

Financial Review



“End user demand for our products has remained strong and our increased investment in R&D will help to fuel future growth.”

Paul Sandland
Chief Financial Officer

Glossary

IFRSs: UK-adopted International Financial Reporting Standards

CER: Constant Exchange Rates

AER: Actual Exchange Rates

CAP: Companion Animal Products

FAP: Food producing Animal Products

bps: basis points

Operating profit (EBIT) margin: operating profit as a percentage of revenue

Underlying 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

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.

Including non-underlying items, the Group's consolidated operating profit decreased by (89.8)% at CER ((93.4)% at AER). Consolidated profit before tax decreased by (141.4)% at CER ((146.5)% at AER), a greater decline than operating profit due to an increase in net finance costs including a higher impact from the unwind of the discount associated with contingent consideration liabilities.

Existing operating profit of £96.0 million includes underlying operating profit of £168.8 million and non-underlying charges of £(72.8) million principally relating to amortisation of intangibles and cloud computing costs (further detail is provided below). The acquisition operating loss of £(89.7) million includes an underlying operating loss of £(3.7) million and non-underlying charges of £(86.0) million reflecting to the impairment of an acquired intangible relating to one of the near term candidates in the Piedmont product pipeline, the amortisation of acquired intangibles, the unwind of the fair value uplift on inventory, expenses relating to acquisitions and subsequent integration activities, and costs associated with the acquisition of the Company by Freya Bidco Limited.

Diluted EPS was (140.7)% lower than the prior year at CER ((146.0)% at AER) reflecting the combined effect of a lower profit before tax and higher share capital following the equity raise in July 2022.

Reported segmental performance is presented in note 2.

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 and product rights acquired in the current and prior year, reported on a 'like-for-like' basis.

	2023 Existing £m	2023 Acquisition £m	2023 Consolidated £m	2022 £m	Growth at AER Consolidated	Growth at CER Consolidated
Reported						
Revenue	728.6	32.9	761.5	681.8	11.7%	5.5%
Gross profit	418.4	7.9	426.3	384.8	10.8%	4.9%
Gross profit %	57.4%	24.0%	56.0%	56.4%	(40) bps	(30) bps
Operating profit/(loss) (EBIT)	96.0	(89.7)	6.3	95.5	(93.4)%	(89.8)%
Operating profit (EBIT) %	13.2%	(272.6)%	0.8%	14.0%	(1,320) bps	(1,270) bps
Profit/(loss) before tax	64.5	(100.6)	(36.1)	77.6	(146.5)%	(141.4)%
Diluted EPS (p)			(24.59)	53.40	(146.0)%	(140.7)%

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 and expenses related to acquisitions and subsequent integration activities, 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, impairments and costs associated with acquisitions and subsequent integration activities are excluded, underlying earnings will be higher than total Reported earnings.

A reconciliation of underlying results to total Reported results in the year to 30 June 2023 is provided in the table below. In the commentary which follows, all references will be to CER movement unless otherwise stated.

	2023 Underlying Results £m	Non-underlying Items			2023 Reported Results £m
		Amortisation and related credits of acquired intangibles and associates £m	Acquisition, impairments and cloud computing costs £m	Tax rate changes and finance expenses £m	
Revenue	761.5	-	-	-	761.5
Gross profit	429.6	-	(3.3)	-	426.3
Selling, general and administrative (SG&A) expenses	(207.0)	(67.4)	(84.8)	-	(359.2)
Research & Development (R&D) expenses	(57.5)	(3.3)	-	-	(60.8)
Operating profit (EBIT)	165.1	(70.7)	(88.1)	-	6.3
Net finance costs	(23.8)	-	-	(17.7)	(41.5)
Share of associate (loss)	(1.0)	0.1	-	-	(0.9)
Profit/(loss) before tax	140.3	(70.6)	(88.1)	(17.7)	(36.1)
Taxation	(32.4)	16.8	20.1	3.7	8.2
Profit/(loss) after tax	107.9	(53.8)	(68.0)	(14.0)	(27.9)
Diluted EPS (p)	94.57				(24.59)

Consolidated revenue increased 5.5% on the prior year to £761.5 million. This included £728.6 million from the existing business, an increase of 1.2% on a like-for-like basis and £32.9 million from acquired businesses and product rights.

