yield	0.90%	1.91%	1.54%	1.62%	0.54%
Fair value per share	596p	521p	305p	273p	284p

### Long Term Incentive Plan 2017

Valuation date	26/10/18 & 01/03/19
Award date	26/10/18 & 01/03/19
Vesting date	30/09/21
Expected exercise	30/09/21

Type of awards	Standalone		Conditional		Nil-cost options (CSOP linked and standalone options)		Market value options
	Nil-cost options		share awards				
Holding period restriction	2 years		2 years		N/A		N/A
Number of awards at grant	23,919	47,838	4,815	9,629	15,374	30,748	130,209
Share price at date of grant	2188p	2188p	2188p	2188p	2188p	2188p	2188p
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil	2166p
Expected life	2.93 years	2.93 years	2.93 years	2.93 years	2.93 years	2.93 years	2.93 years
Risk-free rate	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	1.05%
Volatility	27.95%	27.95%	27.95%	27.95%	27.95%	27.95%	27.95%
Dividend yield	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%	0.90%
Fair value per share	943p	1939p	943p	1939p	1036p	2131p	596p

## 28. Share-based Payments continued

### Long Term Incentive Plan 2017

Valuation date	02/03/18
Award date	02/03/18
Vesting date	30/09/20
Expected exercise	30/09/20

Type of awards	Nil-cost options (CSOP linked)		Conditional share awards		Nil-cost options (CSOP linked and standalone options)		Market value options
Holding period restriction	2 years		2 years		N/A		N/A
Number of awards at grant	20,459	40,918	4,033	8,066	9,682	19,363	114,113
Share price at date of grant	2506p	2506p	2506p	2506p	2506p	2506p	2506p
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expected life	years	years	years	years	years	years	years
Risk-free rate	0.82%	0.82%	0.82%	0.82%	0.82%	0.82%	1.20%
Volatility	23.21%	23.21%	23.21%	23.21%	23.21%	23.21%	23.21%
Dividend yield	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%
Fair value per share	1979p	22.50p	19.79p	22.50p	21.33p	24.25p	522p

### Save As You Earn Option Scheme

Date of grant	29/11/18	12/10/17	13/10/16	12/10/15
Number of shares awarded	34,527	73,108	52,877	101,513
Share price at date of grant	2136p	2175p	1370p	930p
Exercise price	1974p	1646p	1095p	792p
Expected life				
– three year scheme	3.4 years	3.25 years	3.25 years	3.25 years
– five year scheme	5.4 years	5.25 years	5.25 years	5.25 years
Risk-free rate				
– three year scheme	0.77%	0.54%	0.22%	0.83%
– five year scheme	0.91%	0.79%	0.44%	1.17%
Volatility				
– three year scheme	27.94%	21.6%	22%	22%
– five year scheme	25.09%	22.2%	24%	26%
Dividend yield	0.95%	1.91%	1.51%	0.53%
Fair value per share				
– three year scheme	485p	551p	302p	215p
– five year scheme	530p	587p	346p	283p

Expected volatility was determined by calculating the historical volatility of the Group's share price over its entire trading history.

National Insurance contributions are payable by the Company in respect of some of the share-based payments. These contributions are payable on the date of exercise based on the intrinsic value of the share-based payments and are therefore treated as cash settled awards.

The Group had an accrual at 30 June 2019 of £1.0 million (2018: £1.4 million), of which £0.2 million (2018: £0.2 million) related to vested options. The total charge to the Consolidated Income Statement within administrative expenses in respect of share-based payments was:

	2019	2018
	£m	£m
Equity settled share-based transactions	2.3	2.4
Cash settled share-based transactions	0.1	0.9
	2.4	3.3

## 29. Changes in Net Debt

	At 1 July 2018	Cash flows	Acquisitions	Foreign exchange movements	Other non-cash movements	At 30 June 2019
	£m	£m	£m	£m	£m	£m
Cash and cash equivalents	79.7	(0.7)	0.5	0.8	–	80.3
Bank loans within one year	(1.2)	4.0	(2.8)	–	(1.2)	(1.2)
Bank loans after one year	(289.9)	(11.1)	–	(6.2)	0.3	(306.9)
Net debt	(211.4)	(7.8)	(2.3)	(5.4)	(0.9)	(227.8)

# Notes to the Consolidated Financial Statements

continued

## 30. Operating Leases

At the balance sheet date the Group had outstanding commitments for future minimum rentals payable under non-cancellable operating leases as follows:

	Land and buildings		Other assets		Total	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Within one year	1.8	1.4	1.9	1.8	3.7	3.2
Between one and five years	4.5	4.1	2.5	2.5	7.0	6.6
In five years or more	5.7	2.8	–	–	5.7	2.8
	12.0	8.3	4.4	4.3	16.4	12.6

The Group leases properties, plant, machinery and vehicles for operational purposes. Property leases vary in length up to a period of 20 years. Plant, machinery and vehicle leases typically run for periods of up to five years.

## 31. Foreign Exchange Rates

The following primary exchange rates have been used in the translation of the results of foreign operations:

	Average rate for 2018	Closing rate at 30 June 2018	Average rate for 2019	Closing rate at 30 June 2019
Australian Dollar	1.7372	1.7817	1.8097	1.8118
Danish Krone	8.4010	8.4109	8.4651	8.3248
Euro	1.1286	1.1286	1.1345	1.1154
US Dollar	1.3465	1.3157	1.2945	1.2693

## 32. Acquisitions

### Acquisition of Venco

On 17 December 2018, Dechra acquired the entire share capital of Laboratorios Vencofarma do Brasil Ltda (Venco), a company with a large portfolio of vaccines and other Food producing Animal Products which it sells predominantly in Brazil. The Group paid £34.8 million (BRL163.8 million) consideration in cash.

	Fair Value £m
<b>Recognised amounts of identifiable assets acquired</b>	
<b>Identifiable assets</b>	
Property, plant and equipment	6.7
Inventory	6.1
Trade and other receivables	4.5
Trade and other payables	(6.4)
Cash	0.5
Borrowings	(2.8)
Intangible assets	14.7
Current tax liabilities	(0.5)
Deferred taxation	(6.0)
<b>Net identifiable assets</b>	<b>16.8</b>
<b>Goodwill</b>	<b>18.0</b>
<b>Total consideration</b>	<b>34.8</b>
<b>Satisfied by:</b>	
Cash	34.8
<b>Total consideration transferred</b>	<b>34.8</b>
<b>Net cash outflow arising on acquisition</b>	
Cash consideration	34.8
Less cash and cash equivalents	(0.5)
<b>Net cash outflow arising on acquisition</b>	<b>34.3</b>



### 32. Acquisitions continued

The fair values shown above are provisional and may be amended if information not currently available comes to light. The provisional fair value adjustments made principally relate to harmonisation with Group IFRS accounting policies, including the application of fair values on acquisition, principally the recognition of fair value uplift on acquired inventory and intangibles in accordance with IFRS 3.

The goodwill of £18.0 million arising from the acquisition consists of geographical expansion in the Brazilian and South American markets, cross-selling synergies with other Dechra products, and the technical expertise of the assembled workforce.

Acquisition related costs (included in non-underlying operating expenses) amounted to £1.3 million. Venco's results are reported within the EU Pharmaceuticals Segment.

Venco contributed £8.3 million revenue and £2.1 million underlying operating profit for the period between the date of acquisition and the balance sheet date. If the acquisition had been completed on the first date of the financial year, the contribution to Group revenues for the period would have been £15.7 million and the contribution to Group underlying operating profit would have been £3.8 million. The reported operating profit after taking into account non-underlying items for the amortisation of intangible assets and the fair value uplift on inventory would be £0.1 million.

