Non-Executive Chairman’s and Chief Executive Officer’s Statement

Dechra has delivered another successful year from both a financial and strategic perspective, the highlights of which are:

- the European (EU) Pharmaceuticals Segment has continued to deliver above market growth;
- the North American (NA) Pharmaceuticals Segment has delivered another exceptional performance;
- the International business is beginning to gain traction;
- the pipeline has delivered numerous international registrations;
- licensing deals have been signed or are in negotiation to strengthen our pipeline of novel, innovative products;
- we are at an advanced stage of integrating the AST Farma, Le Vet and RwVet acquisitions; and
- we have achieved the successful implementation and go live of the Oracle integrated ERP system in Europe.

Market Changes
The veterinary market is seeing faster change than at any time in its history. European practice corporate consolidation is increasing, especially in the UK and some Northern European countries. A recent significant move is the leading USA company taking a small presence in the UK and a significant presence in mainland Europe. Furthermore, veterinary distributors who operate in the majority of major countries in Western Europe and North America are changing and are beginning to increase focus on the sales and marketing of their own products, which is often in conflict with their core historic suppliers. We are also seeing ongoing consolidation of distributors, especially within the USA. The Board of Dechra believes that we are well positioned to support the needs of the larger veterinary practice groups alongside independent practices and that we also have the flexibility to respond quickly to any ongoing changes within the distribution network.

Portfolio Focus
EU Pharmaceuticals Segment
In the year ended 30 June 2018 (the Period) total EU Pharmaceuticals Segment revenues increased by 11.4% at CER (14.0% at AER). Existing business reported revenues increased by 3.7% at CER (6.0% at AER). Excluding third party contract manufacturing and treating Apex on a like for like basis, revenues increased by 4.4% at CER (6.9% at AER). This performance was in line with our expectations, with the majority of countries in which we operate performing ahead of the markets. With the consolidation of veterinary practices we are starting to adapt the support model with an increase in key account managers and resource for the technical support team aimed at supporting these corporate groups in growing their business. Whilst consolidators put pressure on margins they deliver volume. We believe we have strong relationships with the majority of the key players whom we clearly regard as important customers.

NA Pharmaceuticals Segment
Total NA Segment revenues increased by 18.2% at CER (12.1% at AER). The USA was the main driver of this growth, although Canada also performed well. With the exception of our Carprofen chews and caplets, where sales and margin were affected by distributors marketing their own brands, growth was delivered across our entire range. Strong performers were Amoxi-Clav, following the launch of the smallest tablet size which completes the range, Vetivex® IV critical care fluids and Zycortal® suspension, which benefited from increased market share and additional demand in the fourth quarter due to a competitor product being out of stock. Sales leverage is being realised from the enlarged sales team.

Dechra has delivered another successful year from both a financial and strategic perspective.

Tony Rice
Non-Executive Chairman

Ian Page
Chief Executive Officer

11.4% Revenue Growth in the EU
18.2% Revenue Growth in NA

Read the Financial Review on pages 19 to 25
which has benefited from a significant amount of investment over recent years. The team now comprises 107 sales professionals and they provide good geographical coverage across all the major regions of the USA. To mitigate the activity of distributors selling their own competitive products we have realigned our terms. Incorporation of veterinary practices in the USA continues. These groups are an important customer base to Dechra and we have therefore increased our focus on corporate account management. Over the two years of ownership of Dechra-Brovel, our Mexican subsidiary, we have made significant changes. We have recruited a completely new management team which has been finalised with the recent appointment of Adrian Dominguez as Country Manager. Following the successful registration of several Dechra products, the details of which are outlined in the Pipeline Delivery section of this report, we are now able to transform the business into the Dechra brand, focusing on our key products and delisting a number of the original, low value Brovel FAP range. We anticipate Mexico making a more meaningful contribution to our NA Pharmaceuticals Segment performance in the financial year ending June 2019.

**Product Pipeline**

**Integrated Team**

The Development and Regulatory teams that have been brought together by the acquisitions made over recent years have integrated well and are forming a cohesive unit. We have also strengthened the team with the appointment of new Regulatory Affairs Managers in Mexico and Canada and by the appointment of an additional Group Pharmaceutical Business Development Manager. A new project management structure and improved reporting systems for both financial and key milestone progress have been implemented. The development work of 20 plus projects acquired through the acquisition of AST Farma B.V. and Le Vet Beheer B.V. will continue to be conducted by a third party contract organisation as they are providing an excellent service.

