Chief Executive Officer's Statement

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Ian Page

Introduction

I am pleased to report that the Group has delivered strong growth throughout our financial year as we continue to outperform the major international markets in which we operate. After a very strong start to the year, revenue in the second half started to return to more normalised historical levels of growth as the benefit of increased spending on pets seen during the COVID-19 restrictions slowed down. This growth was delivered across all product categories, all major therapeutic areas and in all the international markets in which we trade. We have continued to progress on all aspects of our strategy; the product development pipeline was strengthened, material acquisitions were completed post year-end and a new subsidiary was established in South Korea as we continue our geographical expansion. Excellent progress has been made on systems and quality in our supply chain, which remained robust throughout the year. Information technology implementations strengthened the infrastructure of the Group and provided better management information. ESG is integrated into the way we work and our people remain highly engaged, motivated and dedicated in achieving our strategic goals.

Operational Review

EU Pharmaceuticals Segment

In the period our total European (EU) Pharmaceuticals Segment revenue increased by 8.2% at CER (4.7% at AER). This includes a 12 month contribution from the acquisition of Tri-Solfen® ANZ acquired in February 2021 and an additional month's contribution from *Osurnia* acquired on 27 July 2020. Existing net revenues increased by 6.4% at CER (3.0% at AER). This Segment includes our International business, which is detailed below. It also includes non-core business, such as the Agricultural Chemical business, which was originally acquired as part of the Genera acquisition in 2015 and was divested in January 2022; annual sales from this business were approximately £6.0 million.

The EU growth was delivered across all product segments and all countries with Iberia, Poland, Italy and Austria all achieving double digit growth. The main driver of growth was CAP; however, it is pleasing that FAP remains in growth in a challenging market and that Equine and Nutrition continue to perform well.

Education continues to be the main tool to engage our veterinary customers. Throughout the year we provided technical support for 6,000 clinical cases in the UK alone and have provided over 85,000 hours of continuing professional development (CPD) training across Europe to veterinarians through our Lunch and Learn programmes and educational seminars. Digital communication has also been an area of focus with 13,500 veterinarians and veterinary nurses in Europe and 17,600 globally, utilising our online Dechra Academy, which now has 596 educational modules in our key therapeutic areas.

International Pharmaceuticals

It is five years since we established a team to focus purely on international expansion. During this time, we have established Dechra Australia as the second largest company in CAP pharmaceuticals, have significantly strengthened our New Zealand operation through two small acquisitions and have established a strong foothold in South America through our Brazilian subsidiary. Our ANZ and Brazilian businesses delivered good growth in the year.

Glossary

AER: Actual Exchange Rates

ANZ: Australia and New Zealand

CAP: Companion Animal Products

CER: Constant Exchange Rates

EMA: European Medicines Agency

ERP: Enterprise Resource Planning

EU Pharmaceuticals: European Pharmaceuticals Segment comprising DVP EU, DVP International and Dechra Pharmaceuticals Manufacturing

FAP: Food producing Animal Products

FDA: US Food and Drug Administration; a federal agency of the US Department of Health and Human Services

NA Pharmaceuticals: North American Pharmaceuticals Segment comprising DVP US, Canada and Mexico

* All numbers in this report are at CER unless otherwise stated.

We have extended our international footprint by establishing a new subsidiary in South Korea. We terminated the agreement with our previous distributor following their change of ownership. We have appointed a senior management team, whom we have known for many years, to manage this new entity which will commence trading in the second quarter of the new financial year. Having our own operation will give us greater transparency on the opportunities in this fast growing market and will also allow us to better assess our future options for expansion in this region.

NA Pharmaceuticals Segment

Our total North America (NA) Pharmaceuticals Segment revenues increased by 23.8% at CER (25.3% at AER). This revenue includes a contribution from various products we acquired in the year, the majority of which were launched in the second half, and one month of additional *Osurnia* sales on a like-for-like basis over the previous year. Existing net revenues increased strongly by 21.3% at CER (22.7% at AER). This exceptional performance was delivered despite increased competition to three of our branded generics. We did manage to retain market share, albeit at a lower price point, due to our strong relationship with our customers and through a Dechra Rewards Scheme, managed by Vetcove, that now has 9,000 veterinary practice members. We continue to review and assess our relationship with the veterinary distributors (wholesalers) who proactively promote their own generic products that compete with ours.

