Financial Review

"During the 2015 financial year the Group focused on the execution of our four strategic pillars. As a result, we consolidated our position within the market, invested in the launch of new products and expanded geographically delivering underlying profit growth of 11.6% at constant exchange rates (CER). Our performance offsets strong currency headwinds, notably due to the volatility of the Euro, resulting in a growth of 5.2% at actual exchange rates (AER)."

Anne-Francoise Nesmes
Chief Financial Officer

Glossary
Terms used within this section:

IFRS
International Financial Reporting Standards

CER
Constant Exchange Rates

AER
Actual Exchange Rates

CAP
Companion Animal Products

FAP
Food producing Animal Products

When presenting our financial results, we use a number of adjusted measures which are considered by the Board and management in reporting, planning and decision-making. These measures are reconciled to the financial results reported under IFRS on page 43.

- Underlying results reflect the Group's trading performance excluding amortisation of acquired intangibles, non-underlying charges and one-off events such as restructuring and acquisition costs.
- All growth rates for both underlying and reported financial results included in this review are at constant exchange rates (CER) unless otherwise stated. This shows the year-on-year growth as if exchange rates had remained the same as in the previous year.
- All numbers are presented on a continuing operations basis. The divested Services Segment (in August 2013) is shown as discontinued operations in accordance with IFRS.

Overview of Underlying Financial Results

We delivered underlying operating profit of £44.4 million, representing a growth of 11.6% compared to the previous year. This was achieved through a combination of revenue growth and improvement in margins whilst we invested in key areas to support our growth.

	2015 £m	2014 £m	Actual exchange rate	Constant exchange rate
Revenue	**203.5**	193.6	5.1%	10.0%
Gross profit	**116.1**	107.7	7.8%	13.6%
Gross profit %	**57.1%**	55.6%		
Underlying operating profit	**44.4**	42.2	5.2%	11.6%
Underlying EBIT %	**21.8%**	21.8%		
Underlying EBITDA	**48.0**	46.2	3.9%	10.2%
Underlying diluted EPS (p)	**39.90**	36.32	9.9%	16.9%
Dividend per share (p)	**16.94**	15.40	10.0%	10.0%

A reconciliation to reported results is shown on page 43.

Revenue

Total revenue grew by 10.0% to £203.5 million. We delivered good growth in our CAP portfolio, and revenues increased due to product launches and the start of trading in new subsidiaries.

Revenue by Segment

European Pharmaceuticals Segment revenue grew by 3.9% to £168.6 million with a strong performance in the UK offsetting lower revenue in Germany due to the reduced use of antibiotics and in Denmark due to competitive pressure. It is pleasing to report that *Vetoryl* bounced back following last year's slower performance and grew by 22% due to trading in Italy as well as the roll out of our new marketing campaign.

Revenue in our North American Pharmaceuticals Segment grew by 59.9% to £34.9 million with the full year effect of the PSPC Inc. acquisition contributing to the growth. Our key products also performed well with an increase of 20.0% for *Vetoryl* and 24.0% for *DermaPet*®. *Osphos*, launched in August 2015, is also gaining momentum.

New territories, Italy, Canada and Poland, performed well and contributed 16.0% of the total revenue growth.

Revenue by Categories

Overall, the strong performance in CAP and Equine is offset by a decline in FAP sales.

CAP sales grew by 20.8% fuelled by *Vetoryl*'s momentum in the EU and US, the launch of *Phycox* and the success of our dermatology range, *DermaPet*, in the US.

On a restated basis, Equine revenue has grown by 17.0% following the launch of *Osphos*.

FAP declined by 13.6%, mostly due to the impact of the reduction in the prescription of antibiotics and increased competition in Germany and Denmark. However, as reported in the Chairman's and Chief Executive Officer's statement, we are pleased to report that the rate of decline has currently slowed in the Netherlands.