Consolidated underlying EBIT decreased (10.8)% to £165.1 million. This included £168.8 million from Dechra's existing business, a decrease of (8.8)%, where underlying EBIT growth in European (EU) Pharmaceuticals and Corporate cost savings were offset by a decline in both North American and International Pharmaceuticals plus an increase in Research & Development (R&D) costs due to ongoing investment in our existing pipeline. There was a £(3.7) million loss relating to acquired businesses and product rights in the year, mostly reflecting the net impact of R&D costs relating to the acquisition of Piedmont Animal Health, Inc and the profit contribution from Med-Pharmex Holdings, Inc. Although underlying EBIT declined overall, excluding the £25.1 million increase in R&D expenses it actually increased 1.4% to £222.6 million, largely driven by performance in the EU Pharmaceuticals segment.

Underlying EBIT margin decreased by (400) bps to 21.7%. The main driver of this was the planned increase in R&D as noted above, whilst there were also strategic investments made within operating costs to underpin the Group's future growth. Underlying diluted EPS declined by (26.8)% to 94.57 pence due to the combined effect of a lower underlying operating profit, higher finance costs and the dilutive impact of the equity raise.

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

Underlying	2023 Existing £m	2023 Acquisition £m	2023 Consolidated £m	Growth at CER		
				2022 £m	Existing	Consolidated
Revenue	728.6	32.9	761.5	681.8	1.2%	5.5%
Gross profit	418.4	11.2	429.6	385.3	2.9%	5.6%
Gross profit %	57.4%	34.0%	56.4%	56.5%	100 bps	0 bps
Operating profit/(loss) (EBIT)	168.8	(3.7)	165.1	174.3	(8.8)%	(10.8)%
Operating profit (EBIT) %	23.2%	(11.2)%	21.7%	25.6%	(260) bps	(400) bps
EBITDA	186.0	(2.3)	183.7	190.6	(7.9)%	(9.1)%
Diluted EPS (p)			94.57	120.84		(26.8)%
Dividend per share (p)			12.50	44.89		(72.2)%

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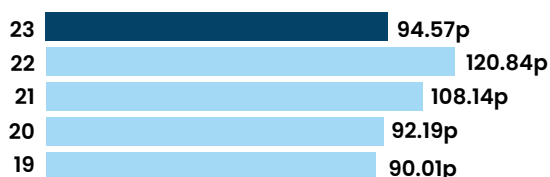
Underlying Segmental Performance

The effect of acquisitions in the year was material; the underlying 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 that first year of ownership, 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.

Underlying	2023 Existing £m	2023 Acquisition £m	2023 Consolidated £m	2022 £m	Growth at AER		Growth at CER	
					Existing	Consolidated	Existing	Consolidated
Total revenue	728.6	32.9	761.5	681.8	6.9%	11.7%	1.2%	5.5%
EU Pharmaceuticals	343.5	-	343.5	323.2	6.3%	6.3%	4.3%	4.3%
NA Pharmaceuticals	298.0	32.9	330.9	275.1	8.3%	20.3%	(2.0)%	8.9%
International Pharmaceuticals	87.1	-	87.1	83.5	4.3%	4.3%	(0.8)%	(0.8)%
Gross profit	418.4	11.2	429.6	385.3	8.6%	11.5%	2.9%	5.6%
Gross profit %	57.4%	34.0%	56.4%	56.5%	90 bps	(10) bps	100 bps	0 bps
SG&A expenses	(199.8)	(7.2)	(207.0)	(178.6)	(11.9)%	(15.9)%	(6.6)%	(10.3)%
R&D expenses	(49.8)	(7.7)	(57.5)	(32.4)	(53.7)%	(77.5)%	(45.4)%	(67.0)%
Underlying operating profit	168.8	(3.7)	165.1	174.3	(3.2)%	(5.3)%	(8.8)%	(10.8)%
EU Pharmaceuticals	107.7	-	107.7	103.4	4.2%	4.2%	2.3%	2.3%
NA Pharmaceuticals	92.2	4.0	96.2	87.7	5.1%	9.7%	(5.6)%	(1.6)%
International Pharmaceuticals	25.5	-	25.5	28.1	(9.3)%	(9.3)%	(13.9)%	(13.9)%
Pharmaceuticals R&D	(49.8)	(7.7)	(57.5)	(32.4)	(53.7)%	(77.5)%	(45.4)%	(67.0)%
Corporate & unallocated costs	(6.8)	-	(6.8)	(12.5)	45.6%	45.6%	45.6%	45.6%
Net finance costs	(12.9)	(10.9)	(23.8)	(3.1)	(316.1)%	(667.7)%	(335.5)%	(651.6)%
Share of associate (loss)	(1.0)	-	(1.0)	(1.2)	(16.7)%	(16.7)%	(16.7)%	(16.7)%
Profit before tax	154.9	(14.6)	140.3	170.0	(8.9)%	(17.5)%	(15.1)%	(22.9)%

