Chief Executive Officer's Statement

We believe in the capability of our people and our ability to execute our strategy

Ian Page
Chief Executive Officer

Glossary

Terms used within this section:

CER: Constant Exchange Rates

AER: Actual Exchange Rates

CAP: Companion Animal Products

EMA: European Medicines Agency

ERP: Enterprise Resource Planning

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

FDA: US Food and Drug Administration; a federal agency of the US Department of Health and Human Services

FAP: Food producing Animal Products

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

I am pleased to report that Dechra has remained resilient throughout a challenging year. This is testament to our strategy, the strength of our product portfolio and through the innovation and dedication of our people. Our portfolio focus on prescription only medicines, our continued international expansion and the delivery of targeted acquisitions have ensured that we have, yet again, outperformed the market.

COVID-19

Throughout the pandemic we have successfully managed to remain operational. We took the decision that we would not furlough any of our employees and therefore did not take advantage of, or utilise, any government assistance in any country. There is no doubt that this has provided job security to our people which has enhanced their loyalty and commitment. All manufacturing, logistics and front line laboratories have remained open and operational throughout the period and our employees in these areas have been awarded a one-off bonus payment; all other employees have functionally operated from home. Many of our sales teams created new and innovative ways to communicate with and support our veterinary customer base.

Sadly, we were all touched by the loss to COVID-19 of our Group Manufacturing and Supply Chain Director, Simon Francis. In the 18 months that he was with the Group, Simon had implemented a robust strategy and significantly strengthened the management team who will continue to deliver this strategy as his legacy.

Across the world the majority of veterinary practices have still operated; however, service provision varied on a country-by-country basis, further details of which will be provided later in this report. Our sales have remained robust because of our strategy to focus on essential and chronic prescription medicines, this has served us well, as veterinarians have worked to ensure that sick animals have continued to be treated.

Operational Review

EU Pharmaceuticals Segment

During the financial year our European (EU) Pharmaceuticals Segment reported net revenues increased by 7.8% at CER (6.4% at AER). The Segment includes our International business, which is detailed below. It also includes non-core business, such as third party contract manufacturing, which we continue to exit as strategically planned. Existing revenues, excluding third party contract manufacturing and including the like-for-like impact of recent acquisitions, increased by 6.4% at CER (5.0% at AER).

This growth has been driven across all our key therapeutic sectors, due to veterinary educational programmes on our existing portfolio and the continued delivery of synergies from the AST Farma and Le Vet acquisition completed in February 2018. Two of the products from this acquisition, Tralieve® and Prevomax®, have performed exceptionally well.

Performance by country is varied with the COVID-19 effect being particularly prevalent in the UK and France, both of which have underperformed. The UK was subject to more practice closures than any

5.1% at CER
Revenue Growth in NA

7.8% at CER
Revenue Growth in EU

other country and also appears to have been affected by wholesalers reducing Brexit contingency stock. The UK started to show signs of recovery in June and returned to near normal in July. Performance in France showed a marked improvement in June. All other territories performed well in this difficult COVID-19 affected environment.

Five years ago we had a greenfield start-up of a new Dechra subsidiary in Poland, focusing entirely on FAP products. In line with our strategy, we started to introduce CAP products there. It is pleasing to report that we have more than quadrupled our total in-market revenues in this territory since formation and it is now our fastest growing CAP market.

International Business

Our international expansion strategy continues to deliver growth, especially in Australia, New Zealand and Brazil where we have our own Dechra branded organisations. Core performance in Australia has been strong and will be enhanced in the new financial year as our key endocrine brands, *Vetoryl, Felimazole* and *Zycortal,* revert to Dechra following the termination of the prior distribution agreement. The Venco team in Brazil have transitioned the business to the Dechra brand and our capital investment programme continues as we modernise and improve the facilities. The vaccine portfolio in Brazil will be diversified as we start to introduce Dechra products with *Vetoryl* now being marketed and *Felimazole* and *Zycortal* in the fast track approval process. Our distribution business continues to be extended through product registrations and by stronger relationships with these key marketing partners.