Unfortunately we experienced some supply disruption as we transferred the manufacturing of our dry diets to a new third party manufacturer. This affected our sales which declined by 4.2% in this financial year. However, all supply issues were resolved in the latter part of the year and we expect to regain momentum in the 2016 financial year with the launch of a new marketing campaign.

Finally, third party manufacturing sales increased by 11.7% as we realise the value from new contracts signed in 2014.

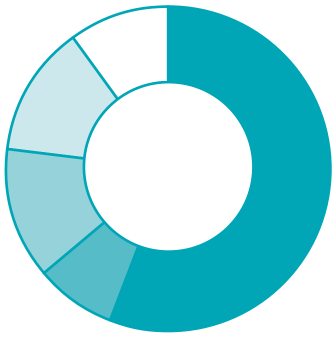
10.0%

Total revenue grew by 10.0% (at CER) to £203.5 million (5.1% at AER)

	2015 £m	2014 As restated £m	Actual exchange rate	Constant exchange rate
CAP	**113.9**	98.2	16.0%	20.8%
Equine*	**17.0**	15.3	11.1%	17.0%
FAP*	**27.3**	33.7	(19.0%)	(13.6%)
Subtotal Pharma	**158.2**	147.2	7.5%	12.6%
Diets	**25.6**	28.4	(9.9%)	(4.2%)
Third Party Manufacturing	**19.7**	18.0	9.4%	11.7%
Total	**203.5**	193.6	5.1%	10.0%

* As we continue to focus on our Equine portfolio, we reviewed our product allocation to ensure that multi-species products were appropriately allocated to the relevant categories. As a result we have reclassified £2.2 million of 2014 product sales from FAP to Equine and £0.5 million from CAP to Equine.

Revenue by Product Category (at AER)



- CAP **56%**
- Equine **8%**
- FAP **13%**
- Diets **13%**
- Third Party Manufacturing **10%**

Financial Review
continued

"Our gross margins have improved from 55.6% to 57.1% (at AER) reflecting the higher margins within our CAP portfolio offsetting the lower margin FAP business."

Gross Profit
Our gross margins have improved from 55.6% to 57.1% (at AER) reflecting the higher margins within our CAP portfolio compared to the lower margin FAP business.

This favourable product mix is the main reason for the improvement in margins. However, we also benefited from a reduction in cost of goods as we transferred the pet diets to a new third party manufacturer and from the higher margins retained through establishing our own subsidiaries in Italy and Canada.

Selling, General and Administrative Expenses (SG&A)
SG&A expenses grew by 15.4% to £63.1 million as we continued to invest to support the future growth of the Group.

During 2014, SG&A growth was driven by a mixture of one-off items and investment in resources to progress the strategic pillars. This prior year investment has had a full year effect in 2015. Additionally, we have invested in the sales organisation in DVP EU and DVP US, strengthened our manufacturing resources and built necessary infrastructure functions to support the operations going forward. By ensuring that we are right-sized to achieve our ambitions and by funding our geographical expansion, we are building a platform for future growth.

Research and Development Expenses (R&D)
Our R&D spend in the 2015 financial year was £8.7 million. This is slightly above last year (2014: £8.2 million), commensurate with our pipeline progress and an increase in our in-licensing activities to create additional value and breadth within the pipeline. In addition to R&D spend, in-licensing activities sometimes lead to capital investments, such as the share investment of US$1.0 million in Jaguar Animal Health Inc.

Segmental Profit
Operating leverage continues to improve in our European and North American Pharmaceuticals Segments with underlying profit as a percentage of sales at 28.5% and 30.4% respectively (at AER), as summarised in the table on the next page.

Operating Segment (Pharmaceuticals)

	2015 £m	2014 £m	Actual exchange rate	Constant exchange rate
Revenue	**203.5**	193.6	5.1%	10.0%
— EU	**168.6**	172.4	(2.2%)	3.9%
— North America	**34.9**	21.2	64.6%	59.9%
Operating Profit				
— EU	**48.0**	49.0	(2.0%)	4.1%
— North America	**10.6**	6.0	76.7%	73.3%
EBIT %				
— EU	**28.5%**	28.4%		
— North America	**30.4%**	28.3%		

The full segmental analysis can be found in note 2 on page 119.