**Pipeline Delivery**

Numerous new product registrations, line extensions and international registrations were achieved in the Period with many of these new products already launched. Significant new product registrations achieved in Europe include:

- **Solacyl®** water soluble powder, an anti-inflammatory for turkeys;
- **Diatrim®**, an antibiotic for the treatment of a wide range of infections, including cattle mastitis;
- **Avishield IBH120**, our second EU registered poultry vaccine;
- **Avishield ND B1**, our third EU registered poultry vaccine; and
- **Tiasol®**, a solution to treat various infections such as swine dysentery and colitis in pigs and treatment of chronic respiratory disease in turkeys and chickens.

Additionally, over 60 registrations were achieved for existing products in new EU territories as we increase our geographical footprint and standardise the range.

Internationally there have been over 20 product registrations achieved across Australia, Kazakhstan, Malaysia, New Zealand, Russia, South Korea and Thailand. This is as a result of our increasing focus on geographical expansion and the dedicated regulatory resource committed to the Dechra Veterinary Products (DVP) International team.

In North America, we have extended the range of Vetivex critical care fluids and have launched the full range of Amoxi-Clav tablets. We have also developed in-house Redonyl® Ultra, a soft chew dermatological supplement incorporating ultra micronised PEA, an active supplement, sourced through a licensing agreement with Premune AB. In Mexico, Osphos, Vetoryl®, Canaural® and Forthyron® have all been approved.

**Glossary**

Terms used within this section:

- **CER:** Constant Exchange Rates
- **AER:** Actual Exchange Rates
- **CAP:** Companion Animal Products
- **ERP:** Enterprise Resource Planning
- **EU Pharmaceuticals:** European Pharmaceuticals Segment comprising DVP EU, DVP International and Dechra Pharmaceuticals Manufacturing
- **FAP:** Food producing Animal Products
- **NA Pharmaceuticals:** North American Pharmaceuticals Segment comprising DVP US, Canada and Dechra-Brovel
- **PEA:** Palmitoylethanolamide
In addition to our pipeline we have in-licensing deals with:

- Redony® Ultra, a dermatological supplement from Premune AB which has been launched in the EU, and as detailed above as a soft chew for the USA;
- Vetradiant, a water additive to combat biofilms from Kane Biotech Inc., extending our dental range, has been launched in the USA; and
- BioEquin®, our first equine vaccine from Bioveta, a.s., for herpes, has been launched in Germany. We have an agreement in place to access additional equine vaccines from the Bioveta, a.s. pipeline for the major EU markets.

Filling the Pipeline

Our recent acquisitions have extended the range of products in development extensively; however, this is predominantly in the generic or generic plus arena. We have been proactively working on signing licensing agreements to obtain early stage technology to develop novel products and we have been successful in gaining access to the molecules which are currently undergoing proof of concept studies and an additional molecule that is in full development. The extra resources in business and product development will help us to identify further opportunities; negotiations are ongoing which will hopefully lead to further pipeline projects. We continue to work closely with Animal Ethics Pty Ltd who are making good progress on the international registration and promotion of their farm animal pain relief product, Tri-Solfen®.

Acquisitions

In December 2017, we completed the acquisition of RxVet Limited, a small CAP business in New Zealand. RxVet had been Dechra’s distributor since 2010, with revenue in the year to March 2017 of £0.8 million (NZ$1.4 million); sales of Dechra products accounted for approximately half of this. The former owner managers have remained with the business and are working to increase market share and build Dechra’s presence in the region. Operationally the business is now integrated into our Australian business and rebranding into Dechra livery has commenced.

In February 2018, we completed the acquisition of AST Farma B.V. and Le Vet Beheer B.V. for a total consideration of £307.3 million (£340.0 million) on a debt-free and cash-free basis. The total consideration was satisfied by approximately 75% in cash and 25% in new Dechra shares, which are subject to a two year lock-in. AST Farma and Le Vet together own approximately 90 generic, generic plus and novel products. AST Farma is one of the leading companion animal pharmaceutical companies in the Netherlands which offers a wide range of products on a direct-to-vet basis, with the majority of its sales bypassing the distributors. They achieve their market position with a quality product range and by offering high levels of customer care and added value services to veterinarians. Since acquisition, we have merged our existing Dutch sales team into the AST Farma team and have differentiated the sales function with the majority of representatives focused on gaining market penetration and with four providing technical and educational support across the country. This enlarged sales team is already leveraging sales of Dechra’s existing portfolio. We are now in the process of making the Dechra portfolio available to order directly through the AST Farma network with the full service targeted to be available from 1 January 2019.

Le Vet has focused on the European markets outside of the Netherlands. Selecting products from the AST Farma range, Le Vet has developed a strong portfolio of registrations which it has sold through an established network of marketing partners across Europe, which included Dechra. There are significant revenue synergies available to Dechra by bringing the Le Vet products in-house to sell through our existing European sales and marketing organisations. The majority of the most valuable third party contracts have been terminated and the resultant value is in line with our pre-acquisition expectations.