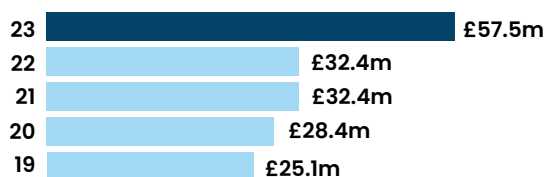
Underlying Diluted Earnings Per Share

94.57p



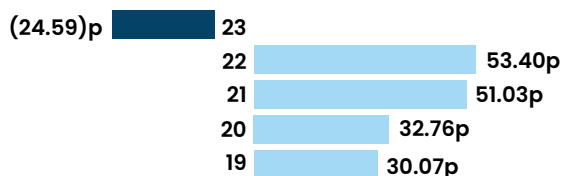
Research and Development Spend

£57.5m



Reported Diluted Earnings Per Share

(24.59)p



European Pharmaceuticals

Revenue in European (EU) Pharmaceuticals increased by 4.3% to £343.5 million, with all of this growth coming from the existing business. The EU segment now excludes the International Pharmaceuticals division, which is disclosed separately below, but does include revenue of £6.2 million related to third party contract manufacturing (2022: 9.5 million), which is a non-core part of the Group and decreased again this year. Excluding this third party revenue, growth of the core European Pharmaceutical business was 5.5%, reflecting a robust performance given country specific dynamics such as wholesaler de-stocking in the UK, local generic competition in the Netherlands and unpredictable demand in other European markets.

Operating profit increased by 2.3% with operating margin decreasing by (60) bps to 31.4%, which was largely driven by higher distribution and operating costs although we have remained pro-active in looking to offset inflationary headwinds through sales price action taken during the year.

Underlying	2023 Existing £m	2023 Acquisition £m	2023 Consolidated £m	2022 £m	Growth at CER	
					Existing	Consolidated
Revenue	343.5	-	343.5	323.2	4.3%	4.3%
Operating profit	107.7	-	107.7	103.4	2.3%	2.3%
Operating profit %	31.4%	-	31.4%	32.0%	(60) bps	(60) bps

North American Pharmaceuticals

Total revenue from North American (NA) Pharmaceuticals increased 8.9% year-on-year to £330.9 million, reflecting existing revenue of £298.0 million and acquisition revenue of £32.9 million. Like-for-like revenues decreased (2.0)% as the NA business was impacted by significant wholesaler de-stocking across the industry during the second half of the financial year. The vast majority of our NA revenue is derived from sales made to wholesalers rather than direct to veterinary practices; therefore although sales out from wholesalers to practices remained consistently strong, we experienced a one-off adverse impact whilst wholesalers reduced their inventory levels.

Acquisition revenue consists of £28.9 million related to Med-Pharmex (acquired on 26 August 2022) and a further £4.0 million from various product rights acquired during the prior year for which there is no comparative.

Operating profit from the existing business decreased (5.6)% with operating margin decreasing (120) bps due to investment in sales and marketing teams to support future growth of the business as we expect the NA business to become the largest part of the Group next financial year. Consolidated operating margin decreased (310) bps due to the dilutive impact from Med-Pharmex this year, where the revenue and profit contribution were lower than originally expected due to one-off factors related to planned quality improvement works and supply chain challenges on some of the higher margin products.

