Financial Review

// **Our excellent trading performance has been facilitated by a robust global supply chain, supplemented by healthy contributions from our product acquisitions in the year."**

Paul Sandland

Overview of Reported Financial Results

To assist with understanding our reported financial performance, the consolidated results below are split between existing and acquired businesses; acquisition includes the incremental effect of those businesses acquired in the current and prior year, reported on a 'like-for-like' basis. Additionally, the following table shows the growth at both reported actual exchange rates (AER), and constant exchange rates (CER) to identify the impact of foreign exchange movements. The acquisition operating profit of £1.8 million includes underlying operating profit of £6.7 million and non-underlying charges of £4.9 million relating to amortisation of acquired intangibles.

Including non-underlying items, the Group's consolidated operating profit increased by 16.2% at CER (13.7% at AER) whilst consolidated profit before tax increased by 7.8% at CER (4.9% at AER), impacted by an increase in net finance costs. Diluted EPS growth was 7.5% at CER (4.6% at AER) reflecting the marginal reduction in the effective tax rate.

As Reported	2022 Existing £m	2022 Acquisition £m	2022 Consolidated £m	2021 £m	Growth at AER Consolidated %	*Growth at CER Consolidated %*
Revenue	**669.4**	**12.4**	**681.8**	608.0	12.1%	***13.8%***
Gross profit	**377.0**	**7.8**	**384.8**	345.9	11.2%	***12.9%***
Gross profit %	**56.3%**	**62.9%**	**56.4%**	56.9%	(50bps)	***(40bps)***
Operating profit	**93.7**	**1.8**	**95.5**	84.0	13.7%	***16.2%***
EBIT %	**14.0%**	**14.5%**	**14.0%**	13.8%	20bps	***30bps***
Profit before tax	**75.8**	**1.8**	**77.6**	74.0	4.9%	***7.8%***
Diluted EPS (p)			**53.40**	51.03	4.6%	***7.5%***