The fair value of the assets and liabilities acquired have been reconsidered since the Half Yearly Report at 31 December 2018 as part of the measurement period. Hindsight adjustments have been made in relation to consideration for the completion payment (£1.6 million), cash (£0.6 million), inventory (£1.5 million), intangibles (£0.1 million), tangible assets (£0.4 million) following an independent valuation of the land and buildings acquired, payables predominantly due to the reclassification of other taxes from current tax liabilities (£3.5 million), borrowings (£0.8 million), current tax liabilities (£3.1 million) and deferred tax (£0.3 million) predominantly due to fair value adjustments.

#### Acquisition of Caledonian

On 8 October 2018, Dechra acquired the trade and assets of Caledonian Holdings Ltd, an equine veterinary pharmaceuticals sales and distribution company based in New Zealand and Australia. The Group paid £4.4 million (NZD8.7 million) consideration in cash.

	Fair value £m
<b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>	
Inventory	0.8
Trade and other receivables	0.3
Trade and other payables	(0.3)
Intangible assets	4.0
Deferred taxation	(1.2)
<b>Net identifiable assets</b>	<b>3.6</b>
<b>Goodwill</b>	<b>0.8</b>
<b>Total consideration</b>	<b>4.4</b>
<b>Satisfied by:</b>	
Cash	4.4
<b>Total consideration transferred</b>	<b>4.4</b>
<b>Net cash outflow arising on acquisition</b>	
Cash consideration	4.4
<b>Net cash outflow arising on acquisition</b>	<b>4.4</b>

The fair values shown above are provisional and may be amended if information not currently available comes to light. The provisional fair value adjustments made principally relate to harmonisation with Group IFRS accounting policies, including the application of fair values on acquisition, principally the recognition of fair value uplift on acquired inventory and intangibles in accordance with IFRS 3.

The goodwill of £0.8 million arising from the acquisition consists of continued geographic expansion into Australia and New Zealand, and also enables Dechra to grow its market penetration of equine products in the Asian market. None of the goodwill is expected to be deductible for income tax purposes.

Acquisition related costs (included in non-underlying operating expenses) amounted to £0.1 million. Caledonian's results are reported within the EU Pharmaceuticals Segment.

Caledonian contributed £1.5 million revenue and £0.8 million to the Group's underlying operating profit for the period between the date of acquisition and the balance sheet date. If the acquisition had been completed on the first date of the financial year, the contribution to Group revenues for the period would have been £2.0 million and the contribution to Group underlying operating profit would have been £1.0 million. The reported operating profit after taking into account non-underlying items for the amortisation of intangible assets and the fair value uplift on inventory would be £0.2 million.

#### Prior Year Acquisitions

Following the acquisition of RxVet in December 2017, and AST Farma and Le Vet in February 2018, the disclosure of the final fair values of the assets and liabilities acquired has been included in the financial statements for the year ended 30 June 2018.

# Notes to the Consolidated Financial Statements

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## 33. Deferred and Contingent Consideration Liabilities

	2019 £m	2018 £m
Deferred consideration – less than one year	–	1.8
Deferred consideration – more than one year	–	–
	–	1.8
Contingent consideration – less than one year	5.1	7.0
Contingent consideration – more than one year	30.9	28.0
	36.0	35.0
	36.0	36.8

The consideration for certain acquisitions and licensing agreements includes amounts contingent on future events such as development milestones or sales performance. The Group has provided for the fair value of this contingent consideration as follows:

	Tri-Solfen®	StrixNB® & DispersinB®	Injectable Solution 1	Injectable Solution 2	Phycox®	Other	Total
As at 1 July 2017	25.5	3.6	–	–	3.1	0.5	32.7
Additions	–	–	6.5	–	–	2.4	8.9
Remeasurement through intangibles	(0.9)	(2.2)	–	–	–	–	(3.1)
Remeasurement through income statement	–	(0.1)	–	–	–	–	(0.1)
Cash payments: investing activities	–	–	–	–	(0.6)	(1.1)	(1.7)
Finance expense	–	–	–	–	0.4	0.2	0.6
Foreign exchange adjustments	(1.8)	(0.2)	0.1	–	(0.1)	–	(2.0)
Other movements	–	–	–	–	–	(0.3)	(0.3)
At 30 June 2018	22.8	1.1	6.6	–	2.8	1.7	35.0
Additions	–	–	–	7.9	–	–	7.9
Remeasurement through intangibles	(1.0)	(0.3)	(0.3)	–	–	0.1	(1.5)
Remeasurement through income statement	–	(0.1)	–	–	–	–	(0.1)
Cash payments: investing activities	–	(0.1)	(2.1)	(3.0)	(0.7)	(0.4)	(6.3)
Finance expense	0.6	0.1	0.2	–	0.1	–	1.0
Foreign exchange adjustments	(0.4)	–	–	0.3	–	0.1	–
Other movements	–	–	–	–	–	–	–
<b>At 30 June 2019</b>	<b>22.0</b>	<b>0.7</b>	<b>4.4</b>	<b>5.2</b>	<b>2.2</b>	<b>1.5</b>	<b>36.0</b>

The consideration payable for Tri-Solfen® is expected to be payable over a number of years, and relates to development milestones and sales performance. During the year, the development milestones have been remeasured and consequently are now expected to happen later than initially anticipated. A delay in the timing of contingent cash flows of one year would result in a decrease of the liability and intangible asset of £3.5 million. An increase in the discount rate by 1% would result in a decrease of the deferred consideration and associated intangible of £1.1 million.

The consideration payable for StrixNB® and DispersinB® is expected to be payable over a number of years, and relates to development milestones and sales performance. During the year the contingent consideration has been remeasured and consequently one of the development milestones is no longer expected to be achieved. To the extent possible this has been remeasured through intangibles with the excess being credited to the income statement, and treated as non-underlying.

The consideration for two separate licensing agreements for injectable solutions both relate to development milestones, and Phycox relates to sales performance. The consideration payable is expected to be payable for these agreements within the next five years.

Where a liability is expected to be payable over a number of years the total estimated liability is discounted to its present value.

### 34. Related Party Transactions

#### Subsidiaries

The Group's ultimate Parent Company is Dechra Pharmaceuticals PLC. A listing of subsidiaries is shown within the financial statements of the Company on pages 178 to 180.

#### Transactions with Key Management Personnel

The details of the remuneration, Long Term Incentive Plans, shareholdings, share options and pension entitlements of individual Directors are included in the Directors' Remuneration Report on pages 93 to 105. The remuneration of key management is disclosed in note 8.

#### Non-Controlling Interests

Refer to note 27 for transactions with non-controlling interests, there were no transactions during the year.

### 35. Off Balance Sheet Arrangements

The Group has no off balance sheet arrangements to disclose as required by S410A of the Companies Act 2006.

### 36. Changes in Accounting Policies

This note explains the impact of the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on the Group's Financial Statements and also discloses the new accounting policies that have been applied from 1 July 2018, where they are different to those applied in prior periods.

