Chief Executive Officer's Statement

"Our strategy remains very much unchanged and we are making a number of investments to deliver long term value."

Ian Page
Chief Executive Officer

Introduction

The 2023 financial year was amongst the most eventful in our history. We delivered a robust performance in the first half against tough comparators from the prior year as the global companion animal market returned to more normalised levels of growth following the COVID-19 pandemic, before a second half that proved challenging.

Unprecedented changes within the US wholesaler channel at the turn of the calendar year, which subsequently extended to the UK market, led to significant industry wide disruption as the levels of inventory carried by intermediaries were materially reduced. Rising inflation, unpredictable country specific dynamics within some of our key European markets, and ongoing integration of the two US acquisitions made in July and August 2022 all required navigating. We also dedicated considerable time and effort in facilitating the approach by Freya Bidco Limited, a newly formed company to be indirectly owned by (i) EQT X EUR SCSp and EQT X USD SCSp, each represented by its manager (gérant) EQT Fund Management S.à r.l. (collectively referred to as EQT) and (ii) Luxinva S.A to acquire the Company, which I will reflect on further at the end of this statement.

Despite the above, we retained a clear focus on delivering our strategy. We have, as planned, significantly increased investment in our product development pipeline, with an increasing emphasis on innovation in Companion Animal Products (CAP); we made strategic changes within our International business, the results of which are disclosed separately for the first time this year; and we have further strengthened our sales force within the key US market.

I am proud of the way in which all Dechra employees have responded to the events of the past year, proving once again that they really are our greatest asset. The way in which we work remains an important differentiator relative to our competitors and, ultimately, is a key factor in delivering our strategic goals.

Operational Review

European Pharmaceuticals Segment

Revenue in our European (EU) Pharmaceuticals segment increased by 4.3% at CER (6.3% at AER), all of which was existing revenue growth as there were no acquisitions in Europe over the past twelve months. Revenue from non-core third party contract manufacturing, reported within this segment, saw a planned decline. Excluding the impact of this revenue, EU Pharmaceuticals revenue growth was 5.5% at CER (7.5% at AER).

Growth was delivered across all major European countries with the exception of the Netherlands, where the impact of portfolio rationalisation and local competition impacted year-on-year performance. The main driver of growth was CAP; however, it is pleasing that FAP remained in growth despite a challenging market and that Equine and Nutrition both delivered double digit growth.

Although macroeconomic uncertainties created a mixed picture in some European markets, the nature of the Dechra portfolio with its emphasis on prescription only, non-discretionary medicines helped us to outperform the market overall. This was particularly evident towards the end of the financial year when territories such as the UK, France and Germany showed positive signs of increased demand, contributing to a record sales month for the EU Pharmaceuticals segment in June 2023.

Education continues to be the main tool we use to engage our veterinary customers. Our commitment to providing technical support and Continuing Professional Development (CPD) training to veterinarians remains crucial to our success, particularly in relation to our novel portfolio.

See the **Glossary** on page 07 for definitions

Chief Executive Officer's Statement

North American Pharmaceuticals Segment
Total North American (NA) revenue increased by 8.9% at CER (20.3% at AER). Existing revenue, which excludes the impact of acquisitions made over the last twelve months, decreased by (2.0)% at CER but increased 8.3% at AER. Although it was disappointing to see like-for-like revenues decline in constant currency terms, this nonetheless represented a solid outcome given the out-performance over the previous two years (when existing revenue growth at CER was 16.7% and 21.3% in financial years 2021 and 2022 respectively) and the severe disruption seen within the US wholesaler channel during the second half.

Despite the wholesaler de-stocking being deeper and longer than we had initially anticipated, we saw consistently strong end customer demand for Dechra products throughout the year. Independent data for sales from wholesalers out to veterinary clinics showed sales growth of over 10% for the year as a whole and over 12% for the second half of the year despite the wholesaler disruption, offering reassurance that the de-stocking impact on our performance should be one-off in nature rather than a structural headwind.

We continue to leverage our relationship with Vetcove, an online purchasing platform used by over 19,000 US veterinary hospitals, to extend the reach of our Dechra Rewards Scheme, deepen brand loyalty and help us compete with the increasing challenge posed by distributor private label alternatives. We have also increased the scale of our sales team and now have approximately 140 sales representatives in North America.