Glossary

IFRSs: UK-adopted International Accounting Standards

CER: Constant Exchange Rates

AER: Actual Exchange Rates

CAP: Companion Animal Products

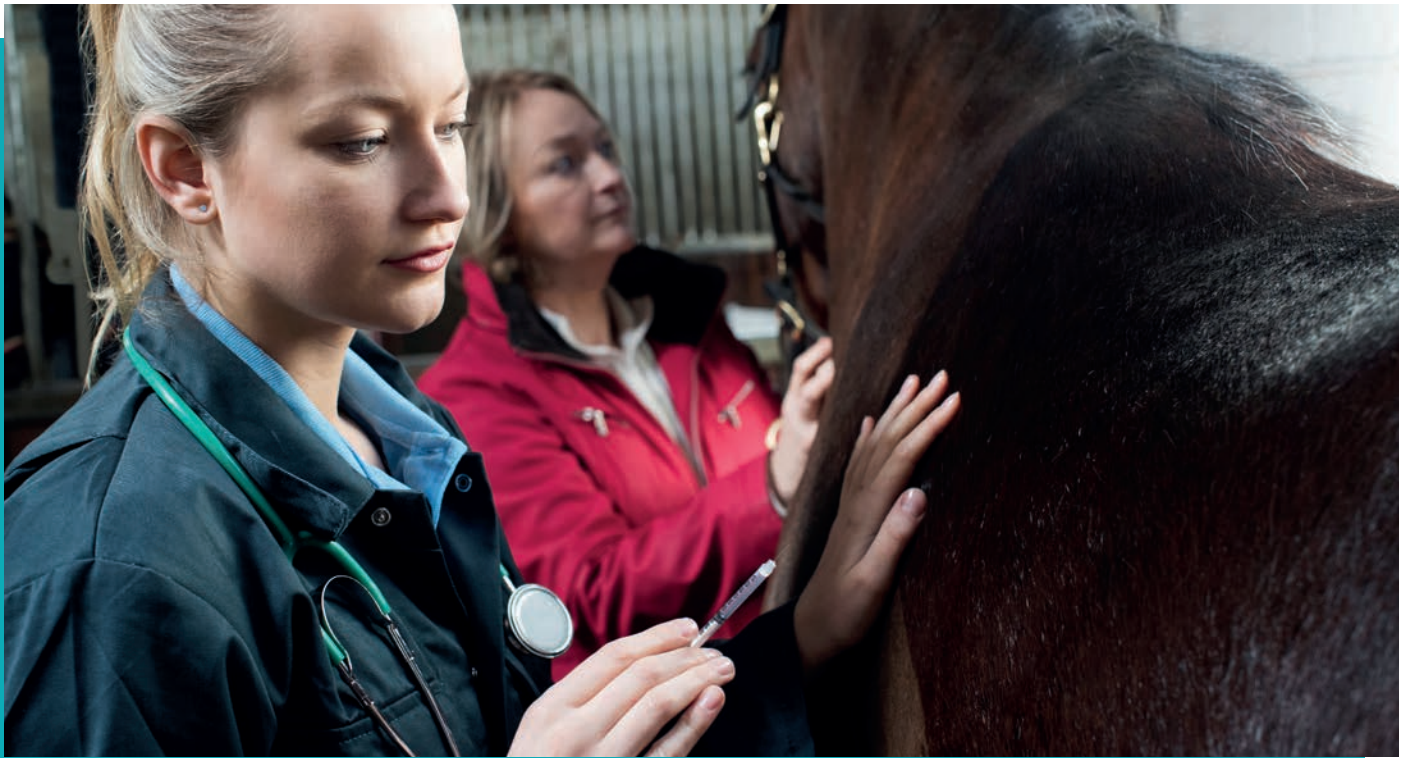
FAP: Food producing Animal Products

bps: basis points

Cash Conversion: cash generated from operating activities before interest and taxation as a percentage of underlying operating profit

Net Debt: cash and cash equivalents less borrowings and lease liabilities

Working Capital: inventory plus trade and other receivables less trade and other payables



Overview of Underlying Financial Results

The Group presents a number of non-GAAP Alternative Performance Measures (APMs). This allows investors to understand better the underlying performance of the Group by excluding certain non-underlying items as set out in notes 3, 4, 5, 6 and 35. As underlying results include the benefits of acquisitions but exclude significant costs such as amortisation of acquired intangibles, they should not be regarded as a complete picture of the Group's financial performance, which is presented in its total Reported results. The exclusion of non-underlying items may result in underlying earnings being materially higher or lower than total Reported earnings. In particular, when significant amortisation of acquired intangibles is excluded, underlying earnings will be higher than total Reported earnings. A reconciliation of underlying results to Reported results in the year to 30 June 2022 is provided in the table below. In the commentary which follows, all references will be to CER movement unless otherwise stated.

		Non-underlying Items			
	2022 Underlying Results £m	Amortisation and related costs of acquired intangibles £m	Acquisition, impairments and cloud computing costs £m	Tax rate changes and finance expenses £m	**2022 Reported Results £m**
Revenue	**681.8**	–	–	–	**681.8**
Gross profit	**385.3**	–	(0.5)	–	**384.8**
Selling, general and administrative expenses	**(178.6)**	(69.1)	(5.5)	–	**(253.2)**
R&D expenses	**(32.4)**	(3.7)	–	–	**(36.1)**
Operating profit	**174.3**	(72.8)	(6.0)	–	**95.5**
Net finance costs	**(3.1)**	–	–	(13.5)	**(16.6)**
Share of associate profit	**(1.2)**	(0.1)	–	–	**(1.3)**
Profit before tax	**170.0**	(72.9)	(6.0)	(13.5)	**77.6**
Taxation	**(38.3)**	17.3	1.2	0.4	**(19.4)**
Profit after tax	**131.7**	(55.6)	(4.8)	(13.1)	**58.2**
Diluted EPS (p)	**120.84**				**53.40**

In the year, Dechra delivered consolidated revenue of £681.8 million, representing an increase of 13.8% on the prior year. This included £669.4 million from its existing business, an increase of 11.8%, and a £12.4 million contribution from acquired product rights.

Consolidated underlying operating profit of £174.3 million represents a 9.4% increase on the prior year. This included £167.6 million from Dechra's existing business, an increase of 5.2% on a like-for-like basis, and a £6.7 million contribution from acquired product rights.

Underlying EBIT margin decreased by 110 bps to 25.6%, principally due to the increase in Selling, General and Administrative expenses (SG&A) spend as a percentage of revenue with our cost base normalising following lower levels of spend during the COVID-19 pandemic.

Underlying diluted EPS grew by 14.0% to 120.84 pence reflecting the profit growth from the existing and acquired businesses and benefiting from lower net finance costs driven by realised foreign exchange gains.

Financial Review

A more detailed explanation of our non-underlying items is included later in this Financial Review.