The table below shows the impact on the opening balance sheet retained earnings as at 1 July 2018, from the adoption of IFRS 15; note only the line items affected by the change have been included:

Statement of Financial Position (extract)	<b>Reported 30.06.18 £m</b>	IFRS 15 £m	Restated 01.07.18 £m
<b>Current Liabilities</b>			
Trade and other payables	(75.7)	(6.5)	(82.2)
<b>Non-Current Liabilities</b>			
Deferred tax liabilities	(96.8)	1.6	(95.2)
<b>Equity</b>			
Retained Earnings	125.5	(4.9)	120.6

#### IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 'Revenue from Contracts with Customers' from 1 July 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions of IFRS 15, the Group has adopted the modified retrospective approach, recognising a cumulative adjustment to decrease equity at 1 July 2018. This adjustment represents the earlier recognition of rebates and discounts based on the most likely method of calculation, and the associated tax impact.

Following the clarification IFRS 15 provides over the treatment of variable consideration, the timing of rebates and the deductions and discounts recognition has been refined through adoption of the most likely amount method.

The adoption of IFRS 15 has resulted in revenue and profit being £0.2 million higher in the current period compared to IAS 18. There is a corresponding deferred tax debit of £0.04 million recognised in relation to this.

#### IFRS 9 Financial Instruments – Impact of Adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 'Financial Instruments' from 1 July 2018 resulted in changes in accounting policies but did not have a material impact on the financial statements for the year to 30 June 2019, or retained earnings at 1 July 2018. The new accounting policies are set out in note 1. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

The Group has trade receivables for sales of inventory that are subject to IFRS 9's new expected credit loss model. The Group was required to revise its impairment methodology under IFRS 9 for this class of asset which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due.

Cash and cash equivalents are also subject to the impairment requirements of IFRS 9; however, the identified impairment loss of this financial asset was immaterial.

# Notes to the Consolidated Financial Statements

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## 37. Contingent Liabilities

In October 2017 the European Commission (the Commission) opened a State Aid investigation into the Group Financing Exemption in the UK Controlled Foreign Company (CFC) rules. On 25 April 2019 the Commission issued its decision on the CFC Group Financing Exemption concluding that part of the UK measures were unlawful and incompatible instructing the UK Government to recover the State Aid. The UK Government filed an annulment appeal on 12 June 2019. In common with other UK-based international companies Dechra have financing arrangements in line with the current UK legislation. We have calculated the maximum potential State Aid claimed as £4.0 million excluding penalties and interest. Given the current position no provision has been recognised in the financial statements.

At 30 June 2019, contingent liabilities arising in the normal course of business amounted to £15.0 million relating to license and distribution agreements entered into during the year. The stage of development of the projects underpinning the agreements dictates that a commercially stable product is yet to be achieved, and accordingly an intangible asset and contingent liability have not been recognised.

## 38. Subsequent Events

On 5 July 2019 the Group acquired a further 15.0% of the issued share capital of Medical Ethics Pty Ltd, the parent company of Animal Ethics, for a total consideration of AUD13.5 million (£8.0 million) from the current shareholders. Following this acquisition the Group will hold 48.0% of the issued share capital of Medical Ethics Pty Ltd, and this has not resulted in a change of control or accounting treatment of the entity.

On 2 August 2019 the Group announced the signature of a licensing and supply agreement with Akston Biosciences Corporation for a patent pending long acting protein for the treatment of diabetes in dogs. Following the initial upfront payment of USD2.0 million there are subsequent milestone payments totalling USD14.0 million due on the achievement of major milestones in the development process which should be completed within five years.

On 28 August 2019 the Group acquired Ampharmco LLC and its associated holding companies, Dragon Fire Holdings LLC and Black Griffin Holdings LLC together with its manufacturing site based in Fort Worth, Texas, for a cash consideration of USD30.0 million (£24.5 million).

## 39. Underlying Operating Profit and Profit Before Taxation

	2019 £m	2018 £m
<b>Operating profit</b>		
Underlying operating profit/EBIT is calculated as follows:		
Operating profit	39.0	34.1
Non-underlying operating expenses (note 5)	88.4	65.1
Underlying operating profit/EBIT	127.4	99.2
Depreciation	5.7	4.8
Amortisation and impairment	4.1	2.6
Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)	137.2	106.6
<b>Profit before taxation</b>		
Underlying profit before taxation is calculated as follows:		
Profit before taxation	27.8	28.9
Non-underlying operating expenses	88.4	65.1
Amortisation of fair value adjustments relating to Medical Ethics	0.2	0.2
Fair value and other movements on deferred and contingent consideration	1.0	(0.9)
Loss on extinguishment of debt	-	0.4
Underlying profit before taxation	117.4	93.7

# Company Statement of Financial Position

At 30 June 2019

	Note	2019 £m	Restated* 2018 £m
<b>Non-current assets</b>			
Investments	iv	743.6	647.2
Intangible assets	v	10.1	9.7
Tangible assets	vi	0.2	0.2
		<b>753.9</b>	657.1
<b>Current assets</b>			
Trade and other receivables (includes amounts falling due after more than one year of £1.2 million (2018: £2.1 million))	vii	28.8	11.5
Cash at bank and in hand	viii	50.9	–
		<b>79.7</b>	11.5
Borrowings	x	–	(1.3)
Trade and other payables	ix	(220.4)	(56.4)
<b>Net current liabilities</b>		<b>(140.7)</b>	(46.2)
Total assets less current liabilities		<b>613.2</b>	610.9
<b>Non-current liabilities</b>			
Borrowings	x	(114.5)	(129.6)
<b>Net assets</b>		<b>498.7</b>	481.3
<b>Equity</b>			
Called up share capital	xii	1.0	1.0
Share premium account		277.9	276.7
Foreign currency translation reserve		0.6	0.6
Merger reserve		82.6	82.6
<i>At 1 July</i>		<b>120.4</b>	66.4
<i>Profit for the year attributable to the owners</i>		<b>43.1</b>	71.5
<i>Other changes in retained earnings</i>		<b>(26.9)</b>	(17.5)
Retained earnings		<b>136.6</b>	120.4
<b>Total equity shareholders' funds</b>		<b>498.7</b>	481.3

\* Restated as detailed in note (i)

The financial statements were approved by the Board of Directors on 2 September 2019 and are signed on its behalf by:

**Ian Page**  
Chief Executive Officer  
2 September 2019

**Tony Rice**  
Non-Executive Chairman  
2 September 2019

Company number: 3369634

# Company Statement of Changes in Shareholders' Equity

For the year ended 30 June 2019

	Attributable to owners of the parent					
	Called up share capital £m	Share premium account £m	Foreign currency translation reserve £m	Merger reserve £m	Retained earnings £m	Total shareholders' funds £m
<b>Year ended 30 June 2018</b>						
At 1 July 2017	0.9	173.4	0.6	–	66.4	241.3
Profit for the period	–	–	–	–	71.5	71.5
Total comprehensive income	–	–	–	–	71.5	71.5
Transactions with owners						
Dividends paid	–	–	–	–	(21.8)	(21.8)
Share-based payment charge	–	–	–	–	4.3	4.3
Shares issued (Restated)*	0.1	103.3	–	82.6	–	186.0
Total contributions by and distributions to owners	0.1	103.3	–	82.6	(17.5)	168.5
<b>At 30 June 2018 (Restated)*</b>	<b>1.0</b>	<b>276.7</b>	<b>0.6</b>	<b>82.6</b>	<b>120.4</b>	<b>481.3</b>
<b>Year ended 30 June 2018</b>						
At 1 July 2018	1.0	276.7	0.6	82.6	120.4	481.3
Profit for the period	–	–	–	–	43.1	43.1
Total comprehensive income	–	–	–	–	43.1	43.1
Transactions with owners						
Dividends paid	–	–	–	–	(28.4)	(28.4)
Share-based payment charge	–	–	–	–	1.5	1.5
Shares issued	–	1.2	–	–	–	1.2
Total contributions by and distributions to owners	–	1.2	–	–	(26.9)	(25.7)
<b>At 30 June 2019</b>	<b>1.0</b>	<b>277.9</b>	<b>0.6</b>	<b>82.6</b>	<b>136.6</b>	<b>498.7</b>

\* Restated as detailed in note (j) Principal Accounting Policies of the Company.

