# Understanding Our Key Risks

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<td>Market Risk:</td>
<td>The growth of corporate customers and buying groups represents an opportunity to increase sales volumes and revenue but may result in reduced margins.</td>
<td>We manage and monitor our national and European pricing policies to deliver equitable pricing for each customer group.</td>
<td>Increasing competition on a number of our key products.</td>
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<td>Competitor Risk:</td>
<td>Competitor products launched against one of our leading brands (e.g. generics or a superior product profile). We depend on data exclusivity periods or patents to have exclusive marketing rights for some of our products. Although we maintain a broad portfolio of products, our unique products like Vetoryl and Felmazole have built a market which may be attractive to competitors.</td>
<td>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. Costs may increase due to defensive marketing activity.</td>
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<td>Product Development and Launch Risk:</td>
<td>Failure to deliver major products either due to pipeline delays or newly launched products not meeting revenue expectations. The development of pharmaceutical products is a complex, risky and lengthy process involving significant financial, R&amp;D and other resources. Products that initially appear promising may be delayed or fail to meet expected clinical or commercial expectations or face delays in regulatory approval. It can also be difficult to predict whether newly launched products will meet commercial expectations.</td>
<td>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. Our market position in key therapeutic areas could be affected, resulting in reduced revenues and profits. 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. COVID-19 may cause some clinical trial delays due to challenges in recruiting patients.</td>
<td>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. 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. Each development project is managed by project leaders who chair project team meetings. 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. In respect of all new product launches a detailed marketing plan is established and progress against that plan is regularly monitored.</td>
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Stock Code: DPH
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#### Supply Chain Risk:
- **Inability to maintain supply of key products due to manufacturing, quality or product supply problems in our own facilities or from third party suppliers.**
- 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.
- **Raw material supply failures may cause:**
  - increased product costs due to difficulties in obtaining scarce materials on commercially acceptable terms;
  - product shortages due to manufacturing delays; or
  - delays in clinical trials due to shortage of trial products.
- Shortages in manufactured products and third party supply failures on finished products may result in lost sales.
- We have now addressed the majority of our in-house quality and supply challenges which contributed to an increased supply chain risk last year. However, the risk level has maintained because COVID-19 may impact our product supply due to:
  - unexpected fluctuations in demand;
  - reduced output in manufacturing sites;
  - challenges in securing raw materials; and
  - increased product costs due to scarce supply.
- We monitor the performance of our key suppliers and act promptly to source from alternative suppliers where potential issues are identified.
- The top ten Group products are regularly reviewed in order to identify the key suppliers of materials or finished products.
- A dedicated external network team who manage and support our CMOs to deliver quality products to our regulatory specifications.
- Demand forecasting and supply planning processes, with monthly reviews of demand and production forecasts, inventory levels, and remediation plans for products that are out of supply.
- We plan to increase our working capital and carry higher levels of safety stock on critical raw materials, and finished products.
- 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.
- A business continuity plan is in place at Skipton, Zagreb and Uldum, and similar plans are being developed for other sites.
- A project is in progress to review and improve our supply planning processes.

#### Regulatory Risk:
- **Failure to meet regulatory requirements.**
- We conduct our business in a highly regulated environment, which is designed to ensure the safety, efficacy, quality, and ethical promotion of pharmaceutical products.
- Failure to adhere to regulatory standards or to implement changes in those standards could affect our ability to register, manufacture or promote our products.
- Delays in regulatory reviews and approvals could impact the timing of a product launch and have a material effect on sales and margins.
- 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.
- Non-compliance with regulatory requirements may result in delays to production or lost sales.
- The Group strives to exceed regulatory requirements and ensure that its employees have detailed experience and knowledge of the regulations.
- Manufacturing and Regulatory teams have established quality systems and standard operating procedures in place.
- A dedicated External Network Quality Director has been appointed to support our CMOs in complying with our regulatory specifications.
- Regular contact is maintained with all relevant regulatory bodies in order to build and strengthen relationships and facilitate good communication lines.
- The Regulatory and Quality teams update their knowledge of regulatory developments and implement changes in business procedures to comply with new requirements.
- 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.
- External consultants are used to audit our manufacturing quality systems.
### Link to Strategic Growth Driver and Enabler Risk Potential Impact Control and Mitigating Actions Trends