Underlying	2022 Existing £m	2022 Acquisition £m	2022 Consolidated £m	2021 £m	*Growth at CER* *Existing* *%*	*Consolidated* *%*
Revenue	**669.4**	**12.4**	**681.8**	608.0	*11.8%*	*13.8%*
Underlying gross profit	**377.5**	**7.8**	**385.3**	345.9	*10.8%*	*13.1%*
Underlying gross profit %	**56.4%**	**62.9%**	**56.5%**	56.9%	*(50bps)*	*(40bps)*
Underlying operating profit	**167.6**	**6.7**	**174.3**	162.2	*5.2%*	*9.4%*
Underlying EBIT %	**25.0%**	**54.0%**	**25.6%**	26.7%	*(170bps)*	*(110bps)*
Underlying EBITDA	**183.9**	**6.7**	**190.6**	177.7	*5.3%*	*9.2%*
Underlying diluted EPS (p)			**120.84**	108.14		*14.0%*
Dividend per share (p)			**44.89**	40.50		*10.8%*

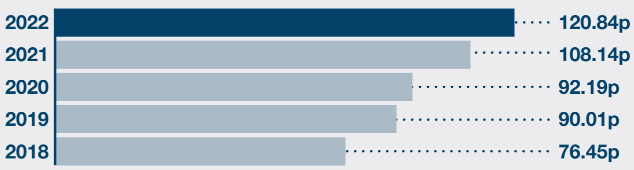
Reported Segmental Performance

Reported segmental performance is presented in note 2 on pages 179 to 180. The effect of acquisitions in the year was material; the reported segmental performance is analysed between existing and acquired businesses, and at AER and CER in the table below. The acquisition elements capture the additional base business coming into the Group up to the first anniversary of their acquisition, including the growth Dechra generated in them during the year, and the synergies that have already been realised by the Group since acquisition. This analysis becomes less definitive the further in time from the completion of the acquisition, as the acquired business is progressively integrated with the existing business.

Reported	2022 Existing £m	2022 Acquisition £m	2022 Consolidated £m	2021 £m	Growth at AER Existing %	Consolidated %	*Growth at CER* *Existing* *%*	*Consolidated* *%*
Revenue by segment								
EU Pharmaceuticals	**400.0**	**6.7**	**406.7**	388.5	3.0%	4.7%	*6.4%*	*8.2%*
NA Pharmaceuticals	**269.4**	**5.7**	**275.1**	219.5	22.7%	25.3%	*21.3%*	*23.8%*
Total	**669.4**	**12.4**	**681.8**	608.0	10.1%	12.1%	*11.8%*	*13.8%*
Underlying operating profit/(loss) by segment								
EU Pharmaceuticals	**127.7**	**3.8**	**131.5**	127.8	(0.1%)	2.9%	*3.8%*	*6.9%*
NA Pharmaceuticals	**84.8**	**2.9**	**87.7**	75.9	11.7%	15.5%	*9.7%*	*13.6%*
Pharmaceuticals Research and Development	**(32.4)**	**–**	**(32.4)**	(32.4)	0.0%	0.0%	*(1.5%)*	*(1.5%)*
Underlying segment operating profit	**180.1**	**6.7**	**186.8**	171.3	5.1%	9.0%	*6.9%*	*10.9%*
Corporate and unallocated costs	**(12.5)**	**–**	**(12.5)**	(9.1)	(37.4%)	(37.4%)	*(37.4%)*	*(37.4%)*
Underlying operating profit	**167.6**	**6.7**	**174.3**	162.2	3.3%	7.5%	*5.2%*	*9.4%*
Non-underlying operating items	**(73.9)**	**(4.9)**	**(78.8)**	(78.2)				
Reported operating profit	**93.7**	**1.8**	**95.5**	84.0	11.5%	13.7%	*13.9%*	*16.2%*

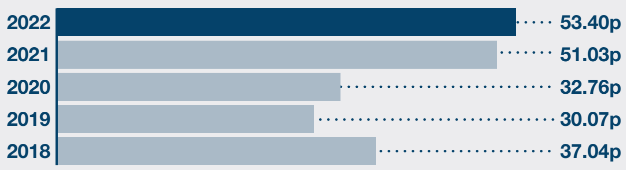
Underlying Diluted Earnings Per Share

120.84p



Reported Diluted Earnings Per Share

53.40p



Underlying Segmental Performance

European Pharmaceuticals

Revenue in European (EU) Pharmaceuticals grew by 8.2% to £406.7 million. The existing business grew by 6.4% with this growth driven by a robust performance across all established European markets and also in the key International businesses in ANZ and Brazil. The acquisitions of Tri-Solfen® (for the ANZ market) and *Osurnia* (July sales) contributed a combined £6.7 million to revenue for the period where there is no comparative.

Operating profit from existing business increased by 3.8%, with operating margin decreasing to 31.9% and consolidated operating margin decreasing to 32.3% as our cost base normalised following COVID-19.