# Notes to the Company Financial Statements

## (i) Principal Accounting Policies of the Company

### Accounting Principles

The separate financial statements of the Company have been prepared on a going concern basis, under the historical cost convention, in accordance with applicable UK accounting standards and the Companies Act 2006.

### Basis of Preparation

The Directors opted to prepare the financial statements for the year ended 30 June 2019 in accordance with FRS 101 'Reduced Disclosure Framework' and the Companies Act 2006. The principal accounting policies applied in the preparation of these financial statements are set out below, and have been applied consistently.

No income statement is presented for the Company as permitted by Section 408(2) and (3) of the Companies Act 2006. The profit dealt within the accounts of the Company was £43.1 million (2018: £71.5 million).

The following exemptions have been taken in preparing the financial statements;

- a. The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payment', exempting the Company from preparing share based payment disclosures.
- b. The requirements of IFRS 7 'Financial Instruments: Disclosures'
- c. The following requirements of IAS 1:
  - Paragraphs 10(d) and 111, exempting the Company from providing a cash flow statement and information;
  - Paragraph 16, exempting the Company from providing a statement of compliance with all IFRSs;
  - Paragraph 38A, exempting the Company from the requirement for a minimum of two of each primary statement and the related notes;
  - Paragraph 38B to D, exempting the Company from the requirement to present additional comparative information; and
  - Paragraphs 134 to 136, exempting the Company from presenting Capital Management disclosures.
- d. The requirements of IAS 7 'Statement of Cash Flows', exempting the company from preparing a cash flow statement
- e. The requirements of paragraph 17 of IAS 24 'Related Party Disclosures', exempting the Company from disclosing details of all key management compensation.
- f. The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions with wholly-owned members of the Group.
- g. The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' exempting the company from disclosing the impact of new accounting standards that have been issued but are not yet effective.

### Adoption of New and Revised Standards

The following relevant standards, amendments to standards or interpretations have been adopted for the first time from 1 July 2018.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 'Financial Instruments' from 1 July 2018 resulted in changes in accounting policies but did not have a material impact on the financial statements for the year 30 June 2019, or retained earnings at 1 July 2018. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

### Prior Year Restatement

The comparative amounts for 30 June 2018 have been restated to provide for the statutory merger relief from share premium on shares issued by the company when acquiring shares in AST Farma and Le Vet in February 2018. During the measurement period the share premium amount has been reclassified to the merger reserve. As a consequence share premium has been reduced by £82.6 million and the merger reserve increased by £82.6 million. The impact on net assets is nil.

### Investments

Investments held as fixed assets are stated at cost less any impairment losses. Where the consideration for the acquisition of a subsidiary undertaking includes shares in the Company to which the provisions of section 612 of the Companies Act 2006 apply, cost represents the nominal value of the shares issued together with the fair value of any additional consideration given and costs. Where investments are denominated in foreign currencies, they are treated as monetary assets and revalued at each year end date.

### Intangible Assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight line basis over the estimated useful economic life of the asset. The estimated useful lives are:

- product rights 10 to 15 years
- software 5 to 7 years

### Tangible Assets

Tangible assets are stated at cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight line basis over the estimated useful economic life of the asset. The estimated useful lives are:

- plant and fixtures 3 to 15 years

# Notes to the Company Financial Statements

continued

## (i) Principal Accounting Policies of the Company continued

### Dividends

Dividends are recognised in the period in which they are approved by the Company's shareholders or, in the case of an interim dividend, when the dividend is paid. Dividends receivable from subsidiaries are recognised when either received in cash or applied to reduce a creditor balance with the subsidiary.

### Interest-Bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

### Employee Benefits

#### (a) Pensions

The Company operates a Group stakeholder personal pension scheme for certain employees. Obligations for contributions are recognised as an expense in the income statement as incurred.

#### (b) Share-based Payment Transactions

The Company operates a number of equity settled share-based payment programmes that allow employees to acquire shares of the Company. The Company also operates Long Term Incentive Plans for Directors and Senior Executives.

The fair value of shares or options granted is recognised as an employee expense on a straight-line basis in the income statement with a corresponding movement in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares or options (the vesting period). The fair value of the shares or options granted is measured using a valuation model, taking into account the terms and conditions upon which the shares or options were granted. The amount recognised as an expense in the income statement is adjusted to take into account an estimate of the number of shares or options that are expected to vest together with an adjustment to reflect the number of shares or options that actually do vest except where forfeiture is only due to market-based conditions not being achieved.

The fair values of grants under the Long Term Incentive Plan have been determined using the Monte Carlo simulation model. The fair values of options granted under all other share option schemes have been determined using the Black-Scholes option pricing model.

National Insurance contributions payable by the Company on the intrinsic value of share-based payments at the date of exercise are treated as cash settled awards and revalued to market price at each statement of financial position date.

Where the Company grants options over its own shares to the employees of its subsidiaries, it recharges the expense to those subsidiaries.

### Foreign Currency

Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities are translated at the closing rate at the reporting date. Foreign exchange gains and losses are recognised in the income statement.

### Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply and have been substantively enacted in the periods in which the timing differences reverse and is provided in respect of all timing differences which have arisen but not reversed by the balance sheet date, except as otherwise required by IAS 12 'Income Taxes'.

### Financial Guarantee Contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

### Amounts owed by Subsidiary Undertakings

Amounts owed by subsidiary undertakings are initially recognised at fair value and subsequently measured at this value less loss allowances, calculated using the three stage IFRS 9 model.

On transition to IFRS 9, an assessment has been performed of the Company's loss allowance provision and noted that there is no material difference in the carrying amount of the amounts owed by subsidiary undertakings. On this basis no transitional adjustment has been recognised.



**(ii) Directors and Employees**

Total emoluments of Directors (including pension contributions) amounted to £4.7 million (2018: £6.0 million). Information relating to Directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 93 to 105. Tony Griffin's remuneration is paid by Eurovet Animal Health B.V. in Euros but reported in Sterling for the purposes of these figures. The exchange rate used was 1.1345 (2018: 1.1286).

	2019 Number	2018 Number
Administration	37	33
<b>Total</b>	<b>37</b>	<b>33</b>

The costs incurred in respect of these employees were:

	2019 £m	2018 £m
Wages and salaries	4.5	4.5
Social security costs	0.6	0.7
Other pension costs	0.2	0.2
Share-based payments charge (see note 28)	2.4	3.3
<b>Total</b>	<b>7.7</b>	<b>8.7</b>

The Group operates a stakeholder personal pension scheme for certain employees and contributed between 4% and 14% of pensionable salaries. Total pension contributions amounted to £0.2 million (2018: £0.2 million).