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<td><strong>6 Acquisition Risk:</strong></td>
<td>Failure to identify or secure suitable targets could slow the pace at which we can expand into new markets or grow our portfolio. Acquisitions could deliver lower profits than expected or result in intangible assets impairment.</td>
<td>We have defined criteria for screening acquisition targets and we conduct commercial, clinical, financial, environmental and legal due diligence. The Board reviews acquisition plans and progress regularly and approves all potential transactions. The SET manages post acquisition integration and monitors the delivery of benefits and returns.</td>
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| **7 People Risk:** | Failure to recruit or develop quality people could result in:  
- capability gaps in new markets;  
- challenges in integrating new acquisitions; or  
- overstretched resources. This could delay implementation of our strategy and we may not meet shareholders’ expectations. | The Group HR Director reviews the organisational structure with the SET and the Board twice a year to confirm that the organisation is fit for purpose and to assess the resourcing implications of planned changes or strategic imperatives. A development programme is in place to identify opportunities to recruit new talent and develop existing potential. | → |
| **8 Antibiotic Regulatory Risk:** | Reduction in sales of our antimicrobial product range. Our reputation could be adversely impacted if we do not respond appropriately to government recommendations. | Regular contact is maintained with relevant veterinary authorities to enable us to have a comprehensive understanding of regulatory changes. We strive to develop new products and minimise antimicrobial resistance concerns. We communicate appropriate antibiotic use in line with best practice. | → |
| **9 Retention of People Risk:** | Loss of key skills and experience could erode our competitive advantage and could have an adverse impact on results. Inability to attract and retain key personnel may weaken succession planning. | The Nomination Committee oversees succession planning for the Board and the SET. Succession plans are in place for the SET together with development plans for key senior managers. Remuneration packages are reviewed on an annual basis in order to help ensure that the Group can continue to retain, incentivate and motivate its employees. | → |

### Key to Strategic Growth Drivers: Key to Strategic Enablers Key to Risk Trend

- **Pipeline Delivery**  
- **Portfolio Focus**  
- **Geographical Expansion**  
- **Acquisition**  
- **Technology**  
- **People**  
- **Manufacturing and Supply Chain**

- **Increased Risk**  
- **Decreased Risk**  
- **No Change**
Emerging Risks
Given current macroeconomic and geopolitical uncertainty we have identified the following emerging risks:

**COVID-19**
The following key actions have been taken in response to the pandemic:

- We reacted immediately to government guidance by introducing changes to shift patterns and staffing rotas in our manufacturing and logistics facilities to enable our employees to continue to produce and supply essential medicines safely;
- We provided office workers with the technology required to work from home;
- At a leadership level, the SET met weekly to review and discuss the business impact of the pandemic with regular updates provided to the Board;
- A Corona Committee was established to provide health and safety guidance and procedures for our employees and to prepare office locations to enable employees to return as lockdown restrictions are eased;
- Following the sad loss of Simon Francis, our Group Manufacturing and Supply Director to the virus, we implemented our emergency succession planning procedures to appoint Milton McCann as the Interim Group Manufacturing and Supply Director;
- We increased our communication and engagement with investors and have raised equity through a share placing in order to maintain a prudent balance sheet and provide increased financial flexibility; and
- We have conducted additional viability stress testing to assess the impact of a severe and sustained reduction in demand.

**Longer Term Impact**
The pandemic may result in a global recession and increased trade restrictions, which could impact demand for our products and increase costs. However, the pharmaceutical industry is resilient to economic downturns and many products are not subject to tariffs under the World Trade Organisation Pharmaceutical Tariff Elimination Agreement.

**Climate Change**
- Our governance and approach to climate change, including our first voluntary disclosure using recommendations of the Taskforce for Climate-related Financial Disclosure (TCFD) are set out on page 61 of the Strategic Report.
- We have assessed the impact of climate change and concluded that there is likely to be some financial risks which would need to be managed, but none that would materially impact our business model. This assessment is consistent with the Sustainability Accounting Standards Board’s (SASB) Materiality Map which indicates that the issue is not likely to be material for the pharmaceutical sector.
- The expected impacts are likely to be weather related disruption at internal and external manufacturing sites, and increased cost of fossil fuels.
- We plan to continue to develop our business continuity plans and CMO second sourcing strategy to mitigate these impacts.

**Taxation**
- The Group’s effective tax rate (ETR) is subject to taxation policy in the territories in which it operates. We continue to monitor developments in tax reform globally which may cause future movements in the Group’s ETR.
- The EU is currently challenging the legality of the Group Financing Exemption in the UK Controlled Foreign Company tax legislation from which the Group has previously benefitted. We continue to monitor developments. Please also see Note 9.
- The Group currently benefits from patent and innovation box tax incentives in the UK and the Netherlands. The Group’s ETR will increase as qualifying patents expire.

**Brexit**
- We have completed our Brexit preparations and continue to monitor the advice from the UK and EU governing bodies. Our priority is to maintain continuity of supply of our products to our customers in the UK and EU, and we have increased inventory accordingly.
- The changes outlined below 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. We have:
  - transferred our UK registered Marketing Authorisations for products that are sold in the EU to a subsidiary in the Netherlands;
  - transferred the analytical testing methods for products manufactured at our Skipton facility to our laboratories in Bladel and Zagreb; and
  - established a bonded customs warehouse at our EU distribution in Uldum, so that UK products do not require EU testing on entry to the facility.