Financial Review

Paul Sandland
Chief Financial Officer

Our existing business performed robustly this year, recovering well from first half supply issues and through the disruption caused by COVID-19

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

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 operating loss includes underlying operating profit of £1.6 million and non-underlying charges of £6.9 million. These non-underlying charges comprise amortisation of acquired intangibles of £2.6 million and acquisition costs of £4.3 million.

Including non-underlying items, the Group's consolidated operating profit increased by 33.6% at CER (33.8% at AER) whilst consolidated profit before tax increased by 45.3% at CER (47.1% at AER). Diluted EPS growth was restricted to 7.3% at CER (8.9% at AER) primarily reflecting the one-off impact in the prior year of the reduction in the Netherlands tax rates on deferred tax balances.

As Reported	**2020 Existing £m**	**2020 Acquisition £m**	**2020 Consolidated £m**	2019 £m	Growth at AER Consolidated %	***Growth at CER Consolidated %***
Revenue	502.1	13.0	515.1	481.8	6.9%	*6.8%*
Gross profit	285.4	6.2	291.6	273.1	6.8%	*6.7%*
Gross profit %	56.8%	47.7%	56.6%	56.7%	(10bps)	*(10bps)*
Operating profit/(loss)	57.5	(5.3)	52.2	39.0	33.8%	*33.6%*
EBIT %	11.5%	(40.8%)	10.1%	8.1%	200bps	*200bps*
Profit/(loss) before tax	47.3	(6.4)	40.9	27.8	47.1%	*45.3%*
Diluted EPS (p)			32.76	30.07	8.9%	*7.3%*

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 2020 is provided in the table below. In the commentary which follows, all references will be to CER movement unless otherwise stated.

	2020 Underlying Results £m	Non-underlying Items: Amortisation and related costs of acquired intangibles £m	Acquisition, impairments and restructuring costs £m	Tax rate changes and finance expenses £m	2020 Reported Results £m
Revenue	515.1	–	–	–	515.1
Gross profit	291.6	–	–	–	291.6
Selling, general and administrative expenses	(134.9)	(63.9)	(6.5)	–	(205.3)
R&D expenses	(28.4)	(5.7)	–	–	(34.1)
Operating profit	128.3	(69.6)	(6.5)	–	52.2
Net finance costs	(8.5)	–	–	(2.5)	(11.0)
Share of associate profit/(loss)	0.3	(0.6)	–	–	(0.3)
Profit before tax	120.1	(70.2)	(6.5)	(2.5)	40.9
Taxation	(24.7)	17.0	0.9	(0.2)	(7.0)
Profit after tax	95.4	(53.2)	(5.6)	(2.7)	33.9
Diluted EPS (p)	92.19	–	–	–	32.76

In the year, Dechra delivered consolidated revenue of £515.1 million, representing an increase of 6.8% on the prior year. This included £502.1 million from its existing business, an increase of 4.1%, and a £13.0 million contribution from acquired businesses.

Consolidated underlying operating profit of £128.3 million represents a 0.4% increase on the prior year. This included £126.7 million from Dechra's existing business, a reduction of 0.8% on a like-for-like basis, and a £1.6 million contribution from acquired businesses.

Underlying EBIT margin reduced by 150 bps to 24.9%, with the erosion attributable to a combination of the £3.5 million curtailment credit of our Dutch defined benefit pension scheme in the prior year, the dilutive impact of acquired businesses and increased Research and Development expenses. Excluding the credit relating to the curtailment of the Dutch defined benefit pension scheme in the prior year, the EBIT margin reduction would be 80 bps.

Underlying diluted EPS grew by 1.7% to 92.19 pence reflecting the profit growth from the existing and acquired businesses.