During 2015, consequent to the commencement of trading in Canada, the Board reviewed our reporting Segments and concluded that the US Pharmaceutical Segment should be expanded to include Canada and named the North American Pharmaceuticals Segment, reflecting the way we manage the Group and meeting the criteria defined under IFRS 8.

Overview of Reported Financial Results

Including non-underlying items, the Group's profit after tax of £19.5 million decreased by 65.1% at CER (66.9% at AER), due to the one-off profit on disposal of the Services Segment of £38.6 million in the prior year.

	2015 £m	2014 £m	Actual exchange rate	Constant exchange rate
Revenue	**203.5**	193.6	5.1%	10.0%
Gross profit	**116.1**	107.7	7.8%	13.6%
Gross profit %	**57.1%**	55.6%		
Operating profit	**26.0**	25.0	4.0%	9.6%
EBIT %	**12.8%**	12.9%		
Profit after tax	**19.5**	19.4	0.5%	6.2%
Profit after tax including discontinued operations	**19.5**	59.0	(66.9%)	(65.1%)
Diluted EPS (p)	**21.99**	67.33	(67.3%)	(65.4%)

A reconciliation of underlying results to reported results as at 30 June 2015 is shown in the table below:

		Non-underlying items			
	2015 Underlying results £m	Amortisation of intangibles £m	Acquisition costs £m	Finance expenses £m	2015 Total reported results £m
Revenue	203.5				203.5
Gross profit	116.1				116.1
Selling, General and Administrative Expenses	(63.0)	(17.9)	(0.5)		(81.4)
R&D expenses	(8.7)				(8.7)
Operating profit	**44.4**	**(17.9)**	**(0.5)**		**26.0**
Net finance costs	0.7			(0.9)	(0.2)
Profit before tax	**45.1**	**(17.9)**	**(0.5)**	**(0.9)**	**25.8**
Taxation	(9.8)	3.4		0.1	(6.3)
Profit after tax	**35.3**	**(14.5)**	**(0.5)**	**(0.8)**	**19.5**
Diluted EPS (p)	39.90				21.99

Non-underlying items of £19.3 million before taxation, excluding the discontinued operations, are £0.9 million above the previous year due to higher acquired intangible amortisation with the full year effect of the PSPC Inc. acquired intangibles taking effect. Full details are shown in notes 4 and 5 on page 121.

£19.5m
Group's reported profit after tax was £19.5m (2014: £19.4m)

£8.7m
R&D spend was £8.7m (2014: £8.2m)

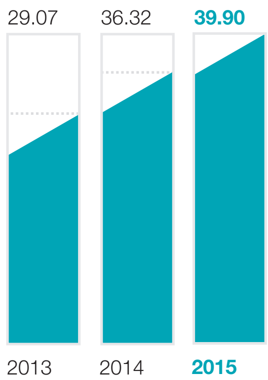
Read the Q&A with Ian and Anne-Francoise on pages 48 to 49.

View further content on our website: www.dechra.com

Financial Review
continued

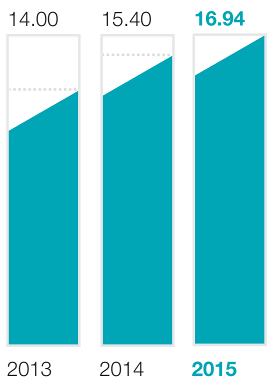
Underlying Diluted Earnings per Share

39.90p
2014: 36.32p



Dividend per Share

16.94p
2014: 15.40p



Earnings per Share and Dividends

Underlying diluted EPS from continuing operations for the year was 39.90 pence, 16.9% growth versus last year.

