Directors' Remuneration Report

Letter from the Remuneration Committee Chairman

Ishbel Macpherson
Remuneration Committee Chairman

7 Remuneration Committee Meetings Held

Areas of Focus this Year

- 2020 Salary and Bonus review
- Review and approval of grant of share options/awards and vesting of share awards
- Directors' Remuneration Policy 2020
- Wider Workforce Pay Principles
- Chief Financial Officer Remuneration Package
- Global SAYE offer to USA employees

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for the year ended 30 June 2020.

The report is divided into two sections: the Directors' Remuneration Policy, followed by the Annual Report on Remuneration. The Policy sets out our forward looking policy for Directors' remuneration and is a replacement for the Policy approved in 2017, which had 98.88% of votes cast in favour of it. The Annual Report on Remuneration provides details of the amounts earned in respect of the 2020 financial year and how the new Policy, if approved by shareholders, will be implemented in the 2021 financial year.

The new Policy and the Directors' Remuneration Report will be subject to a binding vote and advisory vote respectively, at the 2020 Annual General Meeting.

Our Directors' Remuneration Policy

The new Policy is proposed in the context of the business being significantly larger and more complex now in terms of size, geographic coverage, complexity and scale. Since our Policy was last approved, our market capitalisation has almost doubled from c.£1.4 billion to c.£2.75 billion, and we now have c.1,900 employees globally compared to c.1,300 in 2017. This growth has been driven by the successful execution of our well established and proven four key growth drivers: portfolio focus; pipeline delivery; geographic expansion; and acquisition.

Since the 2017 Policy was approved, acquisitions have included:

- AST Farma and Le Vet (€340 million), which added to our EU product portfolio and strengthened our Dutch market position, providing direct-to-vet relationships;
- Laboratorios Vencofarma do Brasil Ltd (£34.8 million), providing us with a strategically significant presence within the rapidly growing Brazilian and South American markets; and
- Ampharmco LLC (Ampharmco) and its associated holding companies (£24.3 million), which significantly strengthened our manufacturing capabilities for the North American market.

We also finalised a licensing and supply agreement with Akston Biosciences Corporation (Akston) in August 2019 for a patent pending, long acting protein for the treatment of diabetes in dogs and cats that will enhance our position as world leaders in veterinary endocrinology.

Committee Membership and Attendance

Ishbel Macpherson Joined: 1 February 2013	7 7	**Lawson Macartney** Joined: 1 December 2016	7 7
Tony Rice Joined: 5 May 2016	7 7	**Lisa Bright** Joined: 1 February 2019	6 7
Julian Heslop Joined: 1 January 2013	7 7	**Alison Platt** Joined: 1 March 2020	2 2

The 2020 financial year has been another busy one for Dechra operationally and in terms of acquisition activity, with the acquisitions of *Mirataz*, Ampharmco and the increased investment in Medical Ethics, and, post year end, the completion of *Osurnia*.

We are aware of the impact of the 2018 UK Corporate Governance Code (the Code) on companies and want to align business requirements to the Code as much as practically possible and take into account market practice and investor expectations. Overall, we consider that the current remuneration framework remains fit for purpose. Therefore, the changes in the new Policy are to provide further alignment with best practice and to allow sufficient flexibility over the next three years.

A summary of the changes is as follows:

Reward element	Current Policy	New Policy
Pension	• Defined contribution pension or cash allowance. • Maximum of 14% of base salary.	• The maximum pension contribution for Executive Directors appointed before 1 July 2019 will initially remain at its current level of 14% of salary, but will be aligned with the rate available to the wider workforce by the end of 2022 (this will include enhancing the wider workforce rate alongside a reduction in the rate for Executive Directors). • Pension for Executive Directors appointed after 1 July 2019 will be aligned with the wider workforce (currently 4% of base salary).
Annual bonus	• Maximum opportunity of 100% of salary. • Paid in cash. • At least 75% of the opportunity to be based on financial measures.	• The maximum opportunity, which has been in place since 2009, is increased to 150% of salary. This increase is to provide flexibility and to recognise the increase in the size of the Group and the responsibilities of the Executive Directors. However, the maximum opportunity for financial year 2021 will remain at 100% of salary. • If the increased opportunity is applied, we will balance this by requiring up to 33% of the bonus to be deferred into shares for two years. The level of deferral will be set so that the cash paid is not increased by the increase in the opportunity. • At least 50% of the total opportunity to be based on financial measures with this change reflecting the increase in the opportunity and to give flexibility over the life of the Policy, although for financial year 2021, 85% of the opportunity will be based on financial measures.
LTIP	• Maximum opportunity of 200% of salary. • Vesting by reference to performance over three years, with awards then subject to a further two year holding period. • Threshold vesting: up to 25%.	• No change to the maximum opportunity. No change is proposed at the current time to the actual award levels, which are intended to be 200% of salary for Ian Page, 150% of salary for Paul Sandland and 100% of salary for Tony Griffin. • The three year performance period and two year holding period will continue to apply. • No change is proposed to the performance measures or their weightings.
Shareholding requirements	• Executive Directors are required to build a shareholding of 200% of salary, and half of any LTIP shares (and, where relevant, recruitment award shares) must be retained until this is achieved.	• The same level applies, and the requirement to retain half of the vested shares has been extended to any shares acquired under the deferred bonus. • We have introduced a post-employment requirement which applies to LTIP and deferred bonus shares acquired in respect of awards granted after 1 July 2020. For the first year after employment the Executive Director must retain such of those shares as have a value equal to the 'in-service' guideline, and for a further year such of those shares as have a value equal to half of the in-service guideline. We consider that this 'tapered' approach, in the light of the two year holding period for LTIP awards and the introduction of bonus deferral, is a balanced way of achieving alignment with longer term shareholder interests.

Directors' Remuneration Report continued

Governance Changes

In the new Policy, we have enhanced the discretion to override formulaic outturns for the annual bonus, and introduced such a discretion for the LTIP. The Committee will now have discretion to vary formulaic outturns if they do not reflect the Committee's assessment of overall business performance or if the Committee considers them inappropriate in the context of other relevant factors.

We have also formally included in the new Policy the ability to operate malus and clawback in the event of corporate failure, which in practice has been the case since 2019. The full malus and clawback provisions are described on page 123.

Other Changes

Other changes have been made to the Policy to reflect the changes referred to above (such as increasing the maximum variable remuneration on recruitment from 300% of salary to 350% of salary to reflect the increase in the bonus maximum).

Other minor changes have also been made, such as introducing the ability to pay additional fees to Non-Executive Directors for additional time commitments.

Alignment of Policy with Code

In determining the new Policy, the Committee took into account the principles of clarity, simplicity, risk, predictability, proportionality and alignment to culture, as set out in the Code.

Principle	
Clarity: remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce	Our remuneration arrangements are transparent and aligned with our Purpose, Values and strategy and our disclosures are clear to both our shareholders and our employees. Performance targets are set in line with Group budgets and plans and reviewed and tested by the Committee.
Simplicity: remunerations structures should avoid complexity and their rationale and operation should be easy to understand	We believe that our remuneration structures are as simple as they possibly can be. We follow a standard UK market approach to remuneration with established variable incentive schemes that operate on a clear and consistent basis.
Risk: remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated	• Both the annual bonus and LTIP are subject to malus and clawback provisions, and the Committee has discretion to override formulaic outcomes, which may not accurately reflect the underlying performance of the Group. • LTIP awards are subject to a two year post-vesting holding period, and if a bonus opportunity in excess of 100% of salary is offered deferral into shares will also apply. Each of these factors provides longer term alignment with shareholders' interests. • The post-employment shareholding requirement will mean that alignment with shareholders' interests continues after an Executive Director has left Dechra.
Predictability: the range of possible values of rewards to individual directors and other limits or discretions should be identified and explained at the time of approving the policy	The range of possible values of rewards and other limits or discretions can be found on page 125, and the Risk section above refers to limits and Committee discretion.
Proportionality: the link between individual awards, the delivery of strategy and the long term performance of the Company should be clear. Outcomes should not reward poor performance **Alignment to Culture:** incentive schemes should drive behaviours consistent with Company purpose, values and strategy	The variable elements of awards are linked to base salary. The performance targets are closely linked to the corporate, financial, strategic and other non-financial objectives of the Company. This enables the Committee to reward the Executive Directors' contribution to both the annual financial performance and the achievement of specific objectives of the Company, so that poor performance cannot be rewarded. In determining the Policy, the Committee was clear that this should drive the right behaviours, reflect our Values and support the Company Purpose and strategy. The Committee will review the remuneration framework regularly so that it continues to support our strategy.