Underlying	2020 Existing £m	2020 Acquisition £m	2020 Consolidated £m	2019 £m	*Growth at CER* *Existing* %	*Growth at CER* *Consolidated* %
Revenue	502.1	13.0	515.1	481.8	*4.1%*	*6.8%*
Gross profit	285.4	6.2	291.6	278.2	*2.5%*	*4.7%*
Gross profit %	56.8%	47.7%	56.6%	57.7%	*(90bps)*	*(110bps)*
Underlying Operating profit	126.7	1.6	128.3	127.4	*(0.8%)*	*0.4%*
Underlying EBIT %	25.2%	12.3%	24.9%	26.4%	*(120bps)*	*(150bps)*
Underlying EBITDA	140.2	2.3	142.5	137.2	*2.0%*	*3.7%*
Underlying Diluted EPS (p)	–	–	92.19	90.01	–	*1.7%*
Dividend per share (p)	–	–	34.29	31.6	–	*8.5%*

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Reported Segmental Performance

Reported segmental performance is presented in note 2 on pages 166 to 168. 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.

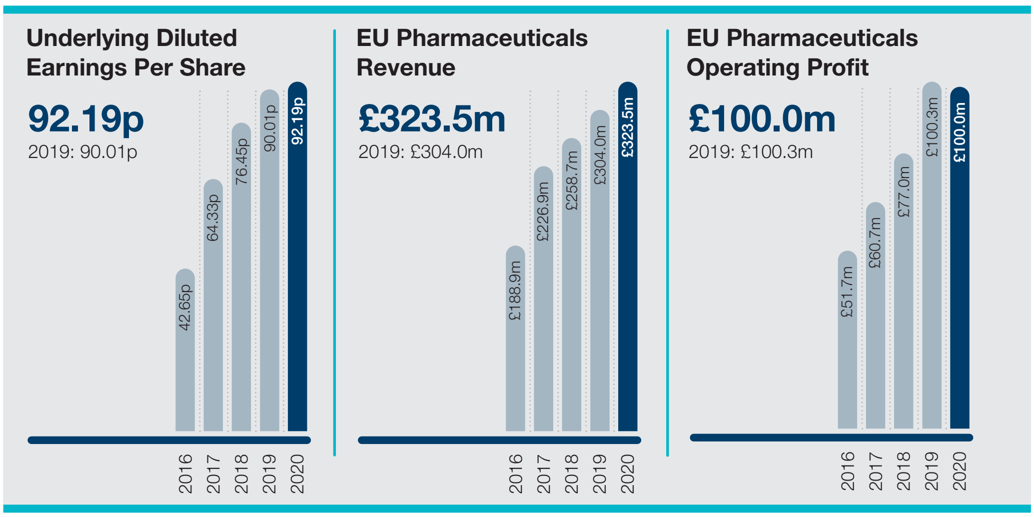
Reported	2020 Existing £m	2020 Acquisition £m	2020 Consolidated £m	2019 £m	Growth at AER Existing %	Growth at AER Consolidated %	*Growth at CER Existing %*	*Growth at CER Consolidated %*
Revenue by segment								
EU Pharmaceuticals	314.3	9.2	323.5	304.0	3.4%	6.4%	*4.7%*	*7.8%*
NA Pharmaceuticals	187.8	3.8	191.6	177.8	5.6%	7.8%	*3.0%*	*5.1%*
Total	502.1	13.0	515.1	481.8	4.2%	6.9%	*4.1%*	*6.8%*
Operating profit/(loss) by segment								
EU Pharmaceuticals	98.6	1.4	100.0	100.3	(1.7%)	(0.3%)	*(0.6%)*	*0.8%*
NA Pharmaceuticals	62.9	0.8	63.7	59.2	6.2%	7.6%	*3.4%*	*4.7%*
Pharmaceuticals Research and Development	(27.8)	(0.6)	(28.4)	(25.1)	(10.8%)	(13.1%)	*(10.0%)*	*(12.4%)*
Segment operating profit	133.7	1.6	135.3	134.4	(0.5%)	0.7%	*(0.8%)*	*0.4%*
Corporate and unallocated costs	(7.0)	–	(7.0)	(7.0)	0.0%	0.0%	*0.0%*	*0.0%*
Underlying operating profit	126.7	1.6	128.3	127.4	(0.5%)	0.7%	*(0.9%)*	*0.4%*
Non-underlying operating items	(69.2)	(6.9)	(76.1)	(88.4)				
Reported operating profit	57.5	(5.3)	52.2	39.0	47.4%	33.8%	*47.2%*	*33.3%*