**(iii) Profit Before Taxation**

The following items have been included in arriving at profit before taxation of continuing operations:

	2019 £m	2018 £m
Depreciation of property, plant and equipment		
– owned assets	0.1	0.1
Amortisation of intangible assets	1.9	0.9
Operating lease rentals payable	0.3	0.2
Auditor's remuneration – audit of these financial statements	0.1	0.1

**(iv) Investments**

	Shares in subsidiary undertakings £m
<b>Cost</b>	
At 1 July 2018	659.4
Additions	96.4
<b>At 30 June 2019</b>	<b>755.8</b>
<b>Impairment</b>	
At 1 July 2018	12.2
Charge for the period	–
<b>At 30 June 2019</b>	<b>12.2</b>
<b>Net book value</b>	
<b>At 30 June 2019</b>	<b>743.6</b>
At 30 June 2018	647.2

A list of subsidiary undertakings is given in note (xiv). During the year, the Company invested in Dechra Finance Sterling Limited, a wholly owned subsidiary.

# Notes to the Company Financial Statements

continued

## (v) Intangible Assets

	Acquired Intangibles £m	Software £m	Total Intangible assets £m
<b>Cost</b>			
At 1 July 2018	5.1	8.5	13.6
Additions	–	2.3	2.3
<b>At 30 June 2019</b>	<b>5.1</b>	<b>10.8</b>	<b>15.9</b>
<b>Accumulated Amortisation</b>			
At 1 July 2018	3.3	0.6	3.9
Charge for the year	0.5	1.4	1.9
Impairment	–	–	–
<b>At 30 June 2019</b>	<b>3.8</b>	<b>2.0</b>	<b>5.8</b>
<b>Net book value</b>			
<b>At 30 June 2019</b>	<b>1.3</b>	<b>8.8</b>	<b>10.1</b>
At 30 June 2018	1.8	7.9	9.7

## (vi) Tangible Assets

	Tangible assets £m
<b>Cost</b>	
At 1 July 2018	0.6
Additions	0.1
<b>At 30 June 2019</b>	<b>0.7</b>
<b>Accumulated Depreciation</b>	
At 1 July 2018	0.4
Charge for the year	0.1
<b>At 30 June 2019</b>	<b>0.5</b>
<b>Net book value</b>	
<b>At 30 June 2019</b>	<b>0.2</b>
At 30 June 2018	0.2

## (vii) Trade and Other Receivables

	2019 £m	2018 £m
Amounts owed by subsidiary undertakings	25.8	8.1
Group relief receivable	1.4	–
Deferred taxation (see note (xi))	0.6	2.1
Other receivables	0.4	1.0
Prepayments and accrued income	0.6	0.3
	<b>28.8</b>	11.5

Included in debtors are amounts of £0.6 million (2018: £2.1 million) due after more than one year relating to deferred tax assets.

Of the amounts owed by subsidiary undertakings, £0.6 million is due after more than one year (2018: £nil). The provision for impairment against amounts owed by subsidiary undertakings is immaterial and has been considered in accordance with IFRS 9. Amounts owed by subsidiary undertakings are primarily unsecured and repayable on demand. £9.3 million attracts interest between 0.85% and 3.04% above LIBOR, the balance is interest free. £0.6m of the £9.3 million is repayable in 2023.

## (viii) Cash at bank and in hand

	2019 £m	2018 £m
Cash at bank and in hand	50.9	–
	<b>50.9</b>	–

During the year the Company has implemented physical cash pooling. This has resulted in increased cash being held in the Company as the Master Account Holder.

**(ix) Trade and Other Payables**

	2019 £m	2018 £m
Trade payables	1.0	1.0
Other payables	0.8	1.0
Amounts due to subsidiary undertakings	214.8	47.2
Group relief payable	–	1.6
Current tax liabilities	–	0.3
Other taxation and social security	0.2	0.2
Accruals and deferred income	3.6	5.1
	<b>220.4</b>	56.4

Amounts due to subsidiary undertakings are primarily unsecured and repayable on demand. £186.4 million attracts interest between 0.25% below LIBOR and 1.8% above LIBOR, the balance is interest free. £96.4 million of the £186.4 million is repayable in 2020.

In accordance with IAS 10 'Events after the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2019 of 22.10 pence per share (2018: 18.17 pence per share) has not been accrued for in these financial statements. It will be shown in the financial statements for the year ending 30 June 2020. The total cost of the proposed final dividend is £22.7 million (2018: £18.6 million).

**(x) Borrowings**

	2019 £m	2018 £m
Borrowings due within one year		
Bank overdraft	–	1.3
Borrowings due after more than one year		
Aggregate bank loan instalments repayable:		
– between two and five years	117.2	132.9
Arrangement fees netted off	(2.7)	(3.3)
	<b>114.5</b>	129.6
Total borrowings	<b>114.5</b>	130.9

At 30 June 2019, £117.2 million was drawn against the £235.0 million Revolving Credit Facility maturing 25 July 2024 in the Company. Interest is charged on this facility at a minimum of 1.30% over LIBOR and a maximum of 2.20% over LIBOR, dependent upon the Leverage (the ratio of Total Net Debt to Adjusted EBITDA) of the Group. As at 30 June 2019, interest being charged on this facility is 1.70% above LIBOR.

At 30 June 2019, £nil was drawn against the £350.0 million Term Loan Facility maturing 31 December 2020 in the Company. Interest is charged on this facility at a minimum of 1.10% over LIBOR and a maximum of 2.00% over LIBOR, dependent upon the Leverage (the ratio of Total Net Debt to Adjusted EBITDA) of the Group. As at 30 June 2019, interest being charged on this facility is 1.50% above LIBOR. The availability period of the Term Loan Facility expires on 31 December 2020.

Arrangement fees of £0.2 million were incurred on the two facilities during the year, these being released to the income statement over the life of the facility.

No interest has been capitalised during the year (2018: £nil).

The Company guarantees certain borrowings of other Group companies under the above facilities, which at 30 June 2019 amounted to £193.6 million (2018: £151.6 million).

**(xi) Deferred Tax**

	£m
At 1 July 2018 (included in trade and other receivables)	2.1
Additions to the income statement	(0.3)
Additions to statement of changes in equity	(1.2)
<b>At 30 June 2019 (included in trade and other receivables)</b>	<b>0.6</b>

Deferred tax has been calculated using the rate of 19.0% or 17.0% based on the timing of when each individual deferred tax balance is expected to reverse in the future as follows (2018: 19.0% or 17.0%):

	2019 £m	2018 £m
Short term timing differences	1.0	2.5
Accelerated capital allowances	(0.4)	(0.4)
	<b>0.6</b>	2.1

Deferred tax assets in relation to losses amounting to £nil (2018: £0.2 million) have not been recognised due to uncertainty over their recoverability.

# Notes to the Company Financial Statements

continued

## (xii) Called up Share Capital

	Ordinary shares of 1p each	
	£m	Number
<b>Issued share capital</b>		
Allotted, called up and fully paid at 1 July 2018	1.0	102,329,635
New shares issued	–	321,967
<b>Allotted, called up and fully paid at 30 June 2019</b>	<b>1.0</b>	<b>102,651,602</b>

Details of new ordinary shares issued following the exercise of options under the Long Term Incentive Plan and the Approved, Unapproved and SAYE Share Option Schemes are shown in notes 25 and 28 to the Consolidated Financial Statements.

### Share Options

Details of outstanding share options over ordinary shares of 1 pence at 30 June 2019 under the various Group share option schemes are shown in note 28 to the Consolidated Financial Statements.

## (xiii) Operating Leases

At the balance sheet date the Company had outstanding commitments for future minimum rentals payable under non-cancellable operating leases as follows:

	Land and buildings		Other assets		Total	
	2019	2018	2019	2018	2019	2018
	£m	£m	£m	£m	£m	£m
Within one year	0.1	0.1	0.1	0.1	0.2	0.2
Between one and five years	0.4	0.5	0.1	0.1	0.5	0.6
In five years or more	0.6	0.7	–	–	0.6	0.7
	<b>1.1</b>	<b>1.3</b>	<b>0.2</b>	<b>0.2</b>	<b>1.3</b>	<b>1.5</b>

The Company leases properties, plant, machinery and vehicles for operational purposes. Property leases vary in length up to a period of 20 years. Plant, machinery and vehicle leases typically run for periods of up to five years.