Underlying	2023 Existing £m	2023 Acquisition £m	2023 Consolidated £m	2022 £m	Growth at CER	
					Existing	Consolidated
Revenue	298.0	32.9	330.9	275.1	(2.0)%	8.9%
Operating profit	92.2	4.0	96.2	87.7	(5.6)%	(1.6)%
Operating profit %	30.9%	12.2%	29.1%	31.9%	(120) bps	(310) bps

International Pharmaceuticals

Revenue from our International Pharmaceuticals segment, disclosed for the first time in this report, was £87.1 million. This represented a decline of (0.8)% for the year overall, but a strong recovery in the second half of the year when sales grew 10.0% following a decline of (9.0)% in the first half. The marked difference in performance during the year reflects the impact of establishing our own sales and marketing organisation in South Korea, whereby no revenue was generated during the first seven months, and disruption caused by a change of nutrition distribution partner in Japan.

Operating profit decreased (13.9)% compared to the prior year, largely due to a full year of costs relating to the newly established South Korean subsidiary but without a full year profit contribution.

Underlying	2023 Existing £m	2023 Acquisition £m	2023 Consolidated £m	2022 £m	Growth at CER	
					Existing	Consolidated
Revenue	87.1	-	87.1	83.5	(0.8)%	(0.8)%
Operating profit	25.5	-	25.5	28.1	(13.9)%	(13.9)%
Operating profit %	29.3%	-	29.3%	33.7%	(450) bps	(450) bps

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Pharmaceuticals Research and Development

Pharmaceuticals Research and Development (R&D) expenses grew significantly in the year to £57.5 million or 7.6% of revenue (2022: £32.4 million and 4.8% of revenue). This represented a 280 bps increase in R&D expenditure and therefore was a key driver of the overall EBIT margin decline of (400) bps.

The increase in spend was as planned and in line with our original guidance of between 7% and 8% of revenue, driven by both ongoing investment in our existing pipeline together with development of the eight candidates acquired from Piedmont. In particular, spend included £14.2 million in relation to Akston (2022: £3.3 million), which remains on track for approval of the dog insulin product in 2026.

Revenue by Product Category

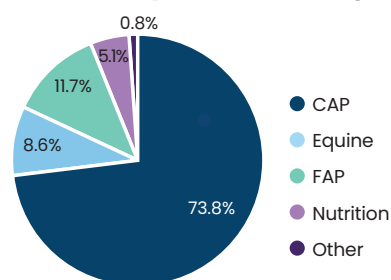
The pharmaceutical product categories of CAP, FAP and Equine all delivered growth in the year. CAP continues to be the largest proportion of the business at 73.8% of total revenue and we delivered another year of growth despite the high comparatives and disruption in the wholesaler channel as explained above. FAP performed well, reflecting a benefit from the Med-Pharmex portfolio applied to a relatively small base, whilst Equine was the strongest category this year.

Nutrition sales were impacted by operational changes in South Korea and Japan as noted above, but nonetheless grew in total. Other revenue decreased year-on-year and remains a small, non-core part of the business. The majority of this revenue is generated from one remaining third party contract manufacturing arrangement relating to a feed supplement at our Zagreb facility.

Revenue	2023 £m	2022 £m	Change at AER	Change at CER
CAP	562.6	508.4	10.7%	3.9%
FAP	89.0	78.8	12.9%	8.5%
Equine	65.2	49.5	31.7%	25.1%
Subtotal Pharmaceuticals	716.8	636.7	12.6%	6.1%
Nutrition	38.5	35.0	10.0%	8.6%
Other	6.2	10.1	(38.7)%	(40.7)%
Total	761.5	681.8	11.7%	5.5%

* 'Other' includes third party contract manufacturing revenue and other non-veterinary business

Revenue by Product Category (at AER)



Underlying Gross Profit

Underlying gross profit margin increased by 100 bps to 57.4% on an existing basis, reflecting a strong margin performance of our novel CAP portfolio in particular and effective pass-through of cost inflation through carefully implemented pricing action. On a consolidated basis, underlying gross margin was largely flat year-on-year at 56.4% due to the dilutive impact from Med-Pharmex where there was an adverse sales mix towards lower margin products.

Underlying Selling, General and Administrative Expenses (SG&A)

Group SG&A costs grew from £178.6 million in the prior year to £207.0 million in the current year, an increase of 10.3% principally driven by people costs. Such costs include the annualised impact of salary increases across the Group, investment in additional heads, particularly in Manufacturing and the NA sales team, and consolidation of the Med-Pharmex cost base for the first time. Total SG&A costs now represent 27.2% of revenue (2022: 26.2%) reflecting good management of inflation in the like-for-like operating cost base from last year and the additional operating costs associated with Med-Pharmex and South Korea.