NA Pharmaceuticals Segment

Our North America (NA) Pharmaceuticals Segment net revenues increased by 5.1% at CER (7.8% at AER). This is an excellent second half performance given the decline seen in the first half due to supply issues and a strong comparable period in the previous year which benefited from exceptional sales of *Zycortal.*

On the whole, the US market has been reasonably robust with veterinary practices offering kerbside and online consultations.

Following the acquisition of *Mirataz*, we appointed 11 talented members of the Kindred Biosciences Incorporated (Kindred Bio) team which extended our overall sales capabilities and added to our digital marketing skills.

Performance in Mexico continues to improve as we now have several key Dechra products registered in the territory which provide a higher margin than the legacy products.

Performance in Canada remains solid; however, it has been partly offset by an ongoing supply issue with Canaural®, an older product produced in-house that we are in the process of modernising to bring testing methods up to current standards.

Product Group Performance

CAP

Companion Animal Products (CAP), which represent 70.1% of Group turnover, grew by 5.5% at CER. This steady performance benefitted from the launch of *Mirataz* but was impacted by lower sales rates in the UK and France in the last quarter.

FAP

Food producing Animal Products (FAP), which represents 14.5% of Group turnover, grew by 33.5% at CER, a strong performance benefitting from a full year of sales from DVP Brazil (Venco) and with a lower impact from COVID-19 disruptions.

Equine

Equine, which represents 7.1% of Group turnover, grew by 6.1% at CER benefitting from a full year of the Caledonian acquisition portfolio.

Nutrition

Nutrition represents 5.6% of Group turnover and declined by 0.7%. This is a solid performance as these nutritional diets are subject to discretionary spend unlike much of the rest of the portfolio which is predominantly clinically necessary pharmaceuticals. Following the relaunch of the cat diets last year, the dog diets have now also all been refreshed with improved formulation, packaging and presentation and have been positioned at a lower price point to give us an additional competitive advantage.

Product Development

Structural Changes

As reported at the half year, Dr Susan Longhofer, who has been with the Group for 15 years, was promoted to a new position of Group Chief Scientific Officer. Following this promotion, we have restructured product development, regulatory affairs and pharmaceutical business development teams. Nancy Zimmerman, formerly head of Companion Animal Marketing, was promoted to Group Director of Pharmaceutical Business Development, a role predominantly focused around identifying and screening new development opportunities. Trish Logie, a recent appointment within the EU, who has industry and regulatory agency experience, has been promoted to Group Director, Regulatory Affairs. Anthony Lucas remains as the Group Product Development Director.

Our product development laboratory in Zagreb has been completely refurbished to GMP standards; with double the amount of space, new equipment and the appointment of new analysts. This investment enables us to increase the amount of analytical and formulation work conducted at this facility significantly.

Product Approvals

Numerous marketing authorisations have been achieved throughout the year. Although none is material in its own right, they all strengthen the existing portfolio in Dechra territories and enhance our International portfolio, an increasing area of strategic importance. Major approvals in Dechra territories were:

- *Cosacthen* for the diagnosis of Cushing's Disease and Addison's Disease (which *Vetoryl* and *Zycortal* treat) was approved in 23 EU territories and Canada;
- *Avishield* IB Plus and *Avishield* IB GI-13, both poultry vaccines, were approved in the EU territories;
- Marboquin tablets, a companion animal antibiotic, were approved in the USA;
- eight new products were registered in Australia and New Zealand, two in Mexico and one in Brazil;
- a number of established products already registered in the EU have now received approval in new territories, including Clavudale®, *Felimazole*, Isathal®, Spectrabactin and Octacillin®. Our market leading equine non-steroidal anti-inflammatory, Equipalazone®, has been reformulated with the addition of a flavouring agent, which has now been approved in 13 European territories; and
- Internationally we have received 34 approvals across our key brands in countries including Indonesia, Korea, Myanmar, Nicaragua, Oman, Tanzania, Thailand, United Arab Emirates, Uruguay and Vietnam.