Our approach to the implementation of the Policy in the 2021 financial year, including our approach to performance measures for the LTIP awards are described further in this letter.

Remuneration Committee Decisions in 2020

Executive Director Remuneration Decisions

The table below summarises the implementation of the Policy for Executive Directors in respect of the 2020 financial year.

Element	Implementation
Salary	Ian Page's salary was increased by 4.0% (his first salary increase since September 2016) and Tony Griffin's salary was increased by 3.0%, which was broadly in line with the average range of increases awarded to employees throughout the Group. Paul Sandland's salary was set at £300,000 on his appointment as Chief Financial Officer.
Retirement Benefit	Pension contribution of 14% of salary for Ian Page and Tony Griffin, and 4% of salary for Paul Sandland.
Annual Bonus	Maximum opportunity of 100% of base salary. We have delivered underlying profit before tax during the year of £120.1million, an improvement of 1.6% at constant exchange rates (2.3% at actual exchange rates) on the prior year. Reflecting the performance of the Group in relation to profit targets and the performance of Executive Directors against personal objectives as described on page 130, bonuses for the year equal to 28% of salary have been earned by Ian Page, Paul Sandland and Tony Griffin. The Committee considers the level of payout is reflective of the overall performance of the Group in the year and is appropriate. The annual bonus is subject to malus and clawback provisions.
Long Term Incentive Plan	Awards of 200% for Ian Page, and 100% for Tony Griffin and Paul Sandland were granted during the year. Ian Page's and Tony Griffin's awards are subject to a two year holding period. Paul Sandland's award was granted before his appointment to the Board and by reference to his pre-appointment salary and, consistent with other below Board LTIP awards, is not subject to a post-vesting holding period. LTIP awards granted to Ian Page and Tony Griffin on 2 March 2018 are scheduled to vest on 7 September 2020: • as to 100% of the TSR element (one third of the total award) reflecting upper quartile performance; and • as to 60.6% of the underlying diluted EPS element (two thirds of the total award) reflecting that the compound annual growth in the underlying diluted EPS at 12.7% was below the maximum threshold of 18%. In aggregate, taking into account the ROCE underpin (reflecting that the ROCE at 15.4% had not fallen below 10.0%), the LTIP awards vested as to 73.7%. The Committee considers the level of payout is reflective of the overall performance of the Group over the three year performance period ended 30 June 2020 and is appropriate. See page 131 for further details. Awards made under the LTIP are subject to malus and clawback provisions.

Directorate Changes

Paul Sandland was appointed as Chief Financial Officer on 30 October 2019 and his remuneration arrangements were a base salary of £300,000, a bonus entitlement of up to 100% of salary, a maximum LTIP award of up to 150% of salary (although the award in respect of financial year 2020 was at the level of 100% of salary reflecting that it was granted before his appointed as Chief Financial Officer) and employer pension contribution of 4% of salary. This last element is in alignment with the wider UK workforce and represented a decrease of 8% from the level of contribution to which Paul was previously entitled as a service related benefit for the higher band senior and professional employees within the UK Group.

