

# Non-Executive Chairman's and Chief Executive Officer's Statement



Tony Rice Non-Executive Chairman

Ian Page Chief Executive Officer



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**Ian Page**

Chief Executive Officer

As we complete our 20th year since the inception of the Company, we are pleased to report that the Group has delivered another strong financial performance. This has been driven by growth from our existing portfolio, good market penetration from recent pipeline launches and the pleasing performance of the acquisitions made in the preceding financial year. This has resulted in strong cash generation and deleveraging of our balance sheet. Furthermore, we have completed two acquisitions within the 2017 financial year, the first of which extends our geographical footprint into Australia and New Zealand and the second is a minority stake together with the global marketing rights in a business that may transform our Food producing Animal Product (FAP) business in the long term through the development of a novel approach to farm animal pain relief.

## Portfolio Focus

### EU Pharmaceuticals Segment

During the 2017 financial year our EU Pharmaceuticals Segment increased its total reported revenues by 7.9% at constant exchange rates (CER). Our existing EU Pharmaceuticals business, excluding third party contract manufacturing and acquisitions, increased by 5.3%. Third party contract manufacturing revenues, which are reported under our EU Pharmaceuticals Segment, declined by 9.7% in the 2017 financial year. This was a conscious strategic move as we start to implement an efficiency improvement plan across our manufacturing sites (this is covered in more detail later in this Statement).

Our Companion Animal Product (CAP) sales were the predominant driver of revenue growth in our core EU business; FAP and Equine also delivered growth of 1.3% and 0.7% respectively. The UK, France and Germany, the three main contributors to EU revenues, performed well; we also delivered strong revenue growth in Italy and Poland. After a slow start to our recently formed subsidiary in Austria, performance is now reaching our expectations.

CAP revenue increased by 9.0% driven by a strong performance of *Zycortal*<sup>®</sup>, our novel endocrine product launched last year and also from established products such as *Cardisure*<sup>®</sup>, *Vetoryl* and our analgesia and anaesthesia range.

We are pleased to report our FAP portfolio has delivered its second successive year of growth, albeit modest. This performance is set against a historical decline in antibiotic sales due to concerns over antimicrobial resistance which is continuing in most markets. Despite this, we are beginning to see signs of a recovery in sales of our water soluble antibiotics. We believe that our *Solustab*<sup>®</sup> range is now well

positioned to provide veterinarians with a robust portfolio of suitable options for prudent use of antibiotics in the treatment of the majority of infectious diseases in pigs and poultry. The first of the poultry vaccines developed for the EU, *Avishield*<sup>®</sup> ND, was launched in Germany, the Netherlands and Belgium. Although we do not yet have a full range to offer our customers, we were still able to gain a market share of approximately 15% due to the product's excellent efficacy and safety profile.

The Equine portfolio growth has predominantly been driven by *Osphos*<sup>®</sup>, although we believe that sales are a long way from reaching full potential and will continue to grow as veterinarians gain a better understanding of this unique treatment. Generic competition to *Equipalazone*<sup>®</sup>, a long standing product in our portfolio, partly offset the sales growth in this category.

The Nutrition and Diets market continues to be very competitive; we are maintaining sales of our brand, *Specific* following historical supply issues and are initiating a number of projects that we hope will re-invigorate the range in the near term. We have, towards the end of this financial year, launched two new hypo-allergenic wet diets for dogs and cats.

The overall EU Pharmaceuticals Segment benefited from a full year's contribution from the acquisition of Genera, the Croatian business acquired in October 2015 and eight months' contribution from Apex, the Australian business acquisition completed in October 2016 (Dechra Veterinary Products International revenue, including Apex, are included in this Segment). Apex is performing well with the recently modernised factory achieving regulatory approval from the authorities in Australia in April 2017.



### Glossary

Terms used within this section:

**CAP:** Companion Animal Products

**FAP:** Food producing Animal Products

**CER:** Constant Exchange Rate

**EU Pharmaceuticals Segment:** Dechra Veterinary Products EU, Dechra Veterinary Products International and Dechra Pharmaceuticals Manufacturing and Apex

**North America Pharmaceuticals Segment:** Dechra Veterinary Product US, and Canada, and Dechra Brovel

# Non-Executive Chairman's and Chief Executive Officer's Statement

continued



**7.9% revenue growth in the EU**



**93.7% revenue growth in NA**



**Sales to over 50 countries worldwide**



**Global registrations continue to be delivered**

Excellent progress continues to be made on the integration of the Genera acquisition. Significant cost savings have been delivered from the workforce rationalisation and major improvements have been made in the solid dose and liquids manufacturing facilities, into which new products are being transferred to benefit from this low cost location. The primary reason for the acquisition was to access their range of poultry vaccines for broilers; the first of these has now been launched, the next five are in registration and progress is being made with a further four products.

