

# Notes to the Consolidated Financial Statements

continued

## 32. Contingent Consideration Liabilities

|   | 2020<br>£m  | 2019<br>£m  |
|---|-------------|-------------|
| Contingent consideration – less than one year | 8.9         | 5.1         |
| Contingent consideration – more than one year | 47.3        | 30.9        |
|   | <b>56.2</b> | <b>36.0</b> |

The consideration for certain acquisitions and licensing agreements includes amounts contingent on future events such as development milestones or sales performance. The Group has provided for the fair value of this contingent consideration as follows:

|  | Tri-Solfen®<br>£m | StrixNB® &<br>DispersinB®<br>£m | Injectable<br>Solution 1<br>£m | Injectable<br>Solution 2<br>£m | Mirataz<br>£m | Phycox®<br>£m | Other<br>£m | Total<br>£m |
|--|-------------------|---------------------------------|--------------------------------|--------------------------------|---------------|---------------|-------------|-------------|
| As at 1 July 2018                      | 22.8              | 1.1                             | 6.6                            | –                              | –             | 2.8           | 1.7         | 35.0        |
| Additions                              | –                 | –                               | –                              | 7.9                            | –             | –             | –           | 7.9         |
| Remeasurement through intangibles      | (1.0)             | (0.3)                           | (0.3)                          | –                              | –             | –             | 0.1         | (1.5)       |
| Remeasurement through income statement | –                 | (0.1)                           | –                              | –                              | –             | –             | –           | (0.1)       |
| Cash payments: investing activities    | –                 | (0.1)                           | (2.1)                          | (3.0)                          | –             | (0.7)         | (0.4)       | (6.3)       |
| Finance expense                        | 0.6               | 0.1                             | 0.2                            | –                              | –             | 0.1           | –           | 1.0         |
| Foreign exchange adjustments           | (0.4)             | –                               | –                              | 0.3                            | –             | –             | 0.1         | –           |
| At 30 June 2019                        | 22.0              | 0.7                             | 4.4                            | 5.2                            | –             | 2.2           | 1.5         | 36.0        |
| Additions                              | –                 | 0.2                             | –                              | –                              | 10.9          | –             | 0.2         | 11.3        |
| Remeasurement through intangibles      | 9.9               | –                               | 0.2                            | –                              | –             | 0.8           | –           | 10.9        |
| Cash payments: investing activities    | –                 | (0.1)                           | (1.5)                          | (0.9)                          | –             | (0.8)         | (0.2)       | (3.5)       |
| Finance expense                        | 0.4               | –                               | 0.1                            | 0.1                            | –             | –             | –           | 0.6         |
| Foreign exchange adjustments           | 0.7               | –                               | 0.1                            | –                              | –             | 0.1           | –           | 0.9         |
| <b>At 30 June 2020</b>                 | <b>33.0</b>       | <b>0.8</b>                      | <b>3.3</b>                     | <b>4.4</b>                     | <b>10.9</b>   | <b>2.3</b>    | <b>1.5</b>  | <b>56.2</b> |

The table below shows on an indicative basis the sensitivity to reasonably possible changes in key inputs to the valuations of the contingent consideration liabilities. There will be a corresponding opposite impact on the intangible asset.