Directors' Remuneration Report continued

Performance Conditions for LTIP Awards

As detailed in the Directors' Remuneration Report last year, in setting the EPS growth targets for the 2020 Grant, the Committee recognised that the base year for those awards will include a full year of AST Farma and Le Vet, and reduced the maximum target from 18% to 16% but maintained the minimum target at 8% recognising that significant growth is still forecast. We noted that the Committee would be considering the impact of the Akston licensing agreement on the awards granted on 2 March 2018 (the 2018 Grant) and the awards granted on 26 October 2018 (the 2019 Grant) during the course of this year and that we would disclose any adjustments to the targets for those awards and the Committee rationale in this report. In addition to considering the impact of the Akston agreement, we have also considered how to take account of the *Mirataz* and *Osurnia* acquisitions and the associated share placing. Our approach is summarised below.

Akston

For the 2018 Grant (three year performance period to 30 June 2020), no adjustment to the EPS target was made on the basis that the impact of the Akston deal is not deemed to be significant.

However, for the 2019 Grant (three year performance period to 30 June 2021) and 2020 Grant (three year performance period to 30 June 2022) the impact of the Akston licensing agreement is more relevant (and is expected to be greater than originally anticipated as the Akston agreement now covers a treatment for diabetes in cats in addition to dogs). In order to measure performance on a fair and consistent basis, the Committee is proposing to adjust the final year EPS to reflect the actual R&D costs incurred at the vesting date. This adjustment recognises that these R&D costs were not included in the base year of the performance period and maintains the overall level of stretch in the targets so the targets are not less difficult to satisfy. The Committee believes that this is the right approach as the payments for the development of Akston are lumpy and uncertain as to timing between financial years.

For the 2021 Grant and future years, the Committee is mindful that the base year will have some R&D actual costs from the Akston deal. Therefore the actual R&D costs will be adjusted for both the base year and the year of vesting to enable performance to be measured on a like for like basis.

Acquisitions and Share Placing

We have also considered whether, and if so how, to adjust the targets to take account of the *Mirataz* and *Osurnia* acquisitions and the associated Share Placing. Our intended approach is set out below:

Grant	Performance Period	Original EPS range	Revised EPS range	Rationale
2019	2018/2019–2020/2021	8% to 18%	8% to 19%	The impact of the transactions and Share Placing have been considered in the round to balance the principle of rewarding the management team for making value enhancing acquisitions with the need to measure performance on a fair and consistent basis.
2020	2019/2020–2021/2022	8% to 16%	8% to 17%	

Remuneration Principles for Wider Workforce

The Committee takes into account the general base salary increases for the wider employee population when determining the Executive Directors' pay increases. The Committee also reviews and approves the pay increases awarded to the Senior Executive Team (SET) and approves the Long Term Incentive awards to this group as well as the share options granted to the senior employees below the SET.

During the year, the Committee reviewed and approved the Remuneration Principles for Wider Workforce; this assisted the Committee in its setting of the Directors' Remuneration Policy. Lisa Bright, as the Employee Designated Non-Executive Director, is available to discuss with employees their views on remuneration as part of her engagement process.

We recruit and promote people on the basis of their personal ability, contribution and potential. We are committed to promoting, supporting and maintaining a culture of fairness, respect and equal opportunity for all. We are also committed to fair employment practices and comply with national legal requirements regarding wages and working hours.

Our pay principles, detailed below, support us in attracting, motivating and retaining the key talent required to support the sustainable improvement of global animal health and welfare.

Fair Pay	Equal pay for work of equal value
Market Competitiveness	We aim to remain competitive on compensation in our different marketplaces, whilst maintaining internal integrity
Living Wage	We have set a target to become a real Living Wage Employer* in the UK during the 2021/2022 financial year. Living wages vary by country, but our aim does not. As we continue to grow in countries across the globe, a living wage target is being explored
Stake in the Company	We want to increase the number of employees who are able to hold a stake in the Company through employee share ownership
Reward for Contribution	In addition to base pay, we have a number of different local incentive schemes across the Group

* Defined in the UK by The Living Wage Foundation.