## North America Pharmaceuticals Segment

Total North American Segment revenues increased by 93.7%. Existing business sales increased by 16.5% with our US and Canadian businesses both performing well. The principal drivers of this growth are CAP and Equine products. All major products have delivered growth with excellent sales of *Zycortal*, *Vetivex* (a range of intravenous fluids for critical care) and *Osphos*.

A number of new products were launched during the 2017 financial year including Amoxi-Clav (the first major product approval from Putney since we acquired the business in April 2016), three new extensions to our *Vetivex* range, Carprovet flavoured tablets to increase our CAP pain management range and two topical dermatology products in a new mousse format.

Overall the Segment benefited from an exceptional performance by Putney. The integration has been implemented extremely well; significant cost savings have been delivered, new sales channels opened and sales synergies from the enlarged team have been delivered to both Putney and our existing product ranges.

The Mexican business, Brovel, acquired in January 2016 continues to focus on the registration of Dechra products; initial approvals have now been received. A new management team was appointed during the 2016 financial year and there has been a notable improvement in performance.

## Product Pipeline

### Integrated Team

We have invested in and commissioned a new development laboratory in Genera, Croatia. We have also implemented a new management structure to monitor and control all global pipeline activities, and have successfully integrated the pipeline activities and team members from all our recent acquisitions.

### Pipeline Delivery

The most significant approval, as announced on 9 September 2016, was for a generic antibiotic tablet, Amoxi-Clav. There have been numerous other global registrations, the most significant of which are:

- *Revozyn*®, a cattle antibiotic for mastitis, in the Netherlands, UK and Germany with applications having been made for a further ten European markets;
- *Cyclo spray*® aerosol and *Vetoryl* 5mg in Canada;
- *Cardisure*, *Zycortal*, *Osphos*, Doxy paste and Benazapril oral solution in Australia;
- *Osphos* in Mexico;
- *Isathal*® and *Canaural* in Korea;
- *Domidine*®, *Atipam*® and *Sedator*® in Thailand and South Africa; and
- *Altidox*®, a water soluble antibiotic, in 13 EU territories.

### Filling the Pipeline

Our pipeline has been significantly enhanced by recent acquisitions and remains strong. As the Company increases in scale, we recognise that the pipeline needs to increase commensurately, and are therefore constantly reviewing new technologies and developing relationships to introduce new products into the programme. Within the year we have signed three agreements to conduct Proof of Concept studies on new, innovative and potentially material pharmaceuticals for the veterinary market. We also continue to look at opportunities to secure products from other companies and have, in the 2017 financial year, licensed in a range of CAP generic tablets from a key partner for Europe, a dental and a dermatological product from Kane Biotech Inc. for the US and Canada and a dermatological product from Premune for the EU.

## Acquisitions

On 14 October 2016, we completed the acquisition of the trade and assets of Apex Laboratories Pty Ltd (Apex), based in Somersby near Sydney, Australia for AUD\$55.0 million (£34.2 million). The acquisition, which is expected to be earnings enhancing in the first 12 months of ownership, manufactures, markets and sells branded non-proprietary prescription and other related CAP in Australia and New Zealand. Prior to the acquisition it had revenues for the year ended 30 June 2016 of AUD\$14.8 million (£8.4 million) and operating profit of AUD\$5.2 million (£3.0 million). The principal reason for the acquisition was to provide Dechra with direct access to the established and growing Australian CAP and Equine markets, in which Dechra currently operates through partners.

On 31 March 2017, we acquired a 33.0% stake in, Medical Ethics Pty Ltd, the parent company of Animal Ethics Pty Ltd (Animal Ethics) for a total consideration of AUD\$18.0 million (£11.0 million). Separately, we also announced that we had entered into a long term Intellectual Property Licensing Agreement with Animal Ethics who are an Australian based company focused on developing ethical pain relief products for animal health. This agreement gives Dechra the rights to sell and market Animal Ethics' patented product Tri-Solfen for all animal species in all international markets, excluding Australia and New Zealand. Tri-Solfen is a topical product that is sprayed onto wounds which simultaneously anaesthetises, relieves pain, controls bleeding and protects against infection for routine treatments in farm animals such as castration, tail docking, de-budding and de-horning. There is increasing pressure from retailers, animal welfare and consumer groups to improve the ethical treatment of animals. We believe that Dechra's access to Tri-Solfen will provide us with a unique position to increase our presence in FAP markets globally.