International Pharmaceuticals Segment
Having previously reported our International business, representing 11.4% of Group revenue, within the European Pharmaceuticals segment, we are now disclosing it separately in order to provide greater transparency between the global markets in which we operate.

International Pharmaceuticals revenue for the year as a whole decreased by (0.8)% at CER but increased 4.3% at AER. Within this full year outturn, there was a significantly improved performance during the second half of the year when sales grew 10.0% at CER, following a decline of (9.0)% in the first half. The revenue decline during the first half was due to two strategic changes. In South Korea, we established our own sales and marketing business unit to replace the previous distribution partner. Due to this transition, there was a period of approximately seven months during which no revenue was recognised in South Korea. We re-commenced sales through our own subsidiary in February 2023 and revenue contribution during the final five months of the financial year was £1.0 million. We also experienced disruption to our sales of nutrition products in Japan due to a change of distribution partner; however, we expect to commence trading through a new distributor shortly.

The International segment covers a large number of countries, many of which are smaller, emerging markets that we serve via numerous distribution partners. In the more established markets of Brazil, Australia and New Zealand, where we have our own sales and marketing presence, we delivered good revenue growth of 10.3% at CER. These territories collectively represent approximately 65% of total International Pharmaceuticals revenue.

Product Category Performance
Companion Animal Products (CAP) continue to represent the majority of our business at 73.8% of Group revenues and grew by 3.9% at CER, with performance in EU being the main driver. Therapeutic sectors such as dermatology, anaesthesia and analgesia and cardiovascular performed the strongest.

Food producing Animal Products (FAP), representing 11.7% of Group revenue, grew by 8.5% at CER. This reflected the net impact of challenges in the key European FAP market of the Netherlands offset by a positive contribution from the small FAP portfolio acquired through Med-Pharmex for sale in the US market.

Equine, representing 8.6% of Group revenue, grew by 25.1% at CER. Performance was particularly strong in NA, with growth of 35.1% at CER supported by the product acquisitions made in the prior year and the contribution from the new Med-Pharmex portfolio.

Nutrition represents 5.1% of Group revenue and increased by 8.6% at CER. The majority of our Specific® branded diet sales are made in Europe where we delivered strong growth with around 300 new clinics starting to use *Specific* for the first time, and this performance offset the decline in international sales due to the operational changes in South Korea and Japan as noted above.

Strategic Growth Drivers

Acquisitions
We completed two material company acquisitions at the start of the financial year; Piedmont Animal Health, Inc in July 2022 and Med-Pharmex Holdings, Inc in August 2022, for a combined consideration of approximately $474.1 million. The strategic rationale for both acquisitions remains unchanged, with both businesses having the potential to deliver considerable value over the coming years.

Piedmont is a product development company with eight novel products in various stages of development, all in the CAP market and all within Dechra's key therapeutic areas of competence. We invested £7.7 million of research and development spend in the Piedmont pipeline during the year. In light of a negative opinion received from the FDA relating to one of the near term candidates which could result in a delay or cancellation of the project, we have also recognised a non-underlying impairment of £69.6 million. Further details can be found in the Financial Review later in this report.

Conversely, Med-Pharmex is an established manufacturing business with a number of products already approved and established in the US market. The ten month revenue contribution from Med-Pharmex was £28.9 million. This was lower than we had expected at the time of making the acquisition due to quality improvement works that were brought forward and supply chain challenges on certain products, both of which adversely impacted performance. The process of re-branding and migrating a selection of the acquired portfolio to our own in-house sales and marketing teams is underway. Notwithstanding the short term operational challenges noted above, the acquisition should provide a material margin benefit and operational leverage opportunity and also offers longer term optionality with regard to our US manufacturing footprint.

Product Developments and Regulatory Affairs

Pipeline Progress

It has been a year of strong progress on our product development pipeline having invested a record £57.5 million into R&D, representing 7.6% of Group revenue, and with an increasing emphasis on innovation. This investment has been made across a combination of our existing pipeline together with the eight candidates from the Piedmont acquisition as noted above.