Underlying	2022 Existing £m	2022 Acquisition £m	2022 Consolidated £m	2021 £m	*Growth at CER* *Existing* %	*Consolidated* %
Revenue	**400.0**	**6.7**	**406.7**	388.5	*6.4%*	*8.2%*
Operating profit	**127.7**	**3.8**	**131.5**	127.8	*3.8%*	*6.9%*
Operating profit %	**31.9%**	**56.7%**	**32.3%**	32.9%	*(100bps)*	*(60bps)*

North American Pharmaceuticals

Revenue from North American (NA) Pharmaceuticals grew by 23.8% to £275.1 million. The existing business grew by 21.3% reflecting strong demand for our CAP products in the US, Canada and Mexico. *Osurnia* (July sales), along with the product acquisitions made in the latter part of 2021 and early in 2022, contributed a combined £5.7 million to revenue for the period where there is no comparative.

Operating profit from existing business grew 9.7% with operating margin decreasing to 31.5% and consolidated operating margin decreasing to 31.9% as our cost base normalised following COVID-19.

Underlying	2022 Existing £m	2022 Acquisition £m	2022 Consolidated £m	2021 £m	*Growth at CER* *Existing* %	*Consolidated* %
Revenue	**269.4**	**5.7**	**275.1**	219.5	*21.3%*	*23.8%*
Operating profit	**84.8**	**2.9**	**87.7**	75.9	*9.7%*	*13.6%*
Operating profit %	**31.5%**	**50.9%**	**31.9%**	34.6%	*(310bps)*	*(270bps)*

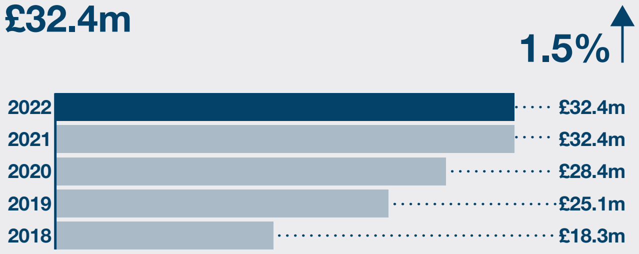
Pharmaceuticals Research and Development

Pharmaceuticals Research and Development (R&D) expenses of £32.4 million represented 4.8% of existing revenue with some project spend being delayed due to the impact of COVID-19 and specifically our ability to recruit and perform clinical study work. This spend included £3.3 million in relation to Akston.

	2022 Existing £m	2022 Acquisition £m	2022 Consolidated £m	2021 £m	*Growth at CER* *Existing* %	*Consolidated* %
R&D expenses	**(32.4)**	**–**	**(32.4)**	(32.4)	*(1.5%)*	*(1.5%)*
% of revenue	**4.8%**	**–**	**4.8%**	5.3%		

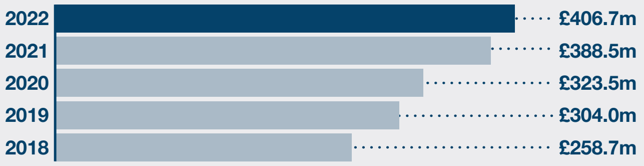
Research and Development Spend

£32.4m

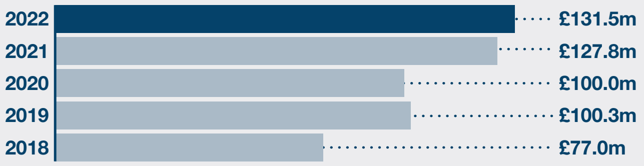


Financial Review

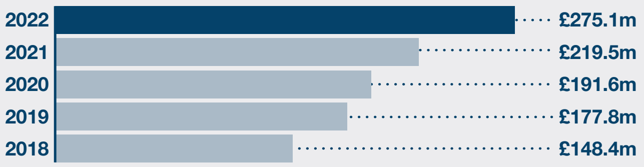
EU Pharmaceuticals Revenue
£406.7m



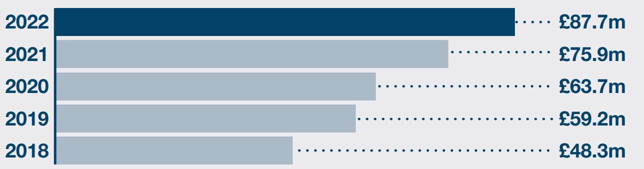
EU Pharmaceuticals Underlying Operating Profit
£131.5m



