Viability Statement

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 18 to 21 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 business model is sustainable and 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 strategic planning process is conducted over a five year time horizon and is updated annually. It:

• assesses market and environmental changes and the opportunities and threats such changes may present;
• considers risks to sales and cost forecasts for each part of the Group; and
• includes key assumptions to support longer term projections.

The financial plans are reviewed to confirm that adequate financing facilities are in place. The revolving credit facility is currently committed to July 2024, the Euro placement to January 2027 and the US dollar placement to January 2030.

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 underperformance. The latest updates to the plans were reviewed in June 2020 and considered the Group’s current position, its business review to July 2024, the Euro placement to January 2027 and the US dollar placement to January 2030.

Assessment of Viability and Time Period
The Board has determined that a three year period to 30 June 2023 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.

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 73 to 75 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. In response to the COVID-19 pandemic, additional stress tests have been conducted to assess the impact of a severe and sustained reduction in demand should a significant global economic downturn occur.

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 2020.