Le Vet has a substantial pipeline with a number of product registrations already having been achieved since acquisition and an additional 20 plus projects which have been evaluated in detail and which will be progressed. The majority are expected to be approved within the next two to three years. The acquisition was a rare opportunity to consolidate and strengthen our market position in Europe and had been identified by the Dechra management team as a primary target for several years.

We continue to explore relevant acquisition opportunities and are engaging with a number of target companies and believe we are well placed to make further acquisitions.

Geographical Expansion

At the beginning of the year we established DVP International with its own management team and specific targets orientated around generating a material presence in markets outside of Western Europe and North America. Good progress has been made in establishing the business; one clear strategic objective has been targeting the registration of our existing portfolio into target markets. Our historic view of developing countries was orientated around the registration of FAP products; however, new research has provided us with a list of opportunities and a programme which has commenced to register a number of our higher margin CAP and Equine products. Furthermore, our increasing presence in international markets is providing us with a closer insight into potential future acquisition targets. Our Australian business, created through the acquisition of Apex, has performed well with sales growth in line with the market. We have made significant improvements to our manufacturing facility to improve efficiency and we have sufficient capacity to deliver future growth. We have strengthened the management team with the appointment of three veterinarians to assist in technical marketing. Currently, International revenues are reported within our EU Pharmaceuticals Segment; however, we anticipate that its materiality will increase to merit separate segmental reporting over time.

Strategic Enablers

Manufacturing

Increasing efficiency and creating centres of excellence at our main manufacturing sites continues to be a priority for the Group. We are investing in both capital equipment and additional inventory to deliver our strategic objectives within Manufacturing. Substantial progress has been made at both Bladel, Netherlands, where we are investing to achieve FDA approval for our aseptic facility, and in Zagreb, Croatia, where improvements in infrastructure and quality systems have been made across the site. In line with our strategic plan, we continue to move away from third party contract manufacturing to allow us to focus on manufacturing the increasing volumes of our own brands. It is very pleasing to report that we have had 12 months without a lost time accident in any of our manufacturing facilities.
Non-Executive Chairman’s and Chief Executive Officer’s Statement

continued

Technology
At the beginning of May we went live across the majority of our European markets with an Oracle integrated ERP system which replaces several unsupported legacy systems. We built additional inventory across the EU to mitigate any risk of failure; however, following go live we experienced only minor teething problems. This has been a major achievement by our EU team who, over the next 12 months, will look to utilise the system to improve management information and deliver operational efficiencies. The Hyperion financial system is also now fully operational; this will allow us to simplify and automate the reporting and consolidation of accounts and financial planning processes in the future.

We have continued to update both of our e-learning platforms, the Dechra Academy and the internal Delta system. The Dechra Academy is an online learning and educational tool that is available to veterinarians and veterinary nurses; several new courses have been developed this year, predominantly in the strategic therapeutic areas of endocrinology and dermatology. Delta is an internal system that provides over 130 modules designed to ensure Dechra employees are up-to-date with current policy and legislation. It enables them to have detailed knowledge on the business and its products to ensure that we offer the best possible support and advice to the veterinary profession.

People
Our people strategy remains important to the success of the Group. We have instigated numerous initiatives within the year, including ongoing leadership and management development programmes, several apprenticeship schemes as well as offering ongoing training across all levels of employment within the Group. We have also launched wellness and wellbeing initiatives and have had an independent company conduct an employee engagement survey which was completed by 87% of all Group staff with the vast majority stating that Dechra is a great place to work. We would not be able to achieve anything without the commitment, hard work and dedication of our team and we would like to thank all employees for their contribution to the ongoing success of the business.

Brexit
We have engaged in contingency planning and are implementing a hard Brexit mitigation plan. We expect the financial impact to be immaterial. Details of the mitigation plan can be found in Understanding Our Key Risks on page 56.

Dividend
The Board is proposing a final dividend of 18.17 pence per share (2017: 15.33 pence per share). Added to the interim dividend of 7.33 pence per share, this brings the total dividend for the financial year ended 30 June 2018 to 25.50 pence per share, representing 18.9% growth over the previous year.

Subject to shareholder approval at the Annual General Meeting to be held on 19 October 2018, the final dividend will be paid on 16 November 2018 to shareholders on the Register at 26 October 2018. The shares will become ex-dividend on 25 October 2018.

Outlook
Following a strong set of results in 2018, the new financial year has started well and in line with management expectations. Good progress is being made on all parts of our strategy, with several new opportunities being realised and recent acquisitions delivering the expected returns. Whilst there are many challenges in the market, which is developing faster than at any time in its history, we believe that our strategy and flexibility to adapt to change positions us well to continue to outperform.

Tony Rice
Non-Executive Chairman
3 September 2018

Ian Page
Chief Executive Officer
3 September 2018