Underlying Segmental Performance

European Pharmaceuticals

Revenue in European (EU) Pharmaceuticals grew by 7.8%. The existing business grew by 4.7% including like-for-like year-on-year Dechra Brazil (Venco) revenue, and Caledonian Holdings Ltd (Caledonian) revenue; excluding third party contract manufacturing, which is being reduced in line with our strategy and replaced with own product manufacturing, revenues increased by 6.4%. This growth was driven by a strong performance in a number of countries, including Germany, Iberia, Poland and Italy, and through the continued realisation of synergies from Le Vet partly offset by COVID-19 related weakness driving lower sales in the UK. The acquisitions of Venco and Caledonian contributed a combined £9.2 million to revenue for the period where there is no comparative and are reported within EU Pharmaceuticals.

Operating Profit from existing business declined by 0.6%, with operating margin reducing to 31.4% and consolidated operating margin declining to 30.9%. This was principally due to the prior year curtailment of our Dutch defined benefit pension scheme which resulted in a £3.5 million non-cash credit in addition to the adverse product mix impact from the acceleration of our lower margin FAP business. Excluding the curtailment gain, operating profit from existing business grew by 3.0% with operating margins reducing by 50 bps.



Underlying	2020 Existing £m	2020 Acquisition £m	2020 Consolidated £m	2019 £m	Growth at CER Existing %	Growth at CER Consolidated %
Revenue	314.3	9.2	323.5	304.0	*4.7%*	*7.8%*
EBITDA	109.6	1.8	111.4	108.6	*1.9%*	*3.7%*
EBITDA %	34.9%	19.6%	34.4%	35.7%	*(90bps)*	*(130bps)*
Operating Profit	98.6	1.4	100.0	100.3	*(0.6%)*	*0.8%*
Operating Profit %	31.4%	15.2%	30.9%	33.0%	*(170bps)*	*(220bps)*

North American Pharmaceuticals

Revenue from North American (NA) Pharmaceuticals grew by 5.1% to £191.6 million. The existing business grew by 3.0% due to a strong second half of the year which benefitted from the resolution of most of our internal supply issues and the retention of market share for *Zycortal.* The acquisitions of Ampharmco and *Mirataz* added £3.8 million to revenue for the period.

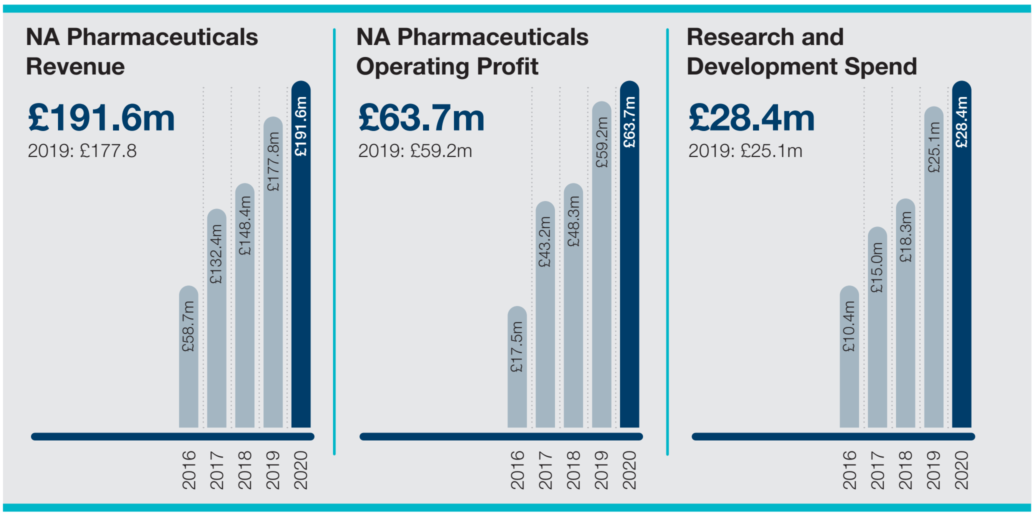
Operating Profit from existing business grew 3.4% with operating margin increasing slightly by 10 bps to 33.5%. Further margin expansion was hampered by the loss of our sterile ophthalmic range for the entire financial year. We expect to be back in supply of this range in the second half of the 2021 financial year. Acquisitions did not impact significantly on segmental performance in the period with a small contribution from Ampharmco relating to third party contract sales in addition to the initial sales of *Mirataz* in the last two months of the financial year.