Workforce Remuneration

	Executive Directors	Senior Executive Team	Wider Workforce
Base Salary	Pay rises in line with wider workforce	Increases approved by the Committee	Increases are reviewed by the Committee
Pension	**Ian Page and Tony Griffin:** 14% of base salary **Paul Sandland:** 4% of base salary	Between 8% and 12% of base salary dependent on length of service	Between 4% and 12% of base salary dependent on length of service and/or grade*
Bonus	Max. 150% of base salary, currently 100% of base salary **Targets:** personal (10%), ESG (5%) and financial (85%)	Max. 50% of base salary **Targets:** financial and personal	All senior managers and professionals Max. 40% of base salary **Targets:** financial and personal
Long Term Incentive Plan	Max. 200% of base salary Currently 200% for Ian Page, 150% for Paul Sandland and 100% for Tony Griffin. Three year performance period, two year holding period Target: TSR (one third), EPS (two thirds) and ROCE underpin	Max. 100% of base salary Three year performance period **Target:** TSR, EPS and ROCE underpin	All senior managers and professionals. Discretionary awards Market value options, three year performance period **Target:** EPS growth 12% above inflation
Sharesave†	£500 per month Three year savings period or two years for ESPP (US)		

* Data provided for UK only
† UK and USA

Gender Pay

We are pleased to report that as a result of our proactive management with regards to our gender pay gap in relation to Dechra Limited (who employ 67% of our UK employees), the gap has reduced from 17.7% in 2017 to 9.2% in 2018 and further again to 7.4% in 2019, it is something that we are looking to build upon as we continue to make Dechra an increasingly attractive place to work.

COVID-19

We have not furloughed any employees, nor have we taken financial support from any government body, as we believe that the Company will remain financially sound in the immediate future. As an ethical, values led business, Dechra aims to play its part in stemming the spread and impact of COVID-19, and we will continue to explore additional opportunities to support employees, customers and partners across the globe during this challenging time.

Our front line workers, in areas such as production, logistics and our laboratory teams, continued to work on site to make sure that the business remained functional, whilst employees that could work from home did so. In recognition of this, we awarded our front line workers a special payment ‘the COVID award’ which was paid in June 2020.

Global SAYE

The Committee recognises the benefits of employee share ownership and, following shareholder approval at the Annual General Meeting in October 2018, an initial offer to our USA employees was made in October 2019. We are pleased to report that the take up rate was 52%. We had proposed to launch in the other territories in September 2020, however, in light of COVID-19, we have decided to postpone this until September 2021.

Directors' Remuneration Report continued

Remuneration Philosophy

The Link between our Directors' Remuneration Policy and our Strategy

The table below describes how certain remuneration elements are linked to our strategy.

Remuneration Element	Strategic Growth Driver and Enabler	Link to our Key Performance Indicators
Annual Bonus Our annual bonus incentivises the delivery of the long term strategy through the achievement of short term objectives. 85% of the opportunity (for financial year 2021, previously 90%) is based on a stretching profit target which requires performance above budget and market expectations to trigger the payment of a maximum bonus. 10% of the opportunity is based on the achievement of personal objectives which reflect the priorities of the business, achievement of which is necessary to deliver the longer term strategy. For financial year 2021, 5% of the opportunity is based on ESG measures.		Sales Growth Strong sales performance is required to maximise profit
Long Term Incentive Plan The LTIP is designed to reward the generation of long term value for shareholders. Performance measures reflect our long term objectives including sustainable profit growth and the enhancement of shareholder value. Awards are based on growth in EPS and the delivery of shareholder returns. For the 2020 and 2021 financial year awards, the weightings are two thirds EPS and one third total shareholder return. The application of a ROCE underpin focuses Executives on using capital efficiently and appropriately to allow the business to capitalise on growth opportunities in new territories and markets whilst maintaining returns. The post vesting holding period aligns management with the long term interests of shareholders and the delivery of sustained performance. The performance conditions for LTIP awards made in respect of the year ending 30 June 2020 and future years include discretion to override formulaic outcomes.		Underlying Diluted EPS Growth Return on Capital Employed New Product Sales This measure encourages innovation, growth and sustainability

Forward Looking

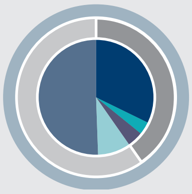
Subject to shareholder approval of the Policy at the 2020 Annual General Meeting, we will apply it in the 2021 financial year. More information is given on page 137, and we have summarised key aspects below.