In the USA we increased the marketing team with four specialists in digital and product management to support the launch of the newly developed and acquired products. We continue to increase the scale of our sales team with the appointment of 18 new representatives in the year, a number of which joined us as part of the *Laverdia* acquisition.

The majority of growth is delivered from the US; however, we also delivered strong performances in Mexico and Canada. In Mexico, we transitioned completely out of our old manufacturing site and relocated to new sales offices. In Canada, we initiated a FAP business unit with the launch of two products and added three internal sales representatives to our sales team.

As with DVP EU, education and technical support are important tools in our relationship with our customers. In the year, our veterinary technical services team dealt with 8,500 technical queries, which involved over 15,000 telephone calls; we also held 413 certified educational presentations to 15,794 attending veterinarians. Furthermore, we continued to invest in our University engagement programme to educate veterinary graduates on our key therapeutic areas.

Product Category Performance

CAP

Companion Animal Products (CAP), which represent 74.6% of Group turnover, grew by 16.0% at CER in the year. Our key therapeutic sectors, endocrinology, dermatology, anaesthesia and analgesia were the main drivers of this growth. At the end of the year, we launched Zenalpha in the USA, a new novel canine sedative, approved by the FDA, which contributed revenue of $1.3 million.

FAP

The strong performance in Food producing Animal Products (FAP) during recent years, which represents 11.6% of Group turnover, slowed to 6.0% at CER. This remains a solid performance as the European market, a key area for our FAP sales, has been challenging due to avian influenza, African swine fever and inflationary costs.

Equine

Equine, which represents 7.2% of Group turnover, grew by 12.1%. This growth was driven by locomotion, a therapeutic sector, which includes *Osphos*, Equipalazone® and *HY-50* and by internal medicine, including Equibactin® and Prednidale Horse. In the second half of the year we also launched three acquired products in the USA, which are detailed later in this report.

Nutrition

Nutrition, which represents 5.1% of Group turnover, continues to perform well and grew by 15.1%. The majority of our Specific branded diet sales are in the EU where we have continued to increase market penetration, especially with our newly launched products, such as the organic range.

Chief Executive Officer's Statement

Product Development and Regulatory Affairs (PDRA)

Pipeline Progress

We have delivered another year of consistent progress on the pipeline. We have generated positive dose range finding data in both the dog and cat for the diabetes drugs being developed in partnership with Akston Biosciences. Using its recently commissioned GMP biologics production facility, Akston Biosciences is currently on track to deliver active ingredient for our planned pivotal efficacy studies. Lifecycle innovation of our key brands, such as *Vetoryl* and *Osurnia*, are ongoing and showing good progress. New opportunities are constantly being identified and new candidates have been added to the pipeline. With the addition of the Piedmont projects (outlined later in this report), our pipeline is stronger than ever and positioned to deliver material products to support future growth.

Product Approvals

Numerous marketing authorisations have been achieved throughout the year. Although only Zenalpha® is material in its own right, they all add depth and breadth to the current product range and strengthen our international portfolio. Major approvals in Dechra territories are:

- in Europe, Metomotyl 10mg chewable tablet for dogs (Metoclopramide hydrochloride), Bupredine® Multidose 0.3mg/ml solution for injection for dogs, cats and horses (Buprenorphine), Canergy 100mg coated tablets for dogs (Propentofylline), Cefabam 1000mg, 250mg and 50mg tablets for dogs (Cephalexin monohydrate), Clindacutin 10mg ointment for dogs (Clindamycin hydrochloride), Lodisure® 1mg tablets for cats (Amlodipine besilate), Octacillin® 800mg/g powder for use in water for pigs (Amoxicillin trihydrate), Sedadex 0.1mg/ml solution for injection for dogs and cats (Dexmedetomidine hydrochloride), Vomend® vet 10mg chewable tablets for dogs (Metoclopramide hydrochloride);
- in Great Britain and Northern Ireland, Tri-Solfen® Solution for Pigs (Adrenaline tartrate, Lidocaine hydrochloride, Bupivacaine hydrochloride, Cetrimide) was approved. An exemption from the need for a maximum residue limit (MRL) for an equine product at an advanced stage of development was also approved;
- a novel canine sedative injection *Zenalpha* (Medetomidine hydrochloride, Vatinoxan hydrochloride), a generic antibiotic Amoxicillin Trihydrate and Clavulanate Potassium Drops and generic Carprofen Caplets have been approved in the USA;
- two sedative products, Dexmedesed 0.5mg/ml (Dexmedetomidine hydrochloride) and Dormazolam® (Midazolam) as well as the antimicrobial Rexxolide® (Tulathromycin) were registered in Canada;
- in Mexico, five new products were registered;
- in Australia, four new products and in New Zealand three new products were registered;
- in Brazil, three new products were registered including two vaccines; and
- additionally, in other international territories, we have received 52 approvals in countries including Egypt, Iran, Korea, Pakistan, Peru, Puerto Rico, Serbia, Sri Lanka, Switzerland, Thailand, West Africa (UEMOA), Ukraine, United Arab Emirates, Uruguay and Vietnam.