NA Pharmaceuticals Revenue
£275.1m



NA Pharmaceuticals Underlying Operating Profit
£87.7m

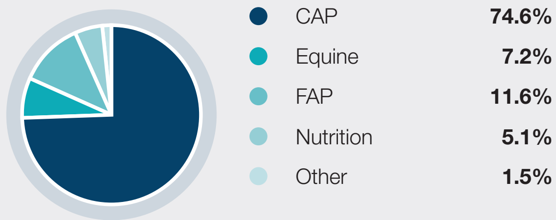


Revenue by Product Category
CAP revenue continues to be the largest proportion of Dechra's business at 74.6%, up from 72.8% in the prior year. CAP grew 16.0% in the year with further market penetration across all therapeutic areas. Equine revenue grew by 12.1% in the year driven by the US product rights acquisitions. FAP revenue growth was 6.0% benefiting from the launch of Tri-Solfen® in ANZ following the acquisition of rights in July 2021, but offset by the divestment of the non-core Agricultural Chemicals business in January 2022 (revenue growth on an existing basis was 5.6%). Nutrition revenue increased by 15.1% on the prior year reflecting the continuing success of our strategy with key customers in our key markets.

Other revenue reduced by 12.6% to £10.1 million, now representing only 1.5% of the business as we continue our planned exit from third party contract manufacturing in line with our manufacturing strategy, to improve the production efficiency of Dechra's own products.

	2022 £m	2021 £m	% Change at AER	**% Change at CER**
CAP	**508.4**	442.6	14.9%	***16.0%***
Equine	**49.5**	44.8	10.5%	***12.1%***
FAP	**78.8**	77.0	2.3%	***6.0%***
Subtotal Pharmaceutical	**636.7**	564.4	12.8%	***14.3%***
Nutrition	**35.0**	31.7	10.4%	***15.1%***
Other	**10.1**	11.9	(15.1%)	***(12.6%)***
Total	**681.8**	608.0	12.1%	***13.8%***

Revenue by Product Category (at AER)



Underlying Gross Profit
Underlying gross profit margin for the existing business decreased by 50 bps to 56.4% on an Existing basis and decreased by 40 bps to 56.5% on a consolidated basis reflecting the strong CAP performance offset by the increased generic competition, particularly in our NA Business.

Underlying Selling, General and Administrative Expenses (SG&A)
SG&A costs grew from £151.3 million in the prior year to £178.6 million in the current year, an increase of 19.8%. This growth principally represents the full year impact of the investment in our people costs following the review of compensation across the Group in January 2021 and the normalisation of our cost base (including sales & marketing and travel & entertainment costs) following COVID-19 lockdowns in the prior year.

Non-underlying Items
Non-underlying items incurred in the year are fully described in note 5 on page 182. In summary, they relate to the following:

- Amortisation of acquired intangibles of £72.8 million has decreased from £75.2 million in 2021 principally due to new charges relating to the product acquisitions more than offset by the reducing charge from the AST Farma and Le Vet acquisition;

- Cloud computing arrangement costs of £2.8 million relating to the initial costs of the programme to implement the Manufacturing and Supply function's new ERP and Electronic Quality Management systems;
- Impairment costs of £2.9 million predominately relating to the sale of the Agricultural Chemicals business (£1.0 million) and an impairment of a small number of In-Process R&D assets recognised on the acquisition of AST Farma and Le Vet (£1.7 million);
- Finance charge of £13.5 million (2021: credit of £2.8 million) represents the charge arising on the unwind of the discount relating to the contingent consideration liability of £3.4 million and associated foreign exchange loss of £10.1 million driven by the depreciation of Sterling against the US and Australian Dollars;
- Taxation credit of £18.9 million (2021: £14.0 million) represents the tax impact of the above items (£21.1 million), offset by the revaluation of deferred tax balance sheet items (£2.2 million charge) following changes in corporate tax rates, including a further revision to the Netherlands rate (which is increasing to 25.8%);
- Expenses relating to acquisition and subsequent integration activities were £0.3 million (2021: £1.4 million) with costs relating to the product rights acquisitions in the current year being immaterial so treated as underlying; and
- Costs relating to rationalisation of the manufacturing organisation were nil (2021: £1.6 million), as this programme was completed in the prior year.

Taxation
The reported effective tax rate (ETR) for the year is 25.0% (2021: 25.0%) and includes the one-off impact of the substantively enacted increase in corporate tax rates in the Netherlands (from 25.0% to 25.8%) on deferred tax balances. On an underlying basis the ETR is 22.5% (2021: 21.7%); the main differences to the UK corporation tax rate applicable of 19.0% (2021: 19.0%) relate to differences in overseas tax rates and non-deductible expenses offset by patent box allowances and other incentives.