- **Salary:** Executive Directors' salaries are usually reviewed in September. However, we have decided to postpone the next review until later in the 2021 financial year, which will allow the Committee time to review any impact to the business in the forthcoming year due to COVID-19. It is planned that any increases to Executive Directors' salaries will be in line with the range of any increases proposed for the wider workforce.
- **Bonus:** The maximum bonus opportunity for 2021 will remain at 100% of salary, consistent with the existing Policy. The bonus will be based on a mix of stretching underlying profit before tax targets (reduced from 90% to 85% of the opportunity), personal objectives (10% of the opportunity) and a new ESG measure (5% of the opportunity). For Tony Griffin, half of the opportunity based on profit (i.e. up to 42.5% of salary) will be assessed by reference to the profit of Dechra Veterinary Products EU, reflecting his responsibility for that part of our business, and the other half of the profit based opportunity by reference to Group profit in line with the other Executive Directors, and so that a significant part of the profit based opportunity is aligned with the shareholder experience in respect of overall Group performance.
- **LTIP:** Awards for the 2021 financial year will be granted at the level of 200% of salary for Ian Page, 150% of salary for Paul Sandland and 100% of salary for Tony Griffin. The awards will be subject to a two year holding period. The performance measures remain as per the grant of LTIP awards made on 6 September 2019, details of which can be found on page 133. The upper target for the EPS performance condition will be 16%.

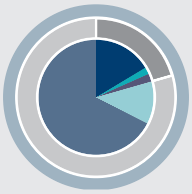
Executive Director Total Remuneration

Ian Page

2020



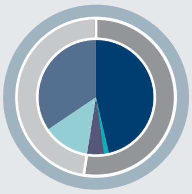
2019



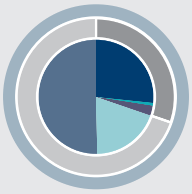
	2019	2020
Fixed		
Salary	16.5%	**32.3%**
Benefits	2.0%	**3.7%**
Pension	2.3%	**4.5%**
Performance-linked		
Bonus	11.8%	**9.1%**
LTIP	67.4%	**50.4%**

Tony Griffin

2020



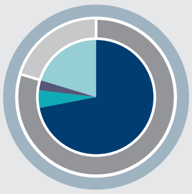
2019



	2019	2020
Fixed		
Salary	26.7%	**46.5%**
Benefits	0.9%	**1.3%**
Pension	2.9%	**4.9%**
Performance-linked		
Bonus	19.3%	**12.9%**
LTIP	50.2%	**34.4%**

Paul Sandland

2020



	2020
Fixed	
Salary	**72.0%**
Benefits	**5.0%**
Pension	**2.9%**
Performance-linked	
Bonus	**20.1%**
LTIP	**N/A**

Shareholder Views

Both the existing and the new Policies are designed to promote long term Group success and to reward the generation of shareholder value. A significant proportion of the remuneration opportunity is linked to the achievement of stretching performance targets.

The interests of shareholders and executives are further aligned by formal shareholding guidelines. Executive Directors are required to retain half of any shares acquired under the LTIP and, if relevant, any recruitment award and deferred bonus (after sales to cover tax) until such time as their holding has a value equal to 200% of their base salary.

We consulted with shareholders in relation to the new Policy and reflected on the comments received when finalising our proposals.

The Committee and I believe that ongoing dialogue with our major shareholders is of key importance. Should you have any queries in relation to this report, please contact me or the Company Secretary.

Ishbel Macpherson
Remuneration Committee Chairman
7 September 2020