## (xiv) Subsidiary Undertakings

### Operating subsidiaries

Name	Country of Incorporation	Principal Activity	Registered Address	Shareholder
Dechra Veterinary Products Pty Limited	Australia	Developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals	2 Cal Close, Somersby NSW 2250, Australia	Dechra Holding Australia Pty Limited
AST Farma B.V.	The Netherlands	Marketer of veterinary pharmaceuticals and distributor of veterinary pharmaceuticals and equipment	Wilgenweg 7, 3421TV Oudewater, The Netherlands	Dechra Finance B.V.
Dechra Development LLC	USA	Contract regulatory and product development services for the Group	Principal Place of Business: 7015 College Blvd, Suite 510, Overland Park KS 66211, United States	Dechra Holdings US Inc
Dechra Limited	England and Wales	Developer, regulatory, product development, manufacturer and marketer of veterinary pharmaceuticals	Snaygill Industrial Estate, Keighley Road, Skipton, BD23 2RW, United Kingdom	Dechra Investments Limited
Dechra Finance Australia Limited	England and Wales	Financial Services	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Limited
Dechra Finance B.V.	The Netherlands	Financial services and holding company	Pettelaarpark 38, 5216PD 's-Hertogenbosch, The Netherlands	Dechra Pharmaceuticals PLC
Dechra Finance Ireland Designated Activity Company	Republic of Ireland	Financial services	6th Floor, 2 Grand Canal Square, Dublin 2, Ireland	Dechra Limited
Dechra Finance Limited	England and Wales	Financial services and holding company	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Pharmaceuticals PLC
Dechra Finance Sterling Limited	England and Wales	Financial services	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Pharmaceuticals PLC
Dechra Holdings Brasil Ltda	Brazil	Holding Company	Travessa Dalva de Oliveira No. 237, office ADM I, Industrias Leves, Londrina, Parana 86030-370, Brazil	AST Farma B.V.
Dechra Regulatory B.V.	The Netherlands	Regulatory	Handelsweg 25, 5531AE Bladel, The Netherlands	Dechra Pharmaceuticals PLC
Dechra Veterinary Products GmbH	Austria	Marketer of veterinary pharmaceuticals and pet diets	Hintere Achmehlerstrasse 1a, 6850 Dornbirn, Austria	Dechra Limited

**(xiv) Subsidiary Undertakings continued**

Name	Country of Incorporation	Principal Activity	Registered Address	Shareholder
Dechra Veterinary Products N.V.	Belgium	Marketer of veterinary pharmaceuticals and pet diets	Achterstenhoek 48 2275 Lille, Belgium	Eurovet Animal Health B.V.
Dechra Veterinary Products, Inc	Canada	Marketer of veterinary pharmaceuticals and pet diets	100 King Street West, Suite 6100, 1 First Canadian Place, Toronto ON M5X 1B8, Canada	Dechra Limited
Dechra Veterinary Products A/S	Denmark	Marketer of veterinary pharmaceuticals and pet diets	Mekuvej 9, DK-7171 Uldum, Denmark	Dechra Pharmaceuticals PLC
Dechra Veterinary Products Limited	England and Wales	Marketer of veterinary pharmaceuticals and pet diets	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Veterinary Products A/S
Dechra Veterinary Products Oy	Finland	Marketer of veterinary pharmaceuticals and pet diets	Erottajankatu 9 B 3, 00130 Helsinki, Finland	Dechra Veterinary Products A/S
Dechra Veterinary Products SAS	France	Marketer of veterinary pharmaceuticals and pet diets	60 Avenue du Centre, 78180 Montigny le Bretonneux, France	Dechra Veterinary Products A/S
Dechra Veterinary Products Deutschland GmbH	Germany	Marketer of veterinary pharmaceuticals and distributor of veterinary pharmaceuticals and equipment	Hauptstr. 6-8, Aulendorf, Germany	Eurovet Animal Health B.V.
Dechra Veterinary Products S.r.l.	Italy	Marketer of veterinary pharmaceuticals and pet diets	Via Agostino da Montefeltro 2, 10134 Torino, Italy	Dechra Limited
Dechra Veterinary Products B.V.	The Netherlands	Marketer of veterinary pharmaceuticals and pet diets	Wilgenweg 7, 3421TV Oudewater, The Netherlands	Dechra Veterinary Products A/S
Dechra Veterinary Products NZ Limited	New Zealand	Marketer of veterinary pharmaceuticals and distributor of veterinary pharmaceuticals and equipment	Level 11, 41 Shortland Street, Auckland, 1010, New Zealand	Dechra Holding Australia Pty Limited
Dechra Veterinary Products AS	Norway	Marketer of veterinary pharmaceuticals and pet diets	Henrik Ibsens Gate 90, Postboks 2943 Solli, 0230 Oslo, Norway	Dechra Veterinary Products A/S
Dechra Veterinary Products Sp. z o.o.	Poland	Marketer of veterinary pharmaceuticals and pet diets	1st Floor, 61 Moldlinska Str., 03-199 Warsaw, Poland	Dechra Limited
Dechra Veterinary Products, S.L. Unipersonal	Spain	Marketer of veterinary pharmaceuticals and pet diets	C/Balmes, 202, P.6-08006 Barcelona, Spain	Dechra Veterinary Products A/S
Dechra Veterinary Products AB	Sweden	Marketer of veterinary pharmaceuticals and pet diets	Principal Place of Business: Stora Wäsby Orangeriet 3, Upplands Väsby, 194 37, Sweden	Dechra Veterinary Products A/S
Dechra Veterinary Products, LLC	USA	Marketer of veterinary pharmaceuticals and pet diets	Principal Place of Business: 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Holdings US Inc
Dechra-Brovel, S.A. de C.V.	Mexico	Developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals	Principal Place of Business: Empresa Numero 66, Colonia Mixcoac, Delegacion Benito Juarez, Ciudad de Mexico, Distrito Federal, Mexico	Dechra Limited
Eurovet Animal Health B.V.	The Netherlands	Holding company, developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals	Handelsweg 25, 5531AE Bladel, The Netherlands	Dechra Pharmaceuticals PLC
Genera d.d.	Croatia	Holding company, developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals and crop protection	Svetonedeljska cesta 2, Kalinovica, 10436 Rakov Potok, Croatia	Eurovet Animal Health B.V.
Genera d.o.o Sarajevo	Bosnia and Herzegovina	Marketer of veterinary pharmaceuticals	Hamdije Cemerlica 2, Sarajevo, Bosnia and Herzegovina	Genera d.d.
Genera Pharma d.o.o.	Serbia	Marketer of veterinary pharmaceuticals	Gostivarska 70, Vozdovac, Beograd, Serbia	Genera d.d.
Genera SI d.o.o	Slovenia	Marketer of veterinary pharmaceuticals	Parmova Ulica, Ljubljana, Slovenia	Genera d.d.
Laboratorios Vencofarma do Brasil Ltda	Brazil	Developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals	Travessa Dalva de Oliveira, 237, administrative office I, Industrias Leves, Londrina, Parana 86030-370, Brazil	Dechra Holdings Brasil Ltda
Le Vet. Beheer B.V.	The Netherlands	Holding company	Wilgenweg 7, 3421TV Oudewater, The Netherlands	Dechra Finance B.V.
Le Vet. B.V.	The Netherlands	Marketer of veterinary pharmaceuticals	Wilgenweg 7, 3421TV Oudewater, The Netherlands	Le Vet. Beheer B.V.
Putney, Inc	USA	Developer, regulatory and marketer of veterinary pharmaceuticals	Principal Place of Business: 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Holdings US Inc