The reduction in interest payments following the repayment of our debt and the positive impact of transactional exchange gains, contributed to our EPS increase. The transactional currency effect of the Euro and other currency movements impacted profit after tax by £1.8 million and contributed 2.12 pence to the EPS.

The reported diluted EPS for the year was 21.99 pence (2014: 67.33 pence).

The Board is proposing a final dividend of 11.82 pence per share (2014: 10.65 pence). Added to the interim dividend of 5.12 pence, it brings the total dividend per share for the year to 16.94 pence, representing 10.0% growth over the previous year. Dividend cover based on underlying EPS is 2.4 times.

Net Cash Position

Our net cash position continues to improve with strong cash generation being reflected in the increase from £5.0 million net borrowings in the prior year to £13.4 million net cash as at 30 June 2015.

Covenants on all loan facilities were met during the year.

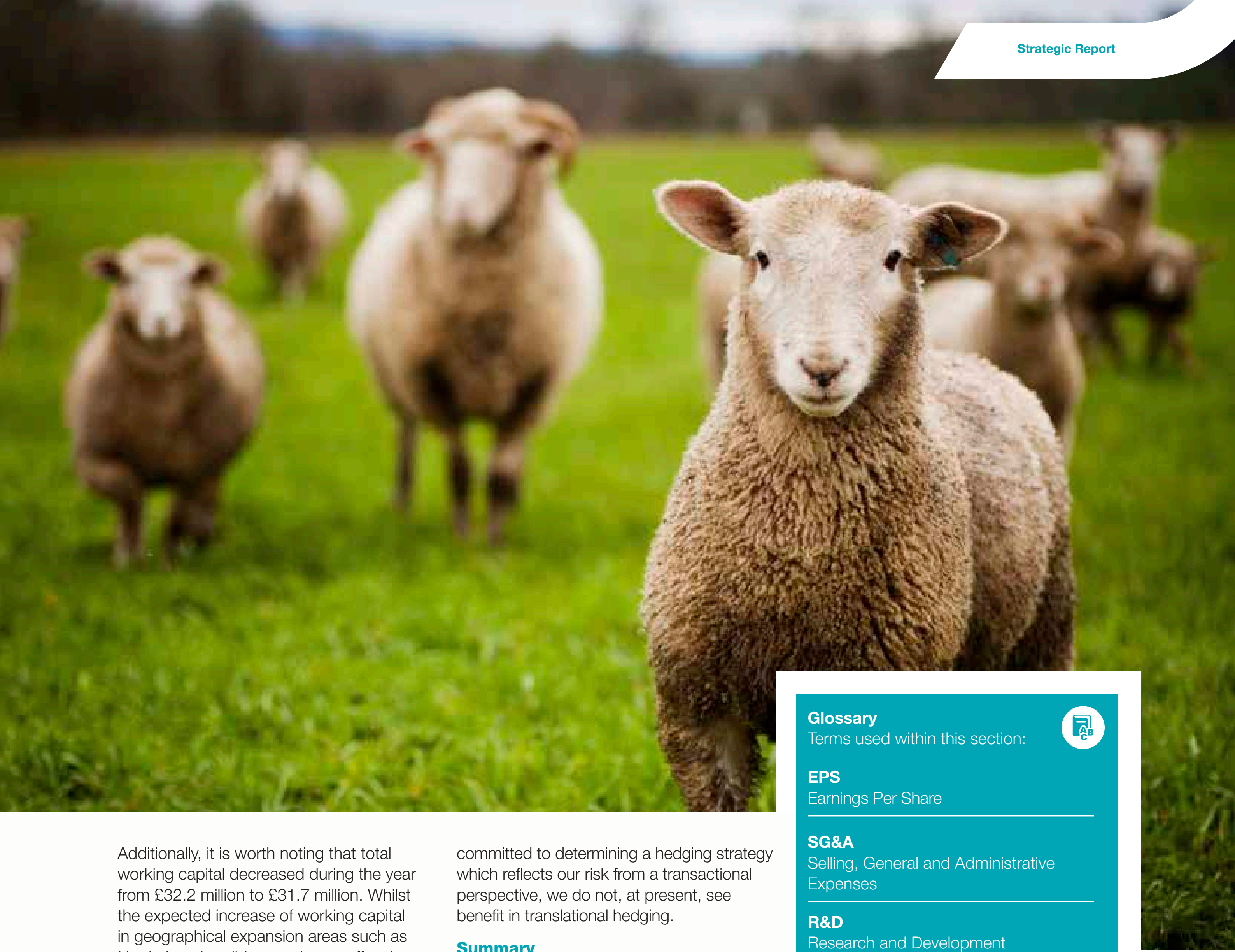
Whilst no new acquisitions were completed during the financial year, the Group announced on 3 August 2015 that it had signed a conditional agreement to purchase a majority shareholding in Genera d.d., a Croatian pharmaceutical company. This triggers a mandatory takeover obligation for the remaining shares of Genera, this takeover is subject to approval by the Croatian Financial Services Agency (HANFA). More information pertaining to this acquisition can be seen in note 33 to the Financial Statements.