Chief Executive Officer's Statement continued

Filling the Pipeline

At the beginning of the financial year, in August 2019, we announced the signing of a licensing and supply agreement with Akston Biosciences to co-develop a long acting treatment for diabetes in dogs. Subsequently we have exercised our rights to evaluate the cat product. The initial proof of concept study in dogs was positive with high efficacy rates and satisfied dog owners who only had to administer an injection once a week as opposed to twice daily. We still have many significant hurdles to cross but initial indications look positive for what could be a huge opportunity for the Group. We continue to screen numerous other opportunities and are hoping shortly to commence another proof of concept study for a novel ophthalmic product.

Acquisitions

In July 2019, we acquired an additional 15.0% of the shares of Medical Ethics Pty Ltd, the parent company of Animal Ethics Pty Ltd, for a consideration of AUD13.5 million (£7.6 million). Following the acquisition of 33.0% for AUD18.0 million in 2017 this takes our total holding to 48%. Strong progress continues to be made on the global development of Tri-Solfen® for pigs, cattle and sheep. I am pleased to report that the Committee for Veterinary Medicinal Products (CVMP) has recommended that a maximum residue limit (MRL) be granted for the topical use of the two local anaesthetic constituents of Tri-Solfen® for use in cattle and pigs. This is a major positive step forward towards gaining market approvals in the EU and UK with submission of the dossier for approval for use in pigs expected to be made through the European decentralised process before the end of the calendar year. The ongoing trials for its application for debriding of venous leg ulcers in humans have been delayed due to COVID-19.

In August 2019, we announced the acquisition of Ampharmco LLC in Fort Worth, Texas, USA for a cash consideration of USD29.6 million (£24.3 million). Ampharmco, an FDA registered facility, was acquired to support our manufacturing strategy and to provide us with a US base to manufacture solid dose, liquids, creams and ointments for the American market. It also had three FDA approved generic products: Gentamicin-Betamethasone Topical Spray was already marketed by Dechra; Carprofen Chewable Tablets have now been launched under the Dechra brand; and Carprofen Flavoured Tablets have recently been approved but not yet launched.

In April 2020, we completed the acquisition of the worldwide rights and assets of the *Mirataz* product portfolio from Kindred Bio for cash consideration of USD43.0 million (£34.9 million) and a royalty on future sales. *Mirataz* is the first and only FDA and EMA approved transdermal medication for the management of weight loss in cats, a major problem encountered by veterinarians and owners when treating other underlying medical conditions. The product is an excellent fit with Dechra's existing portfolio as many of the conditions our products treat are complicated by weight loss in cats. It is a product that will need our technical expertise, marketing capabilities and educational tools to drive sales. It is currently sold in the USA and has recently been approved in the EU with an expected launch towards the end of the 2020 calendar year. We are also planning registration in several other territories.

In July 2020, post the year end, we completed the acquisition of the worldwide rights to the *Osurnia* product portfolio from Elanco Animal Health Incorporated for consideration of USD135.0 million (£104.7 million). *Osurnia* is a long acting treatment for otitis externa (inflammation of the outer ear) in dogs. The addition of *Osurnia* to our dermatology portfolio will significantly enhance our presence in this key therapeutic area and increase the range of solutions we offer to veterinarians in treating otitis. *Osurnia* is sold in all our main markets, North America and the EU and also in a number of our International markets including Brazil and Australia.

Strategic Enablers

Manufacturing and Supply Chain

It has been an extremely challenging year for the Manufacturing and Supply Chain team, especially with the loss to COVID-19 of the head of the team. The strong management team has been further enhanced in the year, especially in the areas of quality control and quality assurance. We have also added further personnel to the team that manage our network of third party suppliers, who currently make more than 50% of all the products we sell. There has been a huge amount of activity to resolve in-house quality control problems, mainly revolving around older products at our facility in Skipton. We are also accelerating our strategic plan to increase the in-house manufacture of our products and also to secure stronger, long term relationships with Contract Manufacturing Organisations for the balance. We are developing a team and infrastructure to enable us to exceed the ever increasing and exacting standards expected in pharmaceutical manufacturing and also to deal with the external work streams involved in the technical transfer of products to new manufacturing sites. Although the majority of in-house issues have been remedied, with only a few of our older products out of stock, it will be several months before some of our outsourced products are back in full supply.