Underlying	2020 Existing £m	2020 Acquisition £m	2020 Consolidated £m	2019 £m	Growth at CER Existing %	Growth at CER Consolidated %
Revenue	187.8	3.8	191.6	177.8	*3.0%*	*5.1%*
EBITDA	64.3	1.1	65.4	60.0	*4.3%*	*6.2%*
EBITDA %	34.2%	28.9%	34.1%	33.7%	*50bps*	*40bps*
Operating Profit	62.9	0.8	63.7	59.2	*3.4%*	*4.7%*
Operating Profit %	33.5%	21.1%	33.2%	33.3%	*10bps*	*(10bps)*

Pharmaceuticals Research and Development

Pharmaceuticals Research and Development (R&D) expenses increased by 12.4% from £25.1 million to £28.4 million, with existing business research and development increasing by 10.0%. R&D activities from the acquisition of Ampharmco and Venco added £0.6 million. Overall R&D expenses as a percentage of revenue increased from 5.2% to 5.5%. This included £2.2 million of spend in relation to Akston, and 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.

	2020 Existing £m	2020 Acquisition £m	2020 Consolidated £m	2019 £m	Growth at CER Existing %	Growth at CER Consolidated %
R&D expenses	(27.8)	(0.6)	(28.4)	(25.1)	*(10.0%)*	*(12.4%)*
% of Revenue	5.5%	4.6%	5.5%	5.2%		



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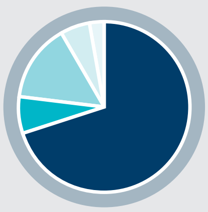
Revenue by Product Category

CAP revenue continues to be the largest proportion of Dechra's business at 70.1%, down from 70.6% in the prior year. CAP grew 5.5% in the year from market penetration, product launches and the addition of *Mirataz*. Equine revenue grew by 6.1% in the year, with growth driven by the Caledonian acquisition. FAP revenue accelerated by 33.5% driven by strong core growth in the EU and the acquisition of Venco. Nutrition revenue slightly declined on the prior year.

Other revenue reduced by 34.1% to £13.7 million, now representing only 2.7% 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.

	2020 £m	2019 £m	% Change at AER	% Change at CER
CAP	361.6	340.2	6.3%	*5.5%*
Equine	36.4	34.4	5.8%	*6.1%*
FAP	74.8	57.3	30.5%	*33.5%*
Subtotal Pharmaceutical	472.8	431.9	9.5%	*9.3%*
Nutrition	28.6	29.1	(1.7%)	*(0.7%)*
Other	13.7	20.8	(34.1%)	*(34.1%)*
Total	515.1	481.8	6.9%	*6.8%*

Revenue by Product Category (at AER)



Underlying Gross Profit

Underlying Gross Profit for the existing business declined by 90 bps to 56.8% and the consolidated Underlying Gross Profit declined by 110 bps to 56.6%, reflecting the greater proportion of FAP sales.

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

SG&A costs grew from £125.7 million in the prior year to £134.9 million in the current year, an increase of 7.3% (at AER). This represents growth from both acquired and the existing businesses, and infrastructure cost added to manage the acquisitions and drive further growth.

For the 2019 financial year the SG&A costs included 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 at 26.2% remained in line with 2019 at 26.1% (26.8% excluding the pension credit).

