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THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION AS STIPULATED UNDER THE MARKET ABUSE REGULATION (EU) NO.596/2014.

25 January 2018

# Dechra Pharmaceuticals PLC (“Dechra”)

# Proposed Acquisition of AST Farma B.V. (“AST Farma”) and Le Vet Beheer B.V. (“Le Vet”)

**and**

**Placing of New Ordinary Shares to raise c.£100 million (net)**

The Board of Dechra, the international veterinary pharmaceutical business, is pleased to announce that it has entered into a conditional acquisition agreement to acquire AST Farma and Le Vet for a total consideration of €340.0 million on a debt-free and cash-free basis (the “**Acquisition**”). The total consideration will be satisfied approximately 75 per cent. in cash and 25 per cent. in new Dechra Shares, which are subject to a two year lock-in.

AST Farma is one of the leading companion animal pharmaceutical companies in the Netherlands, focused on generic and generic plus products. The business and its reputation have grown strongly through launching generic plus, generic and niche novel products, and by offering added value services to veterinarians. Le Vet has focused on the European markets outside of the Netherlands. Working in partnership with AST Farma, Le Vet has developed a strong portfolio of products, and established a network of marketing partners across Europe, including Dechra, to sell them. AST Farma and Le Vet together hold approximately 90 product registrations.

# Highlights of the Acquisition:

* Strengthens Dechra’s portfolio in the Netherlands and across Europe
* New opportunities through direct to vet model
* Access to a broad portfolio of products
* Access to a robust pipeline of products
* Attractive financial returns for Dechra
* Synergy benefits particularly in the form of revenue synergies

# Ian Page, Chief Executive Officer of Dechra, commented:

*“The acquisition is a rare opportunity to strengthen our EU segment in all the major European countries in which we operate. AST Farma and Le Vet have been a primary target for a number of years so we are delighted to have reached this agreement.”*

Dechra also announces today the launch of a placing with institutional investors of 5,121,952 new ordinary shares of 1 pence each in the capital of Dechra (the “**Placing Shares**”) at a price of 2050 pence per Placing Share (the “**Placing Price**”), representing approximately 5.5 per cent. of Dechra’s existing issued share capital (the “**Placing**”). The Placing is being conducted through an accelerated bookbuilding process (the “**Bookbuild**”) which will be launched with immediate effect following release of this Announcement. Investec Bank plc (“**Investec**”) is acting as sole bookrunner to the Company in connection with the Placing. The Placing is being fully underwritten by Investec on, and subject to, the terms of the placing agreement between the Company and Investec (the “**Placing Agreement**”).

The net proceeds of the Placing will be used to fund the Acquisition in part. The remaining Acquisition consideration is being funded through the issue of 3,670,625 new ordinary shares to the Sellers (the “**Consideration Shares**”) and the drawdown under a new banking facility (“**New Facilities Agreement**”). The Placing is not conditional upon completion of the Acquisition (“**Completion**”). The Placing is subject to the terms and conditions set out in Appendix 1 (which forms part of this Announcement).

The Acquisition constitutes a Class 1 transaction for the purposes of the Listing Rules, and therefore requires the approval of Dechra Shareholders. Completion is expected to occur on 13 February 2018.

Dechra will in due course and following UKLA approval send a circular to Dechra Shareholders convening a general meeting to approve the Acquisition. The Board of Dechra considers the Acquisition to be in the best interests of Dechra and the Dechra Shareholders as a whole. Accordingly, the Board of Dechra intends to recommend that Dechra Shareholders vote in favour of the resolution in respect of the Acquisition to be proposed at the Dechra General Meeting, as the Dechra Directors intend to do so in respect of their own beneficial holdings of 878,718 Ordinary Shares, representing, in aggregate, approximately 0.94 per cent. of the total issued share capital of Dechra as at 24 January 2018, being the last practicable date prior to the publication of this Announcement.

**A conference call for analysts and investors will be held today at 8.30 a.m.**

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| Ref: Dechra Pharmaceuticals PLC | |

# This summary should be read in conjunction with the full text of the following Announcement and its Appendices including, in particular, the risks and other factors that should be considered, which are set out in Appendix 3 to this Announcement. Capitalised terms used in this Announcement have the meanings given to them in Appendix 2 to this Announcement.