The underlying ETR is expected to remain at a similar level in the year to 30 June 2023. We continue to monitor relevant tax legislation internationally as it may affect our future ETR.

Reported Profit
Reported profit before tax increased by 4.9% at AER reflecting the reported operating profit growth of 13.7% at AER and the increase in net finance costs which include a foreign exchange loss of £10.1 million on the remeasurement of the contingent consideration liabilities driven by the depreciation of Sterling against the US and Australian Dollars.

Earnings per Share and Dividend
Underlying diluted EPS for the year was 120.84 pence, a 14.0% growth on the prior year reflecting the underlying EBIT growth of 9.4% and the benefit from a lower net finance expense principally due to foreign exchange gains realised. The weighted average number of shares for diluted earnings per share for the year was 109.0 million (2021: 108.8 million).

The reported diluted EPS for the year was 53.40 pence (2021: 51.03 pence). This represents an increase of 4.6% (at AER) in reported EPS which is lower than the reported EBIT growth of 13.7% (at AER) reflecting the increase in net finance expense due to the foreign exchange losses recognised on contingent liabilities.

The Board is proposing a final dividend of 32.89 pence per share (2021: 29.39 pence); added to the interim dividend of 12.00 pence, the total dividend per share for the year ended 30 June 2022 is 44.89 pence. This represents 10.8% growth over the prior year. Dividend cover based on underlying diluted EPS is 2.7 times (2021: 2.7 times). The Board continues to operate a progressive dividend policy, recognising investment opportunities as they arise.

Currency Exposure
The average rate for £/€ increased by 4.6%, and the £/$ rate decreased by 1.1% during the financial year. The effect in the Consolidated Income Statement and Statement of Financial Position is analysed in the above paragraphs of this review between performance at AER and CER. CER analysis compares the performance of the business on a like-for-like basis applying constant exchange rates.

	Average rates		
	2022	2021	*% Change*
£/€	**1.1807**	1.1287	***4.6%***
£/$	**1.3316**	1.3466	***(1.1%)***

Currency Sensitivity
Euro €: a 1% variation in the £/€ exchange rate affects underlying diluted EPS by approximately +/- 0.5%.

US Dollar $: a 1% variation in the £/$ exchange rate affects underlying diluted EPS by approximately +/- 0.5%.

Current exchange rates are £/€ 1.1623 and £/$ 1.1623 as at 1 September 2022. If these rates had applied throughout the year, the underlying diluted EPS would have been approximately 8.3% higher.

Statement of Financial Position
The Statement of Financial Position is summarised in the table on the next page.

- Non-current assets (excluding deferred tax) increased from £819.9 million to £846.6 million and include the intangible assets recognised on the product acquisitions, partly offset by amortisation of acquired intangibles.
- Working capital increased from £142.7 million to £175.7 million (£33.0 million at AER, £27.8 million cash flow impact) mainly due to the growth of the Group with an investment in inventory made to maintain service levels during this continuing period of heightened growth and uncertainty.
- Net debt increased in the year by £8.0 million from £200.2 million to £208.2 million; this includes cash generation from operations at £166.1 million, an outflow of £54.4 million relating to product acquisitions made during the year, net capital expenditure of £20.3 million, net interest/tax outflows of £39.8 million and £44.8 million in dividends. Exchange rate variations negatively impacted the net debt position by £7.2 million.
- Current and deferred tax assets and liabilities reduced from £45.8 million to £34.7 million principally due to the realisation of deferred tax liabilities relating to the amortisation of acquired intangibles.

	2022 £m	2021 £m
Non-current assets	**846.6**	819.9
Working capital	**175.7**	142.7
Net debt	**(208.2)**	(200.2)
Current and deferred tax	**(34.7)**	(45.8)
Other liabilities	**(112.6)**	(83.7)
Total net assets	**666.8**	632.9

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Cash Flow, Financing and Liquidity

The Group enjoyed good cash generation during the year, with a strong Underlying EBITDA margin of 28.0% (2021: 29.2%). However, as mentioned above, working capital has increased by £27.8 million, mainly due to the growth of the Group with an investment in inventory made to maintain service levels during this continuing period of heightened growth and uncertainty. This resulted in net cash generated from operations after non-underlying items of £163.3 million, representing cash conversion of 93.7% of underlying operating profit.