# Notes to the Company Financial Statements

continued

## (xiv) Subsidiary Undertakings continued

### Other subsidiaries

Name	Country of Incorporation	Principal Activity	Registered Address	Shareholder
Apex Laboratories N.Z. Limited	New Zealand	Non-trading	Level 11, 41 Shortland Street, Auckland, 1010, New Zealand	Apex Laboratories Pty Limited
Arnolds Veterinary Products Limited	England and Wales	Non-trading	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Veneto Limited
Broomco 4263 Limited	England and Wales	Non-trading	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Veneto Limited
Dales Pharmaceuticals Limited	England and Wales	Non-trading	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Veneto Limited
Dechra Holding Australia Pty Limited	Australia	Holding company	2 Cal Close, Somersby NSW 2250, Australia	Dechra Limited
Dechra Holdings US Inc	USA	Holding company	Principal Place of Business: 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Limited
Dechra Investments Limited	England and Wales	Holding company	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Pharmaceuticals PLC
DermaPet, Inc	USA	Non-trading	Principal Place of Business: 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Veterinary Products LLC
Farvet Laboratories B.V.	The Netherlands	Non-trading	Handelsweg 25, 5531AE Bladel, The Netherlands	Eurovet Animal Health B.V.
Scanimalhealth ApS (Liquidated)	Denmark	Marketer of veterinary pharmaceuticals	Radhustorvet 5 2, 3520 Farum, Denmark	Eurovet Animal Health B.V.
Veneto Limited	England and Wales	Holding company	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Pharmaceuticals PLC

# Financial History

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
<b>Consolidated Income Statement</b>					
Revenue	481.8	407.1	359.3	247.6	203.5
Underlying operating profit	127.4	99.2	81.3	52.9	44.4
Underlying profit after taxation	92.5	74.5	60.1	38.4	35.3
Underlying earnings per share					
– basic (pence)	90.24	76.85	64.68	42.95	40.17
– diluted (pence)	90.01	76.45	64.33	42.65	39.90
Dividend per share (pence)	31.60	25.50	21.44	18.46	16.94
Operating profit	39.0	34.1	33.2	19.5	26.0
Profit after taxation	30.9	36.1	26.1	12.5	19.5
Earnings per share					
– basic (pence)	30.15	37.24	28.09	14.00	22.14
– diluted (pence)	30.07	37.04	27.93	13.90	21.99
<b>Consolidated Statement of Financial Position</b>					
Non-current assets	756.4	769.4	453.1	393.4	184.9
Current assets	292.1	247.9	185.0	162.4	108.6
Current liabilities	(118.1)	(91.6)	(66.4)	(66.0)	(44.1)
Non-current liabilities	(421.3)	(420.7)	(269.1)	(213.2)	(54.9)
Shareholders' funds	509.1	505.0	302.6	276.6	194.5
<b>Consolidated Statement of Cash Flows</b>					
Net cash inflow from operating activities	81.8	64.0	77.4	43.6	41.0
Net cash outflow from investing activities	(61.9)	(241.7)	(57.2)	(174.0)	(4.7)
Net cash (outflow)/inflow from financing activities	(20.1)	193.8	1.6	125.3	(14.8)

# COMPANY INFORMATION

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## GENERATING AND PROTECTING VALUE FOR SHAREHOLDERS

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# Glossary

The following is a glossary of a number of the terms and acronyms which can be found within this document:

## ABC

Anti-Bribery and Anti-Corruption

## AER

Actual Exchange Rate

## ANZ

Australia and New Zealand

## API

Active Pharmaceutical Ingredient

## APM

Alternative Performance Measures

## AVA

Association of Veterinary Anaesthetists

## BBSRC

Biotechnology and Biological Sciences Research Council

## BEPS

Base Erosion Profit Shifting

## Bioequivalence

The demonstration that the proposed formulation has the same biological effects as the pioneer product to which it is being compared. This is usually demonstrated by comparing blood concentrations of the active over time, but can be compared using a clinical endpoint (e.g. lowering of a worm count) for drugs that are not absorbed or for which blood levels cannot be determined

## bps

Basis Points

## CAGR

Compound Annual Growth Rate

## CAP

Companion Animal Products

## Capex

Capital Expenditure

## CDGP

Canine Diabetes Genetics Partnership

## CER

Constant Exchange Rate

## CMO

Contract Manufacturing Organisation

## Code

UK Corporate Governance Code 2016

## CRM

Client Relationship Management

## CRO

Contract Research Organisation

## CSOP

Company Share Option Plan

## CSR

Corporate Social Responsibility

## Dechra Values or Values

Dedication, Enjoyment, Courage, Honesty, Relationships and Ambition

## DPM

Dechra Pharmaceuticals Manufacturing

## DSC

Dechra Service Center

## DVP

Dechra Veterinary Products

## DVP EU

Dechra Veterinary Products EU or Dechra Veterinary Products Europe

## DVP International

Dechra Veterinary Products International

## DVP NA

Dechra Veterinary Products North America

## DVP US

Dechra Veterinary Products US

## EBIT

Earnings before interest and tax. This is the same as operating profit

## EBITDA

Earnings before interest, tax, depreciation and amortisation

## EBVS

European Board of Veterinary Specialists

## EPS

Earnings Per Share

## ERP

Enterprise Resource Planning

## ESPP

Employee Stock Purchase Plan

## ETR

Effective Tax Rate

## EU Pharmaceuticals

European Pharmaceuticals Segment comprising DVP EU, DVP International and DPM

## Executive Directors

The Executive Directors of the Company, currently Ian Page and Tony Griffin

## FAP

Food producing Animal Products

## FDA

US Food and Drug Administration; a federal agency of the US Department of Health and Human Services

## FRC

Financial Reporting Council

## FRS

Financial Reporting Standards

**FTSE**

Companies listed on the London Stock Exchange

**FTSE 250/350 Index**

An index comprising the 101st to 350th largest companies listed on the London Stock Exchange in terms of their market capitalisation

**GAAP**

Generally Accepted Accounting Practices

**GDPR**

General Data Protection Regulation

**GHG**

Greenhouse Gas

**GRT**

Gross Registered Tonnage

**GPTW**

Great Place To Work

**HR**

Human Resources

**IAS**

International Accounting Standards

**IFRSs**

International Financial Reporting Standards

**IT**

Information Technology

**KPI**

Key Performance Indicator

**LATAM**

Latin America

**Leverage**

The ratio of Net Debt to underlying EBITDA

**LIBOR**

The London Inter-Bank Offered Rate

**LTA**

Lost Time Accident

**LTAFR**

Lost Time Accident Frequency Rate

**LTIP**

Long Term Incentive Plan

**M&A**

Mergers and Acquisitions

**MAT**

Moving Annual Total

**Non-Executive Directors**

The Non-Executive Directors of the Company, currently Tony Rice, Lisa Bright, Julian Heslop, Lawson Macartney and Ishbel Macpherson

**NA Pharmaceuticals**

North American Pharmaceuticals Segment comprising DVP US, Canada and Dechra-Brovel