Corporate and Unallocated Costs

Corporate costs decreased to £6.8 million (2022: £12.5 million), driven by a lower year-on-year charge relating to incentive arrangements. Central functions remain well invested to support the continued expansion of the Group.

Finance Expense

Net underlying finance expense increased to £23.8 million (2022: £3.1 million), largely due to the additional level of borrowing as a result of the Med-Pharmex acquisition, a higher variable interest rate compared to the prior year and foreign exchange movements.

Non-underlying Items

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

- Amortisation of acquired intangibles of £71.1 million has decreased from £72.8 million in 2022 principally due to new charges relating to the Med-Pharmex acquisition being more than offset by the reducing charge from the AST Farma and Le Vet acquisition and the Eurovet acquisition intangible becoming fully amortised in the prior year;
- Unwind of a non-cash inventory adjustment of £3.3 million arising through a fair value increase in the valuation of acquisition inventory of Med-Pharmex in line with IFRS 3 'Business Combinations';
- Impairment of assets of £69.6 million relates to an acquired intangible of one of the candidates in the Piedmont product pipeline;
- Cloud computing arrangement costs of £8.5 million relating to the costs of the programme to implement the Manufacturing and Supply function's new ERP and Electronic Quality Management systems;
- Expenses relating to acquisition and subsequent integration activities of £7.5 million predominantly relating to the acquisition of Med-Pharmex (£2.8 million) and to the pending acquisition of the Company by Freya Bidco Limited (£5.0 million);

- Finance charge of £17.7 million (2022: £13.6 million) represents the charge arising on the unwind of the discount relating to the contingent consideration liability of £20.8 million, the loss on extinguishment of debt of £0.6 million and associated foreign exchange gain of £3.7 million; and
- Taxation credit of £40.6 million (2022: £18.9 million) represents the tax impact of the above items.

In addition to costs relating to the acquisition of the Company by Freya Bidco Limited that have been incurred in the year, there are anticipated future costs of £26.0 million, of which £25.0 million are contingent on completion.

Taxation

The reported effective tax rate (ETR) for the year, including the tax impact of non-underlying items, was 22.8% (2022: 25.0%). On an underlying basis the ETR increased to 23.1% (2022: 22.5%), largely reflecting the regional mix of operating profits. The main differences to the UK corporation tax rate applicable of 20.5% (2022: 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 2024. We continue to monitor relevant tax legislation internationally as it may affect our future ETR.

Earnings per Share and Dividend

Underlying diluted EPS declined by (26.8)% to 94.57 pence (2022: 120.84 pence) due to the combined effect of a lower underlying operating profit, higher finance costs driven by higher borrowing costs and additional debt taken following the acquisition of Med-Pharmex and the dilutive impact of the equity raise. The weighted average number of shares for diluted earnings per share for the year was 114.1 million (2022: 109.0 million).

The reported diluted EPS for the year was (24.59) pence (2022: 53.40 pence). The year-on-year decline in reported diluted EPS is greater than the decline in underlying diluted EPS due to the significant increase in non-underlying costs as noted above.

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.

Currency Exposure

The average rate for £/€ decreased by (2.6)%, and the £/\$ rate decreased by (9.6)% 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		% Change
	2023	2022	
£/€	1.1504	1.1807	(2.6)%
£/\$	1.2038	1.3316	(9.6)%

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 +/- 0.6%.

Current exchange rates are £/€ 1.1559 and £/\$ 1.2210 as at 6 October 2023. If these rates had applied throughout the year, the underlying diluted EPS would have been approximately 1.0% lower.

Statement of Financial Position

The Statement of Financial Position is summarised in the table below.

- Non-current assets (excluding deferred tax) increased from £846.6 million to £1,096.6 million and include the intangible assets recognised on the acquisitions of Med-Pharmex and Piedmont, partly offset by amortisation of acquired intangibles.
- Working capital increased from £175.7 million to £234.7 million, largely driven by a higher inventory and trade receivables balance at year end.
- Net debt increased in the year by £221.9 million from £208.2 million to £430.1 million; this includes cash generated from operations before interest, tax and non-underlying items of £122.7 million, an outflow of £396.9 million principally relating to acquisitions made during the year, net capital expenditure of £22.6 million, net interest/tax outflows of £44.4 million and £51.7 million in dividends. Exchange rate variations positively impacted the net debt position by £17.8 million.
- Current and deferred tax net liabilities increased from £34.7 million to £68.6 million principally due to the recognition of deferred tax liabilities on the acquired intangible recognised on the acquisition of Piedmont and Med-Pharmex.