	2022 £m	2021 £m
Underlying operating profit	**174.3**	162.2
Depreciation and amortisation	**16.3**	15.5
Underlying EBITDA	**190.6**	177.7
Underlying EBITDA %	**28.0%**	29.2%
Working capital movement	**(27.8)**	(36.0)
Other	**3.3**	2.5
Cash generated from operations before interest, taxation and non-underlying items	**166.1**	144.2
Non-underlying items	**(2.8)**	(3.0)
Cash generated from operations before interest and taxation	**163.3**	141.2
Cash conversion (%)	**93.7%**	87.1%

Net Debt Bridge

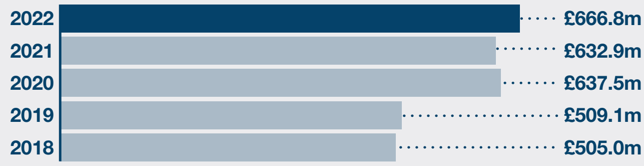
Notable cash items are listed below in the net debt reconciliation table:

- Net capital expenditure on tangible assets increased to £20.3 million (2021: £19.8 million), representing 1.8 times depreciation.
- Acquisitions of intangible assets of £57.3 million includes the product acquisitions (see below) and capitalised development expenditure (£1.2 million).
- The net debt/underlying EBITDA leverage ratio per the borrowing facilities' leverage covenant, which includes the proforma adjustment to full year EBITDA for the acquisitions, was 1.0 times (2021: 1.1 times) versus a covenant of 3 times.

	£m
Net Debt 30 June 2021	**(200.2)**
Net cash generated from operations before non-underlying items	166.1
Non-underlying items	(2.8)
Net capital expenditure	(20.3)
Acquisition of intangible assets	(57.3)
Acquisition of subsidiary	(0.8)
New lease liabilities	(3.8)
Interest and tax	(39.8)
Dividend paid	(44.8)
Other movements	2.3
Other non-cash movements	0.4
Foreign exchange on net debt	(7.2)
Net Debt 30 June 2022	**(208.2)**

Net Assets

£666.8m



Borrowing Facilities

As reported in preceding Annual Reports, the Group completed a refinancing and entered into a multi-currency facilities agreement in July 2017 (the Facility Agreement), with a group of banks comprising Bank of Ireland (UK) plc, BNP Paribas, Fifth Third Bank, HSBC Bank plc, Lloyds Bank plc (replaced by Credit Industriel et Commercial, London branch (CIC) in August 2019), Raiffeisen Bank International AG and Santander UK plc (the Banks). The Facility Agreement has a revolving credit facility (the RCF) of £340.0 million, which is committed until July 2024.

In January 2020 the Group undertook a Private Placement raising €50.0 million and USD100.0 million (under seven and ten year new senior secured notes respectively), the proceeds of which were used to repay existing debt. The placement achieved the Group's aims of diversifying the sources of debt financing and extending the debt maturity profile.

On 14 July 2022 the Group undertook a further Private Placement raising €50.0 million and €100.0 million (under seven and ten year new senior secured notes respectively), the proceeds of which were used to repay existing debt.

Capital Management

On 21 July 2022 the Group successfully completed a share placing of 5,364,683 new ordinary shares, representing 4.95% of the existing issued share capital of the Company, at a price of 3430 pence per placing share, raising gross proceeds of £184.0 million which were largely deployed to fund the Piedmont Animal Health, Inc acquisition upon its completion on 20 July 2022.

Covenants

There are two covenants governing the RCF and the Private Placements:

- Leverage: Net Debt to underlying EBITDA not greater than 3.0:1 for the RCF and 3.5:1 for the Private Placements (30 June 2022: 1.0:1); and
- Interest Cover: underlying EBITDA to Net Finance Charges not less than 4.0:11 (30 June 2022: 24.6:1).

The above ratios are calculated excluding the impact of IFRS 16 and having adjusted for the pro-forma impact of acquisitions in accordance with the terms of the RCF and Private Placements arrangements.

On 22 December 2021, the Group entered into an Amendment and Restatement Agreement in relation to the £340.0 million Revolving Credit Facility (RCF) maturing 25 July 2024. With effect from 1 January 2022, any new Borrowings drawn on the RCF will now use Risk Free Reference (RFR) rates instead of LIBOR rates. The relevant RFR rates for the principal Borrowings of the Group will be SONIA (for Borrowings in GBP), SOFR (for Borrowings in USD) and EURIBOR (for Borrowings in EUR). The interest rate charged on any new Borrowings drawn under the RCF will be the relevant RFR rate plus the Margin plus a Credit Adjustment Spread (CAS). The CAS charged on the RCF will be a minimum of 0.0326% and a maximum of 0.42826%, dependent upon the term and currency of the new Borrowings. The CAS will not be charged on any new Borrowings that are drawn in EUR currency. The margin over LIBOR (or equivalent) remains in the range from 1.3% for leverage below 1.0 times, up to 2.2% for leverage above 2.5 times.