**New Code**

UK Corporate Governance Code 2018

**OECD**

The Organisation for Economic Cooperation and Development

**Ordinary Shares**

An ordinary share of 1 pence in the share capital of the Company

**Oracle Programme**

Enterprise Resources Planning (ERP) software

**PDRA**

Dechra's Product Development and Regulatory Affairs team

**PEA**

Palmitoylethanolamide

**POMs**

Prescription Only Medicines

**PTSD**

Post-Traumatic Stress Disorders

**Qualifying LTIP Award**

Qualifying LTIP Awards comprises a CSOP option and an ordinary nil-cost LTIP award, with the ordinary award scaled back at exercise to take account of any gain made on exercise of the CSOP option

**R&D**

Research and Development

**RCF**

Revolving Credit Facility

**RIDDOR**

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations

**Rights Issue**

The three for ten rights issue of 20,040,653 shares, details of which are set out in the prospectus of the Company dated 25 April 2012

**ROCE**

Return On Capital Employed

**RPI**

Retail Price Index

**RCVS**

Royal College of Veterinary Surgeons

**SAYE**

Save As You Earn Share Scheme

**SET**

Senior Executive Team

**SG&A**

Selling, General and Administrative Expenses

**S&OP**

Sales & Operations Planning

**TSR**

Total Shareholder Return

# Shareholder Information

## Financial Calendar

2019 Annual General Meeting	18 October 2019
Final Dividend Ex-Dividend Date	24 October 2019
Final Dividend Record Date	25 October 2019
Final Dividend Payment Date	15 November 2019
Announcement of Half Yearly Results	24 February 2020*

Dates marked with an asterisk are provisional and subject to change

## Annual General Meeting

The 2019 Annual General Meeting of the Company will be held at 1.00 pm on 18 October 2019 at Dechra Pharmaceuticals PLC, 6 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA. The notice of meeting (the Notice), which includes special business to be transacted at the Annual General Meeting together with an explanation of the resolutions to be considered at the meeting, is made available on the Company website or mailed to shareholders, if they have elected to receive the Notice in paper format.

## Share History

Dechra floated on the London Stock Exchange in September 2000 at £1.20 per share, with a market capitalisation of £60.0 million.

In relation to the acquisition of VetXX Holdings A/S, on 15 January 2008, Dechra undertook a placing and open offer on the basis of 11 Open Offer shares for every 50 existing shares held on 10 December 2007 at an issue price of 303 pence. On 9 January 2008, 11,624,544 shares were issued.

On 5 April 2012, a Rights Issue was announced on the basis of three new ordinary shares for every existing ten shares held on 23 April 2012 at a subscription price of £3.00 per share. The Rights Issue resulted in 20,040,653 shares being issued with dealings commencing on 16 May 2012.

On 17 March 2016, 4,398,600 ordinary shares were offered by way of a placing at an issue price of £11.00 per share.

On 30 January 2018, 5,121,952 ordinary shares were offered by way of a placing at an issue price of £20.50 per share.

## Company Website

The Dechra website ([www.dechra.com](http://www.dechra.com)) is the best source of useful and up-to-date information about Dechra and its activities, including the latest news, financial and product information to help improve understanding of our business. Additionally, the terms of reference of all our Committees, Articles of Association, our Values and a number of our internal policies are published on the website.

## Electronic Communications

Shareholders now have the opportunity to receive shareholder communications electronically, e.g. Annual Reports, Notice of the Annual General Meeting and Proxy Forms. You can elect to receive email notifications of shareholder communications by registering at [www.shareview.co.uk](http://www.shareview.co.uk), where you can also set up a bank mandate to receive dividends directly to your bank account and to submit proxy votes for shareholder meetings. Receiving the Company's communications electronically allows the Company to communicate with its shareholders in a more environmentally friendly, cost effective and timely manner.

## Registrar

Dechra's Registrar is Equiniti Limited.

Equiniti should be contacted for any matters relating to your shareholding, including:

- Notification of change in name and address
- Enquiries about dividend payments
- Submission of proxy form for voting at the Annual General Meeting

Shareholders who receive duplicate sets of Company mailings because they have multiple accounts should contact Equiniti to have their accounts amalgamated.

Equiniti offers a facility whereby shareholders are able to access their shareholdings in Dechra via their website ([www.shareview.co.uk](http://www.shareview.co.uk)).

Alternatively, Equiniti can be contacted at: Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

Registrars' Shareholder Helpline for Dechra: 0371 384 2030 or +44(0) 121 415 7047, if calling from outside of the UK.

Please have your Shareholder Reference Number to hand whenever you contact the Registrar; this can be found on your share certificate or a recent dividend tax voucher.

## Share Dealing Service

Equiniti Financial Services Limited offer a Share Dealing Service to buy or sell shares. Further information can be obtained from [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing) or by telephoning 0345 603 7037.

	Telephone share dealing	Internet share dealing	Postal share dealing
Fee (on value of transaction)			
up to £50,000	1.5%	1.5%	1.9%
Balance over £50,000	0.25%	0.25%	1.9%
Minimum charge	£60.00	£45.00	£70.00
Stamp duty charge (purchases only)	0.5%	0.5%	0.5%

Equiniti Financial Services Limited and its agents are authorised and regulated by the Financial Conduct Authority.

Please note that the price of shares can go down as well as up, and you are not guaranteed to get back the amount you originally invested. If you are in any doubt, you should contact an independent financial adviser.

## Warning to Shareholders

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount or offers of free Company Annual Reports. If you receive any unsolicited investment advice, whether over the telephone, through the post or by email:

- make sure you get the name of the person and organisation;
- check that they are properly authorised by the FCA before getting involved by visiting <https://register.fca.org.uk/>; and
- report the matter to the FCA by calling 0800 111 6768 or by completing the online form at [www.fca.org.uk/consumers/report-scam-unauthorised-firm](http://www.fca.org.uk/consumers/report-scam-unauthorised-firm).

More detailed information and guidance is available on the shareholder information pages of our website.

Additionally, feel free to report and/or discuss any shareholder security matters with the Company. To do this, please call +44 (0)1606 814 730 and ask to be put through to a member of the Company Secretarial department.

# Advisers

## Auditor

PricewaterhouseCoopers LLP  
Cornwall Court  
19 Cornwall Street  
Birmingham  
B3 2DT

## Stockbroker & Financial Advisers

Investec Bank plc  
30 Gresham Street  
London  
EC2V 7QN

## Lawyers

DLA Piper UK LLP  
Victoria Square House  
Victoria Square  
Birmingham  
B2 4DL

## Registrars

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA

## Financial PR

TooleyStreet Communications  
Regency Court  
68 Caroline Street  
Birmingham  
B3 1UG

## Principal Bankers

Bank of Ireland (UK) plc  
40 Mespil Road  
Dublin  
Ireland  
B3 2QZ  
  
BNP Paribas, London Branch  
3rd Floor  
10 Harewood Avenue  
London  
NW1 6AA

Fifth Third Bank  
38 Fountain Square Plaza  
Cincinnati  
Ohio 45263  
USA

## Principal Bankers continued

HSBC Bank plc  
Midlands Corporate Banking Centre  
120 Edmund Street  
Birmingham  
B3 2QZ

Lloyds Bank plc  
Phase 1, Ground Floor  
Lovell Park  
1 Lovell Park Road  
Leeds  
LS1 1NS

Raiffeisen Bank International AG  
Am Stadtpark 9  
1030 Vienna  
Austria

Santander UK PLC  
2nd Floor  
100 Ludgate Hill  
London  
EC4M 7RE

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