Acquisitions

We have successfully completed several product acquisitions and two material company acquisitions.

In July 2022, post the year end, we acquired Piedmont Animal Health, Inc for $210 million (£175 million), a product development company with a long, successful track record of developing major international products for multi-national animal health companies. Piedmont has eight novel products in various stages of development, all in the CAP market for cats and dogs and all within Dechra's key therapeutic areas of competence. The business significantly strengthens Dechra's pipeline of novel products with two near term opportunities, both expected to be top ten products for Dechra. The development team of 19 people who have joined Dechra, located in Greensboro, North Carolina, have added additional strength and expertise to the Company's existing product development capabilities.

Also, post the year end in August 2022 we completed the acquisition of Med-Pharmex Holdings, Inc for $260.0 million (£221.5 million). Med-Pharmex, with sales of $43.0 million and adjusted EBITDA of $15.3 million, is an established platform business located in Pomona, California with manufacturing, product development and regulatory capabilities. It has several products already approved and established in the US market. As they have no sales and marketing capabilities, these products are currently sold through third party partners. We are planning to sell many of these products under a Dechra brand through our existing sales and marketing channels, providing material margin synergies and operational leverage. In the longer term, synergies will also be realised from integration and improved utilisation of the manufacturing facilities. The facility has the capability to produce Cephalosporins, a type of antibiotic that is required to be manufactured in a dedicated suite. They currently have one product registered and one product in the development pipeline that fall into this category, which is expected to be first entrant generic in product markets of material scale in the USA.

We executed numerous bolt on product acquisitions, which complement our equine and CAP portfolios. The equine products acquired are all for the US market and are:

- Rompun® (xylazine injection) and Butorphanol Tartrate Injection from Elanco™ Animal Health, which complement our anaesthesia and analgesia portfolio;
- Sucromate™ Equine (deslorelin acetate) sterile suspension from Thorn Bioscience LLC, which expands our US Equine portfolio into reproduction; and
- ProVet APC™ (Autologous Platelet Concentrate) and ProVet BMC™ (Bone Marrow Concentrate) systems from Hassinger Biomedical. These two patented medical devices harness growth factors from the horse's whole blood, which when injected back into the horse positively enhance healing results in soft tissue injuries. The ProVet APC™ system is a revolutionary device and is arguably the fastest and most transportable platelet concentrator available to the veterinary industry.

The CAP products acquired are:

- LAVERDIA® -CA1, a novel oral SINE (selective inhibitor of nuclear export) drug and the first oral tablet for canine lymphoma acquired from Anivive Lifesciences Inc. It is currently sold under a conditional approval by the FDA Center for Veterinary Medicine in the USA with full dossier submissions planned for the USA, UK, EU, Brazil, Australia, Japan and Canada;
- Isoflurane®, USP and Sevoflurane®, USP from Halocarbon, both inhalant anaesthetics, which expand our US veterinary surgical suite;
- Atopivet® range of products for cats and dogs in collaboration with Bioiberica, which offer unique alternatives to multi-modal dermatology therapy; and

- Malaseb®, a leading dermatological medicated shampoo which we already market across Europe, was acquired from Dermcare for the US market, an excellent addition to our leading topical dermatology range.

Enablers

Manufacturing and Supply Chain

The investment made in Manufacturing and Supply Chain over the last two years has resulted in higher levels of stock availability with backorders at the end of the year being at a three year low. The huge improvements in our quality systems are clearly demonstrated by successful regulatory inspections at our sites in Zagreb, Croatia, Skipton, UK and Fort Worth, USA. Investment has continued across our Manufacturing sites:

- two new automated lines were installed at Zagreb;
- a new autoclave system for sterilisation of finished goods has been installed in Bladel, Netherlands;
- a high speed tablet press was commissioned at our Fort Worth site in the USA;
- a new water for injection facility has been commissioned in Brazil; and
- work has commenced on a new building in Skipton, which will expand the site and improve work flows.