|   | Tri-Solfen® | StrixNB® &<br>DispersinB® | Injectable<br>Solution 1 | Injectable<br>Solution 2 | Mirataz    | Phycox®   | Other |
|---|-------------|---------------------------|--------------------------|--------------------------|------------|-----------|-------|
| Increase/(decrease) in financial liability  |             |                           |                          |                          |            |           |       |
| 10% increase in royalty forecasts £m  | 2.6         | 0.1                       | N/A                      | N/A                      | 1.1        | 0.3       | N/A   |
| 10% decrease in royalty forecasts £m  | (2.6)       | (0.1)                     | N/A                      | N/A                      | (1.1)      | (0.3)     | N/A   |
| 1% increase in discount rates £m  | (2.0)       | –                         | (0.1)                    | (0.1)                    | (0.6)      | (0.1)     | –     |
| 1% decrease in discount rates £m  | 2.0         | –                         | 0.1                      | 0.1                      | 0.6        | 0.1       | –     |
| 5% appreciation in currency £m  | (1.6)       | –                         | (0.2)                    | (0.2)                    | (0.5)      | (0.1)     | (0.1) |
| 5% depreciation in currency £m  | 1.6         | –                         | 0.2                      | 0.2                      | 0.5        | 0.1       | 0.1   |
| Discount rate range in 2020 financial year  | 2.5%-16.6%  | 10.1%-13.1%               | 9.2%                     | 9.2%                     | 6.8%-10.2% | 10.1%     | 9.4%  |
| Discount rate range in 2019 financial year  | 12.5%       | 9.5%                      | 9.0%                     | 9.0%                     | –          | 9.5%      | 10%   |
| Aggregate cash outflow in relation to royalties (remaining term of royalty agreement) |             |                           |                          |                          |            |           |       |
| 2020 £m (years)   | 50.6 (10)   | 1.1 (7)                   | N/A                      | N/A                      | 17.6 (10)  | 2.8 (3.5) | N/A   |
| 2019 £m (years)   | 38.0 (10)   | 1.1 (8)                   | N/A                      | N/A                      | N/A        | 2.8 (4.5) | N/A   |

### 32. Contingent Consideration Liabilities continued

The consideration payable for Tri-Solfen® is expected to be payable over a number of years, and relates to development milestones and sales performance. During the year, the development milestones have been remeasured and are now expected to happen later than initially anticipated. The sales performance royalties have been remeasured during the year reflecting an increase in management's best estimate of forecasted sales performance.

The consideration payable for *Mirataz* relates to sales performance and is expected to be payable over a number of years.

The consideration payable for StrixNB® and DispersinB® is expected to be payable over a number of years, and relates to sales performance. During the year the contingent consideration has been remeasured based on management's best estimate of forecasted sales performance. An Addendum to the contract was agreed during the year for a development milestone and sales performance in the Brazilian market.

The consideration for two separate licensing agreements for injectable solutions both relate to development milestones. *Phycox* relates to sales performance and arose as part of the acquisition of the trade and assets of PSPC Inc. in 2014.

Where a liability is expected to be payable over a number of years the total estimated liability is discounted to its present value. With the exception of *Phycox*, all contingent consideration liabilities relate to licensing agreements.

### 33. Related Party Transactions

#### Subsidiaries

The Group's ultimate Parent Company is Dechra Pharmaceuticals PLC. A listing of subsidiaries is shown within the financial statements of the Company on pages 212 to 214.

#### Transactions with Key Management Personnel

The details of the remuneration, Long Term Incentive Plans, shareholdings, share options and pension entitlements of individual Directors are included in the Directors' Remuneration Report on pages 129 to 138. The remuneration of key management is disclosed in note 8.

#### Associates

The Group holds a 48% stake in Medical Ethics Pty Ltd, which is the holding company of Animal Ethics Pty Ltd. There have been no transactions with the Medical Ethics Group during the year. In the prior year, a milestone payment of £1.4 million (AUD 2.5 million) relating to the licensing agreement with Animal Ethics Pty Ltd was made. Refer to note 6 for further information on the results of the associate in the period.

### 34. Off Balance Sheet Arrangements

The Group has no off balance sheet arrangements to disclose as required by S410A of the Companies Act 2006.

### 35. Changes in Accounting Policies

#### IFRS 16 'Leases'

The Group has adopted IFRS 16 retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

#### (a) Adjustments Recognised on Adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.9%.

|  | 2019<br>£m  |
|--|-------------|
| Operating lease commitments disclosed as at 30 June 2019                       | 16.4        |
| Impact of discounting using the incremental borrowing rate (IBR) on transition | (2.0)       |
| (Less): short term leases recognised on a straight-line basis as expense       | (0.8)       |
| (Less): contracts reassessed as service agreements                             | (0.9)       |
| <b>Lease liability recognised as at 1 July 2019</b>                            | <b>12.7</b> |
| <b>Of which are:</b>   |             |
| Current lease liabilities  | 2.7         |
| Non-current lease liabilities  | 10.0        |
|  | <b>12.7</b> |