## Geographical Expansion

Sales in territories outside of Western Europe and our North American Pharmaceuticals Segment are categorised as International and these are reported under our EU Pharmaceuticals Segment; they currently represent 8.6% of total Group sales.

Towards the end of the financial year we established a new business unit, Dechra Veterinary Products International, led by Giles Coley, a long standing senior executive within Dechra, to focus on increasing our international presence. Historically, international sales have not been an area of strategic focus and we are therefore underweight relative to our competitors and the global market. By increasing focus and strategic priority, we believe we can deliver material growth in future years.

Currently, sales outside our core markets are predominantly FAP based. We believe our high quality products, mainly in pig and poultry, will provide us an entry opportunity into markets where quality meat consumption is increasing strongly. In the longer term we are targeting companion animal markets which are beginning to gain growth momentum in several developing countries; we are starting to register products to benefit from this global growth in pet ownership.

As part of the new business unit, we have created a regulatory team to focus on international registrations and are looking to appoint business development managers in key geographies to support our existing distributors and to establish new markets.

## Strategic Enablers

### Manufacturing

We have commenced the implementation of a strategic five year plan that will create centres of excellence for different dosage forms in our major manufacturing sites and which will lead to significant gains in efficiency throughout the period of the plan.

As part of this project we are reducing third party manufacturing contracts. This was historically important business to utilise capacity in our factories; however, the significantly increased scale of our own production is now being hindered by a number of these smaller, low margin contracts. We will therefore be exiting most of these contracts over the next five years, only retaining a few significant, high volume partnerships.

Following our recent acquisitions, in-sourced production accounts for approximately 50% of all product sales. Our Manufacturing and Supply Chain team have identified opportunities to reduce the complexity of our supplier network by working with preferred partners and bringing more of the currently outsourced production in-house.

### Technology

We continue to focus on the implementation of the Oracle DVP EU ERP solution which we announced at the Half Yearly results had fallen behind schedule. We believe that excellent progress has now been made and we are confident that a go live can be implemented prior to the end of the 2018 financial year.

Several of other IT developments have been progressed in the year:

- Implementation of the Hyperion Financial Management Group consolidation solution is expected to be completed on plan by the end of the 2017 calendar year;
- A new intranet has been developed to enhance Group internal communications;
- A new platform is in place to host the Dechra Academy providing greater flexibility and functionality;
- The roll out of the Group HR Cloud system is continuing; and
- A new Customer Relationship Management tool has been implemented for our US operations.

### People

As previously reported there have been three Board appointments in the year. We are delighted that the Board has been strengthened by the appointment of Tony Rice, who took over the role of Chairman, from Michael Redmond, at our Annual General Meeting on 21 October 2016, following a six month introduction to the Company as a Non-Executive Director. An additional Non-Executive Director, Lawson Macartney, joined the Board with effect from 1 December 2016 to strengthen veterinary, technical and pharmaceutical knowledge on the Board. Richard Cotton also joined the Board in January 2017 as Chief Financial Officer.

On behalf of the Board we would like to thank all employees for their hard work, dedication and innovation throughout the year. Our people are a key asset to the business; we consistently look to invest, to strengthen, educate and motivate our team.



Read more about **Manufacturing and Supply Chain** case study on page 40



Read more about **Board of Directors** on pages 64 and 65

# Non-Executive Chairman's and Chief Executive Officer's Statement

continued



**Approval in 13 European markets for Altidox**



**Progress made in our strategic growth drivers**



**Strong growth in key territories**



**Final dividend proposal of 15.33p**

## Dividend

The Board is proposing a final dividend of 15.33 pence per share (2016: 12.91 pence per share). Added to the interim dividend of 6.11 pence per share, this brings the total dividend for the financial year ended 30 June 2017 to 21.44 pence per share, representing 16.1% growth over the previous year.

Subject to shareholder approval at the Annual General Meeting to be held on 20 October 2017, the final dividend will be paid on 17 November 2017 to shareholders on the Register at 27 October 2017. The shares will become ex-dividend on 26 October 2017.

## Outlook

As outlined in this statement the core business and acquisitions are performing well. The enlarged Group continues to outperform the majority of markets in which we trade and we continue to identify new growth opportunities and operational efficiencies.

Current trading is in line with the Board expectations and we anticipate delivering our strategic objectives in the new financial year.

### Tony Rice

Non-Executive Chairman  
4 September 2017

### Ian Page

Chief Executive Officer  
4 September 2017



 Read the **Financial Review**  
on pages 21 to 27

 Read **Delivering Our Strategy**  
on pages 13 to 15