Our partnership with Akston Biosciences to develop a breakthrough long acting insulin for dogs and cats remains on track for a calendar year 2026 approval of the dog product. Scaling up production of the active pharmaceutical ingredient by Akston Biosciences and our final drug product development work are both progressing as planned. The next stage of development is to perform our pivotal efficacy studies, which are expected to start in late 2024.

In collaboration with our partner Animal Ethics Pty Ltd and a contract manufacturer, we are developing a cost-effective method to manufacture sterile Tri-Solfen® for use in piglet castration, as mandated by the European regulator. If the planned pivotal manufacturing batches are successful, we will have a more direct path towards EU-wide approval.

New opportunities are constantly being identified and our pipeline remains stronger than ever and well positioned to deliver material products to support future growth, particularly in the US.

Product Approvals

A number of marketing authorisations have been achieved throughout the year. These represent both the extended reach of existing products into new territories and also the approval of new products delivered out of our pipeline and partnerships. The main product milestones of note were:

- Approval of Zycosan® (pentosan polysulfate sodium injection), a novel treatment for the control of clinical signs associated with osteoarthritis in horses, for use in the US market;
- Following approval in the US and EU, we also received Canadian approval for Zenalpha®, a novel canine sedative injection;
- A number of developments with regard to Tri-Solfen®, a food producing animal product with multiple possible applications where we hold the global distribution rights:
    - Approval for use in its non-sterile form in Brazil, Canada and Portugal;
    - Grant of a four day withdrawal period relating to the New Zealand licence, opening up the significant tail docking market in sheep; and
    - Approval for sale under a special licence to a major dairy integrator in Saudi Arabia;
- Registration of CosACTHen® in Brazil to support the sales and clinical use of our endocrinology portfolio of solutions;
- Registration of Forthyron® in a third international distribution market that will be unique to that territory; and
- Approval of Prevomax® for use in the Australian market.

Chief Executive Officer's Statement

Portfolio Focus

We regard our broad portfolio of products as a competitive strength and are focused on becoming the partner of choice for veterinarians worldwide in our chosen therapeutic areas. To support this approach, we were pleased to launch a new Dechra brand positioning in February 2023 called 'The Veterinary Perspective'. By seeing things from the Veterinary Perspective, we strive to support veterinarians through science and education, especially around uncommon diseases and difficult to treat cases.

The category mix differs considerably between the various territories in which we operate. This is a consequence of both the maturity of our operations in each individual country and also underlying market dynamics, such as the pace at which the companion animal market is developing. This creates a number of possible growth opportunities to pursue across the Group.

The main new product launches over the past year were *Zenalpha* in the US and a number of European markets, and *Zycosan* in the US in June 2023, following approval during the first half of the year as noted above.

Geographical Expansion

As of the year end, we operated in a total of 88 countries, with our own sales and marketing teams in 26 and a presence in the remaining 62 countries via a number of distribution partners. During the year, we transitioned South Korea to an in-house team as already explained, and we will shortly commence sales out of a newly established entity in Switzerland.

Strategic Enablers

Manufacturing and Supply Chain

Migrating the manufacture of key products in-house rather than using third party Contract Manufacturing Organisations (CMOs) has a number of strategic benefits such as improved reliability of our supply chain, greater control over quality standards and more efficient inventory level management. We transferred a number of products into our Zagreb and Skipton facilities during the first half of the year, taking the proportion of products manufactured across our eight sites to approximately 50%. This process will continue over the coming years, albeit at a considered, steady pace so as to avoid unnecessary execution risk. In the meantime, we have rationalised the number of CMOs we work with and are increasingly focused on partnering with fewer external manufacturers to help facilitate stronger, closer relationships and better overall performance.

At our Skipton, UK site we have now completed a significant phase of the capital investment programme to create additional space and improve work flows. These changes have been very well received by employees working on site and we are already benefitting from increased efficiencies. In our manufacturing facility in Somersby, Australia, a new secondary packaging line has delivered better throughput, increasing production efficiency and providing scope for further expansion.

We continue to have a focus on quality standards across the Group, and in that regard it was pleasing that Somersby received zero issues raised from their APVMA audit and that both Bladel and Zagreb sites had successful European GMP audits in the year.