	2023 £m	2022 £m
Non-current assets	1,096.6	846.6
Working capital	234.7	175.7
Net debt	(430.1)	(208.2)
Current and deferred tax	(68.6)	(34.7)
Other liabilities	(77.4)	(112.6)
Total net assets	755.2	666.8

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Cash Flow, Financing and Liquidity

The Group delivered an underlying EBITDA margin of 24.1% this year (2022: 28.0%). Working capital increased by £60.2 million mainly due to the increase in the proportion of products now manufactured in-house and the deliberate decision to invest in stock levels to maintain a robust supply chain. In addition, the impact of the significant wholesaler de-stocking seen during the second half of the year had not fully unwound by the year end, further contributing to higher inventory levels. There was also an increase in cash flows from non-underlying items relating to cloud computing arrangement costs and acquisition and integration expenses. This resulted in cash generated from operations after non-underlying items of £109.3 million, representing underlying cash conversion of 66.2% of underlying operating profit.

	2023 £m	2022 £m
Underlying operating profit	165.1	174.3
Depreciation and amortisation	18.6	16.3
Underlying EBITDA	183.7	190.6
Underlying EBITDA margin %	24.1%	28.0%
Working capital movement	(60.2)	(27.8)
Other	(0.8)	3.3
Cash generated from operations before interest, taxation and non-underlying items	122.7	166.1
Non-underlying items	(13.4)	(2.8)
Cash generated from operations before interest and taxation	109.3	163.3
Underlying cash conversion (%)	66.2%	93.7%

Net Debt Bridge

Net debt at the year end was £430.1 million, an increase of £221.9 million from £208.2 million at 30 June 2022. The Adjusted Net Debt to Adjusted underlying EBITDA (adjusted for the impact of acquisitions) banking covenant leverage (on a pre IFRS 16 basis) was 2.3 times (2022: 1.0 times) versus a covenant of 3.0 times. This reflects both a higher net debt balance due to the increase in RCF borrowings following the acquisition of Med-Pharmex and elevated levels of working capital, and the lower underlying EBITDA compared to the prior year due to the increased investment in R&D.

	£m
Net Debt 30 June 2022	(208.2)
Net cash generated from operations before non-underlying items	122.7
Non-underlying items	(13.4)
Net capital expenditure	(22.6)
Acquisition of intangible assets	(7.5)
Acquisition of subsidiaries	(396.9)
New lease liabilities	(5.7)
Interest and tax	(44.4)
Dividend paid	(51.7)
Equity raised	181.9
Other non-cash movements	(2.1)
Foreign exchange on net debt	17.8
Net Debt 30 June 2023	(430.1)

Borrowing Facilities

On 31 March 2023, the Group entered into a new multi-currency Revolving Credit Facility Agreement in the maximum amount of £340.0 million and maturing 31 March 2028. This RCF is provided by a syndicate of banks comprising BNP Paribas, CaixaBank SA UK branch, Crédit Industriel et Commercial, London Branch, Handelsbanken Capital Markets, Handelsbanken plc, HSBC UK Bank plc, PNC Capital Markets LLC, Santander UK plc and The Governor and Company of the Bank of Ireland. The covenant requirements in the RCF remain unchanged from the prior RCF Agreement (being Interest Cover in respect of any Relevant Period shall not be less than 4:1 and Leverage in respect of any Relevant Period shall not exceed 3:1).

The RCF uses Risk Free Reference (RFR) rates, with the relevant RFR rates for the principal Borrowings of the Group being 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. The Margin on the RCF is a minimum of 1.40% and a maximum of 2.30%, dependent upon the Leverage (the ratio of Adjusted Net Debt to Adjusted underlying EBITDA) of the Group. At 30 June 2023, £241.4 million was drawn against the £340.0 million RCF. The facility is not secured on any specific assets of the Group but is supported by a joint and several cross guarantee structure. All covenants were met during the year ended 30 June 2023.