Non-underlying Items

Non-underlying items incurred in the year are fully described in note 5 on page 169. In summary, they relate to the following:

- Amortisation of acquired intangibles of £69.6 million – the amortisation of the acquired intangibles has declined from £76.8 million principally due to a lower charge from the AST Farma and Le Vet acquisition;
- Expenses relating to acquisition and subsequent integration activities of £4.3 million (2019: £3.7 million) – this includes the transaction and integration costs associated with the acquisitions made in recent years including AST Farma and Le Vet, Caledonian, Venco, Ampharmco, *Mirataz* and the prospective acquisition of *Osurnia* which completed in July 2020;
- Rationalisation of manufacturing organisation of £2.2 million (2019: £2.0 million) – this comprises the costs associated with this strategic programme;
- Finance expense of £2.5 million (2019: £1.0 million) – this represents the charge arising on the acceleration of the amortisation of arrangement fees relating to the Term Loan on termination (see Borrowing Facilities section below) and also unwinding of the present value discounts relating to contingent consideration due and associated foreign exchange; and
- Taxation credit of £17.7 million (2019: £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 including a further revision to the 2021 Netherlands tax rate which will now decrease to 21.7% in 2021 (previously this was expected to be 20.5%).

Taxation

The reported effective tax rate (ETR) for the year is 17.1% (2019: credit of 11.2%). The significant credit in the prior year reflected the one-off impact of the reduction in the Netherlands tax rates on deferred balances. On an underlying basis the ETR is 20.6% (2019: 21.2%); the main differences to the UK corporation tax rate applicable of 19.0% (2019: 19.0%) relate to patent box allowances and differences in overseas tax rates.

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 73 to 76.

Reported Profit

Reported profit before tax increased by 47.1% at AER reflecting the reported operating profit growth of 33.8% at AER and the proportionate decrease in the finance charges arising from the financing of prior and current year acquisitions.

Earnings per Share and Dividend

Underlying diluted EPS for the year was 92.19 pence, a 1.7% growth on the prior year in line with the EBIT growth of 0.4%. The weighted average number of shares for the year was 103.5 million (2019: 102.8 million).

The reported diluted EPS for the year was 32.76 pence (2019: 30.07 pence). This represents an increase of 8.9% (at AER) in reported EPS much lower than the reported EBIT growth of 33.8% (at AER) and reflects an increase in the reported tax charge due to the year on year impact of rate changes, which gave rise to a tax credit in the previous year.

The Board is proposing a final dividend of 24.00 pence per share (2019: 22.10 pence), added to the interim dividend of 10.29 pence, the total dividend per share for the year ended 30 June 2020 is 34.29 pence. This represents 8.5% growth over the prior year. Dividend cover based on underlying diluted EPS is 2.7 times (2019: 2.8 times). The Board continues to operate a progressive dividend policy recognising investment opportunities as they arise.

Currency Exposure

The average rate for £/€ increased by 0.4%, and the £/$ rate has decreased by 2.7% 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		
	2020	2019	*% Change*
£/€	1.1396	1.1345	*0.4%*
£/$	1.2601	1.2945	*(2.7%)*

Currency Sensitivity

Euro €: a 1% variation in the £/€ exchange rate affects underlying diluted EPS by approximately +/- 0.4%.

US Dollar $: a 1% variation in the £/$ exchange rate affects underlying diluted EPS by approximately +/- 0.4%.

Current exchange rates are £/€ 1.1256 and £/$ 1.3351 as at 2 September 2020. If these rates had applied throughout the year, the underlying diluted EPS would have been approximately 2.1% lower.

