

Letter from the Chairman on Governance

Our Values, entrepreneurial attitude and agile approach to the way we do things are the backbone of our Culture



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 2020.

Board Appointments

During the year there were two membership changes to the Board. We welcomed Alison Platt as Non-Executive Director in March 2020. Alison brings significant capabilities and experience both in Executive and Non-Executive roles, which will strengthen the Board and provide continuity during the next phase of Dechra's growth and development, as well as providing continuity over the forthcoming years with both the Senior Independent Director/Remuneration Committee Chairman and Audit Committee Chairman's nine year terms expiring in 2022. Alison's biographical details can be found on page 85. Alison has been appointed as a member of the Audit, Nomination and Remuneration Committees.

I was delighted to confirm Paul's appointment as Dechra's permanent Chief Financial Officer in October 2019. Paul had proven to be an excellent acting Chief Financial Officer and, over a much longer period, has clearly demonstrated a strong practical understanding of all parts of the Group and its needs, as well as an independence of mind and strong technical, strategic and commercial skills. He has been a core part of the Dechra leadership team over the last ten years and his biographical details can be found on page 82.

Purpose and Culture

Our Purpose is clearly defined and underpinned by our Culture and Values. Further details can be found on pages 4 and 5 and 86 to 88. Our Values, entrepreneurial attitude and agile approach to the way we do things are the backbone of our Culture. We expect our people to make a difference by working together and support them by providing clear guidance on expectations.

Stakeholders and Section 172 Companies Act

The impact of our decisions on our key stakeholders has always been prevalent in our decision making. However, this is the first year that we are disclosing details of how we consider stakeholders in the Board's decisions and approvals of material transactions. Details of our engagement with stakeholders and our approach to section 172 of the Companies Act 2006 can be found on pages 46 and 47, 52 to 68, and 89 to 91.

COVID-19

COVID-19 and its impact on our business and stakeholders has been at the forefront of the Board's mind during the last few months of our financial year. Measures have been put in place to enable all front line employees to operate safely; this has allowed all manufacturing and logistic sites and laboratories to remain open and continue to function effectively. All employees who can work from home have done so successfully. Whilst the Group has put all the necessary preparations in place, we took the decision not to utilise any Government assistance and currently the Board has no intention to use any such assistance.

Continuity of product supply for our customers has been a key priority for Dechra during the pandemic. We invested significant resources to maintain an adequate supply of raw materials and finished goods to meet the market demands. In addition, we expanded our webinar programme in our Academy across the US and Europe.

Board Activities

The current financial year has been busy for Dechra both operationally and in terms of acquisition activity. We approved a placing of 5,132,500 new ordinary shares (the Share Placing), which represented approximately 5% of the Company's existing issued share capital, raising £133.4 million (gross). This allows us to maintain a prudent balance sheet, whilst retaining the flexibility to make the most of the Group's well established and proven four key growth drivers: portfolio focus; pipeline delivery; geographic expansion; and acquisition.

The net proceeds from the Share Placing will also provide the Group with enhanced financial strength, resilience and flexibility through a period of possible disruption arising from COVID-19, so that the Group is not constrained in maximising its long term potential.

Compliance with the Code

The UK Corporate Governance Code 2018 (the Code) establishes the principles of good governance for companies; the following report describes how the Company has applied these principles and provisions to its activities. In the opinion of the Directors, the Company has complied with the Code throughout the period. In respect of provision 38 of the Code, the steps intended to be taken to ensure more effective alignment of incumbent Executive Director pension contributions to those available to the workforce are set out on page 132. The Board remains committed to maintaining high standards of corporate governance. The Code can be found at www.frc.org.uk.

Relations with Shareholders

The Annual General Meeting will be held in Northwich on 27 October 2020. However, due to the COVID-19 pandemic we are asking all of our shareholders not to attend our Annual General Meeting for their own safety and that of others. The only shareholders physically attending are the Chief Executive Officer, Chief Financial Officer and Company Secretary. All other members of the Board are scheduled to attend the Annual General Meeting (the Meeting) via video conference. We request that any shareholders with questions submit these to the Board in advance of the meeting and, subject to appropriateness, the Board will look to respond to those questions on the website.

Looking Forward

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
7 September 2020

Board Leadership and Company Purpose

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. This entrepreneurial spirit and agility is illustrated on pages 86 to 88.

Division of Responsibility

We have a strong and balanced Board with a range of complementary skills to support the strategic and operational direction of the Group.

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

Composition, Succession and Evaluation

The Nomination Committee Report on pages 96 to 104 sets out the appointment process, its approach to succession for appointments to the Board and Senior Executive Team, the implementation and progress of the Group's diversity policy.

Details in relation to our succession planning and the internal Board evaluation can be found on pages 100, 101 and 104.

Audit, Risk and Internal Control

The Audit Committee Report on pages 105 to 111 contains details on how it has assisted the Board in reviewing the financial reporting and internal financial control effectiveness, and the monitoring of the effectiveness of the external audit process and internal audit function. Further details in respect of the Group's risk management and internal control processes are provided on pages 70 to 76 of the Strategic Report, along with the principal risks, controls and mitigating actions and emerging risks.

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.

The Remuneration Committee has taken into account the wider workforce pay and principles and the culture of the Company when setting the remuneration of both the Executive Directors and the Senior Executive Team. Further details of which can be found on pages 116 and 117.