We have extended our European logistics centre in Uldum, Denmark creating over 6,000 new pallet spaces with a subterranean store for temperature controlled drugs that materially reduces the electricity required to maintain low temperatures. We have also increased our warehousing capacity in Australia.

This ongoing investment in our Manufacturing and Supply Chain will allow us to continue our strategy to bring more production in-house; nine products were transferred into Zagreb, Melbourne (USA), Bladel and Fort Worth within the year.

Technology

Information technology remains a key area of focus for the business. We are working on numerous projects which strengthen the infrastructure, improve internal information, provide educational support and improve employee and customer engagement. We are making excellent progress on two major projects outlined in the Half Year Report, these being the new quality document management system to support Manufacturing, Product Development, Regulatory Affairs and Technical Services, and in addition we have also established a project team to upgrade the Manufacturing ERP system to one consolidated cloud-based Oracle platform. Salesforce, a customer relationship management system, is now being utilised across the majority of countries in which we operate and we have also fully rolled out a new global payroll system across the Group. We have restructured and recruited new hires to increase our digital communication capabilities as we continue to expand our on-line training capabilities to our employees and to our customers through the Dechra Academy, a platform which we are constantly upgrading in both its technical capabilities and increased content.

People

On 1 January 2022, Alison Platt was appointed Chair of the Board following the retirement of Tony Rice. On 1 June 2022, John Shipsey was appointed as Non-Executive Director with the view to being the successor to Julian Heslop as Audit Committee Chair. The Board and I would like to express our thanks and gratitude for the huge contribution both Tony and Julian have made to the Board over their tenure as Non-Executive Directors.

We have commenced the recruitment process to find a successor to Ishbel Macpherson as Remuneration Chair as Ishbel is in her tenth year as a Non-Executive Director on the Dechra Board.

Following the retirement of Dr Susan Longhofer as Chief Scientific Officer, we are pleased to announce the appointment of Patrick Meeus as her replacement. Patrick, who has joined the Senior Executive Team, is a veterinary surgeon and brings a wealth of experience gained in multi-national pharmaceutical companies in animal health.

Isabelle Gaillet has been appointed as EU Commercial Director. Isabelle, who previously worked for the Company from 2015 to 2019 as French Country Manager will join the European Senior Management Team. She will support the EU Country Managers and lead our commercial strategy for the EU alongside Tony Griffin, European Pharmaceuticals Managing Director.

We have launched a Future Facing Leaders programme with 24 employees from across our global subsidiaries joining the scheme, which is designed to develop our management talent and will support the future growth of Dechra. Furthermore, we have launched leadership development programmes for our International, North America and Manufacturing management teams.

We have rolled out a Group wide applicant tracking system and also an automated talent review process that allows us to monitor our talent pipeline, succession plans, employee mobility and individuals' progress.

ESG

To enable our business to adapt to climate change, we have focused on mitigating our impact through the decarbonisation of the business. We remain committed to the Science Based Target initiatives, working towards a Net-Zero ambition by 2050. We have also released our inaugural separate Sustainability Report and provided enhanced Task Force on Climate-related Financial Disclosures, which are included later in this report.

Dividend

The Board is proposing a final dividend of 32.89 pence per share (2021: 29.39 pence per share). Added to the interim dividend of 12.00 pence per share (2021: 11.11 pence per share), this brings the total dividend for the financial year ended 30 June 2022 to 44.89 pence per share (2021: 40.50 pence per share), representing 10.8% growth over the previous year.

Subject to shareholder approval at the Annual General Meeting to be held on 20 October 2022, the final dividend will be paid on 18 November 2022 to shareholders on the Register at 28 October 2022. The shares will become ex-dividend on 27 October 2022.

Outlook

As the market returns to normal levels of trading post the impact of COVID-19 and as current macroeconomic uncertainties are expected to continue, the veterinary pharmaceutical market, particularly in the CAP sector, is resilient and in growth.

The acquisition, post year end, of Med-Pharmex strategically strengthens our position in the US market. The acquisition of Piedmont adds several novel exciting products to our development pipeline and we continue to identify new opportunities as we successfully execute our strategy.

We remain confident in our ability to outperform the markets in which we operate and in the prospects for the current financial year.

Ian Page
Chief Executive Officer
5 September 2022