Balance Sheet

Net assets at 30 June 2015 were £194.5 million, a £10.3 million decrease compared to 2014. This decrease is reflective of a significant amount of the Group assets being held in Eurozone countries.

	2015 £m	2014 £m
Total non-current assets	**183.5**	214.4
Working capital	**31.7**	32.2
Net cash/(debt)	**13.4**	(5.0)
Corporate and deferred tax	**(25.0)**	(28.0)
Other liabilities	**(9.1)**	(8.8)
Total net assets	**194.5**	204.8
Cash conversion	**107.1%**	90.6%

Total non-current assets include intangibles which amounted to £166.7 million (2014: £196.2 million) as at 30 June 2015.



Additionally, it is worth noting that total working capital decreased during the year from £32.2 million to £31.7 million. Whilst the expected increase of working capital in geographical expansion areas such as North America did occur, it was offset by translational exchange impacts on Euro and other currency based working capital.

Finance Strategy
Taxation and Treasury

We reported last year that we had undertaken a review of our tax and treasury strategies to make our operations more efficient, robust and scalable. During 2015, we continued to implement the tax strategy approved by the Board.

In September 2014, the Group refinanced its existing bank facility. This refinancing resulted in a loss on extinguishment of debt of £0.4 million in the year ended 30 June 2015, which is included in our non-underlying financial expenses.

Currency Risk

During 2015, we have been exposed to significant transactional and translational currency risk. This has resulted in one-off transactional gains of £2.2 million being recognised in the Consolidated Income Statement and £18.5 million foreign exchange translational impact being recognised in the Consolidated Statement of Comprehensive Income in 2015. We have been reviewing a number of mechanisms to manage the currency risk inherent within our business given our primarily UK based manufacturing facilities and Euro/Dollar based sales organisations. Whilst we are committed to determining a hedging strategy which reflects our risk from a transactional perspective, we do not, at present, see benefit in translational hedging.

Summary

During the 2015 financial year we made good progress towards our strategic ambitions as we focused on executing our strategy:

- our revenue and earnings grew through our portfolio focus, pipeline delivery and geographic expansion;
- we invested in our selling and administration infrastructure to promote growth, while maintaining our operating profit margin; and
- our strong balance sheet continues to give us the flexibility to pursue strategic investment opportunities as and when they arise.

Anne-Francoise Nesmes
Chief Financial Officer
7 September 2015

Glossary
Terms used within this section:

EPS
Earnings Per Share

SG&A
Selling, General and Administrative Expenses

R&D
Research and Development

EBIT
Earnings Before Interest and Tax

"During the financial year 2015 we made good progress towards our strategic ambitions as we focused on executing our strategy."

Read about **Delivering Our Strategy** on pages 14 to 17.

See our **Key Performance Indicators** on pages 46 and 47.