In January 2020, the Group undertook a Private Placement raising EUR50.0 million and USD100.0 million (under seven and ten year new senior secured notes respectively) which remains fully drawn at 30 June 2023. The Private Placement amounts are not secured on any specific assets of the Group, but are supported by a joint and several cross guarantee structure. Interest is charged on the EUR50.0 million amount at a fixed rate of 1.19% until maturity (January 2027). Interest is charged on the USD100.0 million amount at a fixed rate of 3.34% until maturity (January 2030). On 14 July 2022 the Group undertook a further Private Placement raising EUR50.0 million and EUR100.0 million (under seven and ten year new senior secured notes respectively), the proceeds of which were used to repay existing debt. Both facilities remain fully drawn at 30 June 2023. Interest is charged on the EUR50.0 million senior secured notes at a fixed rate of 3.64% until maturity (July 2029), and on the EUR100.0 million senior secured notes at a fixed rate of 3.93% until maturity (July 2032).

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

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 3,430 pence per placing share, raising gross proceeds of £184.0 million which were largely deployed to fund the Piedmont acquisition upon its completion on 25 July 2022.

Covenants

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

- Leverage: Adjusted Net Debt to Adjusted underlying EBITDA not greater than 3.0:1 for the RCF and 3.5:1 for the Private Placements (30 June 2023: 2.3:1); and
- Interest Cover: Adjusted underlying EBITDA to Net Finance Charges not less than 4.0:1 (30 June 2023: 8.0:1).

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.

Underlying Return on Capital Employed (ROCE)

Underlying ROCE decreased to 15.3% in the year (2022: 19.5%) reflecting the lower level of profitability during the year and the investments made in Piedmont and Med-Pharmex, the return on which we expect to realise in future years (see note 35).

Acquisitions

During the 2023 financial year the Group acquired Piedmont Animal Health, Inc and Med-Pharmex Holdings, Inc. See note 29 for further details.

The Group has made several acquisitions in recent years. The incremental performance during the first year of ownership of the acquisitions made during the 2022 and 2023 financial years is separately summarised compared to the existing business in the sections above.

Accounting Standards

The accounting policies adopted are outlined in note 1 to the financial statements in the 2023 Annual Report.

Going Concern

The Directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future and will continue to be able to meet its liabilities as they fall due, within 12 months of the date of approval of these financial statements. 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 future growth and operating performance including the principal risks and uncertainties and an assessment of a number of severe but plausible stress tests on these areas (as set out on pages 79 to 87);
- The current and projected future financial position of the Group, its cash flows, available cash resources and committed debt facilities and compliance with the financial covenants associated with the Group's borrowings, which are described in the financial statements; and
- Subsequent events (see note 34 and below).

On 2 June 2023, the boards of directors of Dechra and Freya Bidco Limited (Bidco) announced that they had reached agreement on the terms and conditions of a recommended cash acquisition by Bidco of the entire issued, and to be issued, ordinary share capital of Dechra (the Acquisition). The Acquisition is being implemented by means of a Court-sanctioned scheme of arrangement under Part 26 of the Companies Act 2006 (the Scheme) and is subject to the terms and conditions set out in the circular in relation to the Scheme sent to Dechra Shareholders dated 26 June 2023 (the Scheme Document). As announced by Dechra on 20 July 2023, the Scheme and its implementation were approved by the requisite majority of Scheme Shareholders and Dechra Shareholders (as applicable) on 20 July 2023 and the Acquisition is expected to complete after the date of approval of the Annual Report and Accounts.

The going concern assessment of the Group and Company is therefore subject to uncertainties relating to the potential change in ownership of the Group and Company and the actual funding requirements and financing arrangements post completion. For this reason, the Directors cannot reasonably predict the financial position of the Group and Company post-completion, including the details of any financing arrangements related to the transaction that could affect the Group and Company. This indicates the existence of a material uncertainty which may cast significant doubt on the Group and Company's ability to continue as going concern. As noted above, the financial statements do however not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

Notwithstanding this uncertainty, based on the circumstances described above, the Directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future and the accounts are prepared on the assumption that the Group and Company is a going concern.

Subsequent Events

On 20 July 2023, shareholders voted in favour of the proposed cash offer for the Company by Freya Bidco Limited.

Summary

The Group delivered a satisfactory financial performance during the year considering the factors that were outside of our control. The strength of the business and attractiveness of the market in which we operate are evident by the takeover and we are well positioned to deliver future growth.

Paul Sandland

Chief Financial Officer

12 October 2023