Statement of Financial Position

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

- Non-current assets (excluding deferred tax) increased from £750.0 million to £788.7 million and includes the intangible assets recognised on the acquisitions of Ampharmco and *Mirataz* and the additional investment in Medical Ethics being partly offset by amortisation of acquired intangibles.
- Working capital has increased from £107.8 million to £116.5 million partly due to an increase in inventory to enable service levels to be maintained whilst customer inventory levels fluctuate due to COVID-19 uncertainty but also due to the growth of the Group.
- Net debt has decreased in the year by £100.2 million from £227.8 million to £127.6 million; this includes cash generation from operations at £127.5 million, the net proceeds from the share placing of £131.5 million, outflows of £66.8 million relating to the acquisitions of Ampharmco, *Mirataz* and the additional investment in Medical Ethics along with £33.3 million in dividends. Exchange rate variations adversely affected the net debt position by £3.0 million.
- Current and deferred tax has reduced from £82.0 million to £78.7 million principally due to the realisation of deferred tax liabilities relating to the amortisation of acquired intangibles.

	2020 £m	2019 £m
Non-current assets	786.0	749.1
Working capital	116.5	107.8
Net debt	(127.6)	(227.8)
Current and deferred tax	(78.7)	(82.0)
Other liabilities	(58.7)	(38.0)
Total net assets	637.5	509.1

Cash Flow, Financing and Liquidity

The Group enjoyed strong cash generation during the year, with a strong EBITDA margin of 27.7% (2019: 28.5%). However, as mentioned above, working capital has increased by £8.7 million, mainly due to increases in inventory as a result of additional stock cover during COVID-19 and growth of the Group's trading activities. This resulted in net cash generated from operations of £127.5million, representing cash conversion of 99.4%.

	2020 £m	2019 £m
Underlying operating profit	128.3	127.4
Depreciation and amortisation	14.2	9.8
Underlying EBITDA	142.5	137.2
Underlying EBITDA %	27.7%	28.5%
Working capital movement	(8.7)	(19.5)
Other	1.0	(2.0)
Cash generated from operations before interest, taxation and non-underlying items	134.8	115.7
Non-underlying items	(7.3)	(7.4)
Cash generated from operations before interest and taxation	127.5	108.3
Cash conversion (%)	99.4%	85.0%

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Net Debt Bridge

Notable cash items are listed below in the net debt reconciliation table:

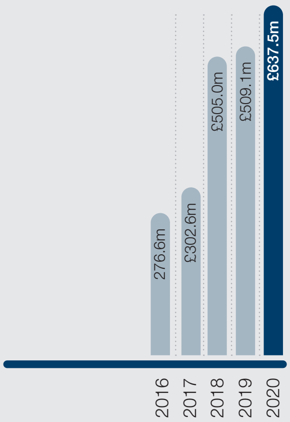
- Net capital expenditure on tangible and intangible assets (excluding the *Mirataz* acquisition) decreased to £14.2 million (2019: £22.2 million), representing 1.0 times depreciation and amortisation.
- Acquisitions of subsidiaries, intangible assets and investment in associates of £67.6 million includes the acquisitions of Ampharmco and *Mirataz,* the additional investment in Medical Ethics and the royalty payment for Phycox. Further details are provided in notes 6 and 31.

	£m
Net Debt 30 June 2019	(227.8)
Net cash generated from operations before non-underlying items	134.8
Non-underlying items	(7.3)
Net capital expenditure	(14.2)
Acquisition of subsidiaries & *Mirataz* product rights	(60.0)
Investment in associates	(7.6)
Acquisition of subsidiary borrowings	(0.1)
New borrowing (finance leases)	(5.5)
Interest and tax	(20.4)
Net equity issued	131.5
Dividend paid	(33.3)
Changes in accounting policy for leases	(12.7)
Other non-cash movements	(2.0)
Foreign exchange on net debt	(3.0)
Net Debt 30 June 2020	(127.6)

- 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 0.80 times (2019: 1.64 times) versus a covenant of 3 times.

Net Assets

£637.5m



Borrowing Facilities

As reported in preceding Annual Reports, the Group completed a refinancing and entered into a multi-currency 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 (replaced by Credit Industriel et Commercial, London branch (CIC) in August 2019), Raiffeisen Bank International AG and Santander UK plc (the Banks). The Facility agreement included a committed revolving credit facility (the RCF) of £235.0 million, together with an 'Accordion' facility of £125.0 million. The RCF is committed until July 2024.