We have continued to invest in the development and in the infrastructure at our sites:

- Skipton, UK has been refreshed and refurbished;
- Bladel, Netherlands is being prepared for FDA inspection for the sterile facility;
- Zagreb, Croatia has efficiently increased capacity and infrastructure throughout;
- Londrina, Brazil continues improvements in its upstream vaccine production; and
- Sydney, Australia is investing to gain Therapeutic Goods Administration (TGA) approval, a higher quality standard, which will allow us to export products outside Australia and New Zealand.

Technology

Technology is a major enabler and support function for the Group. Numerous projects are being delivered including the:

- continued roll out and development of the Group ERP network;
- standardisation of systems and hardware across the world, including integration of recent acquisitions; and
- support and strengthening of the network to provide enhanced security and good connectivity for increased numbers of home workers.

Technology for education continues to be developed providing training modules for employees through an in-house system branded Delta and educational tools for veterinarians and veterinary nurses through the Dechra Academy. Throughout the COVID-19 pandemic our digital capabilities have proven to be very successful tools. In Europe 15,000 unique users completed Dechra Academy courses; several thousand veterinarians attended webinars during the pandemic; and there were over 230,000 views of Dechra YouTube content. In the US we held 500 webinar presentations in the year with approximately 20,000 attendees.

People

In March 2020 we announced the appointment of Alison Platt as an additional Non-Executive Director. Alison has extensive experience of leadership in both Executive and Non-Executive roles and will strengthen the Board and provide continuity through our next phase of growth, especially as both the Senior Independent Director and the Audit Committee Chairman are on nine year terms which expire in 2022.

After ten years with the Group and several months as Acting Chief Financial Officer, in October 2019 Paul Sandland was appointed to the role on a permanent basis and joined the Board.

In February 2020, Clint Morris, an experienced finance lead, was appointed to Paul Sandland's previous role as DVP EU Finance Director.

Following the retirement of a long-serving senior EU Manager, Jan Jaap Korevaar, we have appointed Nathalie Miara, who has extensive industry experience, to Director of European Marketing.

Within the year we have rolled out a Save As You Earn (SAYE) scheme in the United States; the launch exceeded all our expectations with over 50% of employees demonstrating their commitment to the success of Dechra by enrolling on the scheme. We are looking to launch similar schemes in the EU and other major territories where regulations permit.

In line with our CSR programme, we have encouraged our people to get involved in community projects and volunteer services and have given all employees the opportunity to participate in local schemes during working days, further details are provided in the Corporate Social Responsibility section of the Annual Report and Accounts.

The level of commitment and dedication to Dechra has always been evident; however, throughout the COVID-19 pandemic it has been truly exceptional. I would like to thank all employees for their hard work, dedication, innovation and commitment throughout the year.

Dividend

The Board is proposing a final dividend of 24.00 pence per share (2019: 22.10 pence per share). Added to the interim dividend of 10.29 pence per share (2019: 9.50 pence per share), this brings the total dividend for the financial year ended 30 June 2020 to 34.29 per share (2019: 31.60 pence per share), representing 8.5% growth over the previous year.

Subject to shareholder approval at the Annual General Meeting to be held on 27 October 2020, the final dividend will be paid on 27 November 2020 to shareholders on the Register at 6 November 2020. The shares will become ex-dividend on 5 November 2020.

Outlook

Trading in the first few weeks of the new financial year has been encouraging. However, the underlying COVID-19 affected longer term trend cannot yet be ascertained as there is a degree of correction in current sales as markets, such as the UK, return to growth and wholesaler stocks return to more normalised levels. The indications at this stage, however, are positive. A key area of focus over the coming months will be the sales and marketing of our recently acquired brands, *Osurnia* and *Mirataz*, which offer solid growth prospects and strengthen our portfolio. We believe in the capability of our people and our ability to execute our strategy and therefore remain confident in our future growth prospects.

Ian Page
Chief Executive Officer
7 September 2020