Technology

Information technology continues to be a key strategic focus and we have made good progress in establishing a clear IT strategy that is aligned to our business priorities and future growth opportunities. The first phase of our new quality and document management system, Veeva, has now been rolled out across five manufacturing sites and there are further modules planned for release over the coming years. Our key manufacturing ERP systems are also being upgraded to one consolidated cloud-based Oracle platform to help deliver consistency of systems, processes and KPIs between sites, and this multi-year project remains on track. The estimated combined investment remaining for these two projects over the next four years is £23.9 million.

In addition, we have begun to develop our thinking around the potential strategic advantages that can be delivered through digital activities and the better use of data. In DVP EU, we also launched the Dechra endocrine and anaesthesia apps aimed at helping veterinarians with the correct dosing of products.

People

As one of our ESG targets, we remain committed to paying the Living Wage (or its equivalent) to all our employees on a global basis. Cognisant of the challenges many employees are facing as a result of the cost of living crisis, we carefully considered individual job roles and country specific considerations such as local rates of inflation as part our annual salary review this year. We implemented a weighted average salary increase of 6.6% from 1 January 2023 and also introduced a number of other improved benefits.

We have been making carefully chosen strategic investments in people across different parts of the Group. We have grown our sales team in North America; we have strengthened our PDRA and quality teams and recruited new site directors for all three US manufacturing sites and the facility in Bladel, the Netherlands.

We were pleased to appoint Geeta Gopalan as a Non-Executive Director with effect from 1 January 2023. Geeta subsequently became Chair of the Remuneration Committee on 1 March 2023 as successor to Ishbel Macpherson, who retired as a Non-Executive Director on 22 June 2023 following ten years of outstanding service for which I am extremely grateful.

Sustainability

This year, we have made a subtle but important change to reflect the extent to which sustainability is firmly embedded in our strategy. Rather than ESG sitting as a standalone Strategic Enabler, it is now re-positioned as a fundamental underpin to delivering our strategy and, ultimately, our Purpose.

For further information on how we have integrated sustainability across the Group, and highlights of our progress during the financial year, please see the second edition of our Sustainability Report available on our website.

In particular, we have submitted our ambitious carbon reduction targets for Scope 1, 2 and 3 emissions to the Science Based Targets initiative and also made a philanthropic investment in AgCo Tech, a business that has developed a unique product that improves cattle welfare and productivity whilst at the same time reducing methane intensity and generating strong social benefits in the communities where it is used.

Dividend

An interim dividend of 12.50 pence per share was paid on 13 April 2023. The ongoing acquisition of the Company by Freya Bidco Limited remains conditional upon the receipt of antitrust approval in the European Union and foreign direct investment approval in Australia, in each case to the extent required, as well as the sanction of the Scheme by the Court at the Sanction Hearing (each as defined in the scheme document dated 26 June 2023) and is expected to occur in late 2023 or early 2024. If prior to the acquisition becoming effective, any dividend is announced, declared, made or paid or becomes payable in respect of the ordinary share capital of the Company (Dechra Shares), Freya Bidco Limited reserves the right to reduce the consideration payable under the terms of the acquisition for the Dechra Shares by an amount up to the aggregate amount of such dividend. Therefore the Directors are not recommending the payment of a final dividend.

Outlook

It is with mixed feelings that I complete this, the last of my reports as the Chief Executive Officer of a listed company. Since the Initial Public Offering in 2000 and my appointment as Chief Executive Officer in 2001, being a listed company has served Dechra well due to the help and support demonstrated by our shareholders throughout this period. I am very grateful for the personal support and guidance provided to me by many stakeholders, not least shareholders, and would like to thank everyone who has contributed to Dechra's success over this time.

Despite a challenging period, we ended the last financial year strongly and have started the new one on a secure footing. I look forward to the challenges ahead as a private company and remain confident in our people, strategy and future prospects.

Ian Page
Chief Executive Officer
12 October 2023

Glossary

AER: Actual Exchange Rates

APVMA: Australian Pesticides and Veterinary Medicines Authority

CAP: Companion Animal Products

CER: Constant Exchange Rates

ERP: Enterprise Resource Planning

ESG: Environmental, Social and Governance

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

FAP: Food producing Animal Products

GMP: Good Manufacturing Practices

International Pharmaceuticals: International Pharmaceuticals Segment comprising a large number of direct and distribution markets

KPIs: Key Performance Indicators

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

R&D: Research & Development