On 1 October 2019 the Accordion on the RCF was invoked, removing the Accordion facility and increasing the committed facilities on the RCF to £340.0 million.

In January 2018, the Group also 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, Banco Santander SA, London branch 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 were the same as in the RCF. The maturity date on the Term Loan was 31 December 2020 with a drawdown period expiring on 31 December 2019.

In January 2020 the Group undertook a Private Placement raising €50.0 million and USD 100.0 million (under seven and ten year new senior secured notes respectively), the proceeds of which were used to repay existing debt and enabled the Term Loan to be fully repaid and cancelled. The placement achieved the Group's aims of diversifying the sources of debt financing and extending the debt maturity profile.

On 4 June 2020 the Group successfully completed a share placing of 5,132,500 new ordinary shares, representing approximately 5% of the existing issued share capital of the Company, at a price of 2600 pence per placing share, raising gross proceeds of £133.4 million which were largely deployed to fund the *Osurnia* acquisition upon its completion on 27 July 2020.

Covenants

There are two covenants governing the RCF and the Private Placement:

- Leverage: Net Debt to underlying EBITDA not greater than 3:1 for the RCF and 3.5:1 for the Private Placement (30 June 2020: 0.80:1); and
- Interest Cover: underlying EBITDA to Net Finance Charges not less than 4:1 (30 June 2020: 14.5:1).

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.

The weighted average coupon of the Private Placement fixed rate notes will equate to 2.8%.

Return on Capital Employed (ROCE)

ROCE reduced to 15.4% in the year (2019: 15.6%) reflecting the lower initial contribution in the year from the investments made in Ampharmco and Medical Ethics.

Acquisitions
The Group has made several acquisitions in recent years. The incremental performance during the first year of ownership of the acquisitions made during the 2019 and 2020 financial years is separately summarised compared to the existing business in the sections above.

In July 2019, the Group acquired an additional 15.0% of the shares of Medical Ethics Pty Ltd for a consideration of £7.6 million. This takes our total holding to 48.0%. The acquisition was financed from the Group's existing working capital resources.

In August 2019, we announced the acquisition of Ampharmco LLC, an FDA registered facility in Fort Worth, Texas for a cash consideration of £24.3 million. The business has been successfully integrated into the Group and will support our manufacturing strategy to produce more in-house. The acquisition was financed from the Group's existing working capital resources.

In April 2020, the Group completed the acquisition of the worldwide rights and assets of the *Mirataz* product portfolio from Kindred Biosciences Incorporated for consideration of £34.9 million plus a royalty on future revenues. The addition of *Mirataz* significantly enhances the Dechra portfolio and is complementary to its existing product offering to veterinarians. The acquisition was financed from an additional drawdown from the Group's RCF.

Accounting Standards
The accounting policies adopted are outlined in note 1 to the Accounts. IFRS16 'Leases' was adopted in the period and resulted in a lease liability of £12.7 million with a corresponding fixed asset increase of £12.7 million. There are no other accounting policy changes which have materially impacted the 2020 financial year.

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 2020 the Group had net debt of £127.6 million (2019: net debt of £227.8 million), and had available cash balances and unutilised committed borrowings facilities of £353.2 million. The Group acquired the worldwide product rights to *Osurnia* after the year end in July 2020 for USD 135.0 million (£104.7 million). Inventory of USD6.6 million (£1.5 million) was also acquired as part of the transaction. Further information on available resources and committed bank facilities is provided in notes 18 and 21 to the financial statements.

Summary
Our existing business performed robustly despite the disruption caused by first half supply issues and COVID-19 in the second half. In-house manufacturing issues were mostly resolved by the end of the calendar year resulting in our performance being more second half weighted than is typical for Dechra.

Our acquisition of Ampharmco strengthens our in-house manufacturing capabilities, while *Mirataz* and *Osurnia* increase our geographical and market presence. 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.

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

Paul Sandland
Chief Financial Officer
7 September 2020