The weighted average coupon of the Private Placements fixed rate notes equates to 3.2%.

Underlying Return on Capital Employed (ROCE)

Underlying ROCE increased to 19.5% in the year (2021: 18.8%) reflecting the increased contribution from the Group's existing businesses.

Acquisitions

The Group has made several acquisitions in recent years. The incremental performance during the first year of ownership of the acquisitions made during the 2021 and 2022 financial years is separately summarised compared to the existing business in the sections above.

During the year the Group completed the following product rights acquisitions:

- In July 2021 the rights to Isoflurane® and Sevoflurane® were acquired from Halocarbon Life Sciences LLC for USD12.0 million (£8.7 million).
- In September 2021 the rights to ProVet APC™ and ProVet BMC systems were acquired from Hassinger Biomedical and DSM Medical for USD4.0 million (£3.0 million). A payment of £0.1 million was also made for inventory.
- In October 2021 the rights to Rompun® (xylazine injection) and Butorphanol Tartrate injection were acquired from Elanco™ Animal Health for USD4.0 million (£3.0 million). A payment of £0.2 million was also made for inventory.
- In October 2021 the rights to Sucromate™ Equine sterile suspension were acquired from Thorn Bioscience LLC for USD9.0 million (£6.5 million). A minor payment was also made for inventory.
- In January 2022, the global product rights to Verdinexor, a novel treatment for all forms and stages of canine lymphoma in dogs, including a first right of refusal for other species along with the trademark (*Laverdia)* were acquired from Anivive Lifesciences Inc. Following the initial payment of USD19.0 million (£14.0 million) there are subsequent milestone payments totalling USD45.5 million (£33.5 million) due on the achievement of various approval and sales milestones for the product in the USA, UK, EU, Brazil, Australia, Japan and Canada. Royalties are also payable as part of this transaction and have been accrued as part of the contingent consideration liabilities.

Accounting Standards

The accounting policies adopted are outlined in note 1 to the Accounts.

In April 2021, the IFRS Interpretations Committee published its final agenda decision on Configuration and Customisation costs in a Cloud Computing Arrangement. The agenda decision considers how a customer accounts for configuration or customisation costs in a cloud computing arrangement. The agenda decision does not have a material impact on the Group in respect of the current period or prior periods (note 5). There are no other accounting policy changes which have materially impacted the 2022 financial year.

Going Concern

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing these annual financial statements.

In reaching this conclusion, the Directors have given due regard to the following:

- The Group's business activities, together with factors likely to impact the future growth and operating performance;
- The financial position of the Group, its cash flows, available debt facilities and compliance with the financial covenants associated with the Group's borrowings, which are described in the financial statements;
- The cash generated from operations, available cash resources and committed bank and other facilities and their maturities, which taken together, provide confidence that the Group will be able to meet its obligations as they fall due; and
- Post balance sheet events see note 34 to the financial statements.

As at 30 June 2022, the Group had net debt of £208.2 million (2021: £200.2 million), and had available cash balances and unutilised committed borrowing facilities of £271.2 million. Further information on available resources and committed bank facilities is provided in notes 18 and 21 to the financial statements.

Subsequent Events

On 20 July 2022, the Group acquired 100% of the share capital of Piedmont Animal Health, Inc. (Piedmont) for US$210.0 million (£175.0 million) in cash. Piedmont is an established product development business with a strong track record of developing products for multi-national animal health companies.

On 26 August 2022, the Group acquired 100% of the share capital of the Med-Pharmex Holdings, Inc. group of companies (Med-Pharmex) for US$260.0 million (£221.5 million) in cash. Med-Pharmex is an established platform business with manufacturing, product development and regulatory capabilities, and has several products already approved and being sold in the US market.

Summary

Our business continued to benefit from strong market conditions which remained heightened from pre COVID-19 levels accelerating growth in our existing business. This excellent revenue performance, particularly in North America, has been facilitated by a robust global supply chain and supplemented by healthy incremental contributions from our product acquisitions in the year.

R&D expenditure was lower than expected during the period, but we continued to invest heavily in our people and have seen the rest of our cost base return to more normalised levels following COVID-19.

The Group's balance sheet and cash flows are strong, enabling us to continue to consider further relevant acquisition and investment opportunities as they arise.

Paul Sandland
Chief Financial Officer
5 September 2022