**Appendix 1 to this Announcement (which forms part of this Announcement) sets out the terms and conditions of the Placing. Persons who choose to participate in the Placing, by making an oral or written offer to acquire Placing Shares, will be deemed to have read and understood this Announcement in its entirety (including Appendix 1) and to be making such offer on the terms and subject to the conditions herein, and to be providing the representations, warranties, agreements, acknowledgements and undertakings contained in Appendix 1.**

**Notes:**

1. Conversion of € figures to £ in this Announcement are at an exchange rate of €1.14: £1.00

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By the publication of this Announcement via a Regulatory Information Service, the inside information contained within this Announcement is now considered to be in the public domain. The person responsible for arranging for the release of this Announcement on behalf of Dechra is Fiona Tooley (TooleyStreet Communications).

**About Dechra**

Dechra is an international specialist veterinary pharmaceuticals and related products business. Its expertise is in the development, manufacture and sales and marketing of high quality products exclusively for veterinarians worldwide. The majority of its products are focused on key therapeutic categories where it has leading market positions, and many of its products are used to treat medical conditions for which there is no other effective solution or have a clinical or dosing advantage over competitor products. For more information, please visit: www.dechra.com.

Stock Code: Full Listing (Pharmaceuticals): DPH

**Trademarks**

Dechra and the Dechra 'D' logo are registered Trademarks of Dechra Pharmaceuticals PLC.

# IMPORTANT NOTICES

No action has been taken by Dechra or Investec or any of their respective affiliates, agents, directors, officers or employees that would permit an offer of the Placing Shares or possession or distribution of this Announcement or any other offering or publicity material relating to such Placing Shares in any jurisdiction where action for that purpose is required.

No prospectus will be made available in connection with the matters contained in this Announcement and no such prospectus is required (in accordance with the Prospectus Directive) to be published. Persons needing advice should consult an independent financial adviser.

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The relevant clearances have not been, nor will they be, obtained from the securities commission of any province or territory of Canada, no prospectus has been lodged with, or registered by, the Australian Securities and Investments Commission or the Japanese Ministry of Finance; the relevant clearances have not been, and will not be, obtained for the South Africa Reserve Bank or any other applicable body in the Republic of South Africa in relation to the Placing Shares and the Placing Shares have not been, nor will they be, registered under or offering in compliance with the securities laws of any state, province or territory of Australia, Canada, Hong Kong, Japan, New Zealand, Singapore or the Republic of South Africa. Accordingly, the Placing Shares may not (unless an exemption under the relevant securities laws is applicable) be offered, sold, resold or delivered, directly or indirectly, in or into Australia, Canada, Hong Kong, Japan, New Zealand, Singapore or the Republic of South Africa.

Certain statements contained in this Announcement, including those in Appendix 3, constitute "forward-looking statements" with respect to the financial condition, performance, strategic initiatives, objectives, results of operations and business of the Dechra Group, AST Farma, Le Vet and the Enlarged Group.

All statements other than statements of historical facts included in this Announcement are, or may be deemed to be, forward-looking statements. Without limitation, any statements preceded or followed by or that include the words ‘‘targets’’, ‘‘plans’’, ‘‘believes’’, ‘‘expects’’, ‘‘aims’’, ‘‘intends’’, ‘‘anticipates’’, ‘‘estimates’’, ‘‘projects’’, ‘‘will’’, ‘‘may’’, “would”, “could” or “should”, or words or terms of similar substance or the negative thereof, are forward-looking statements. Forward-looking statements include statements relating to the following: (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects; (ii) business and management strategies and the expansion and growth of the Dechra Group’s, AST Farma’s, Le Vet’s or the Enlarged Group’s operations and potential synergies resulting from the Acquisition; and (iii) the effects of government regulation on the Dechra Group’s, AST Farma’s, Le Vet’s or the Enlarged Group’s business.

Such forward-looking statements involve risks and uncertainties that could significantly affect expected results and are based on certain key assumptions. Many factors could cause actual results, performance or achievements to differ materially from those projected or implied in any forward-looking statements. The important factors that could cause the Dechra Group’s, AST Farma’s, Le Vet’s or the Enlarged Group’s actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, economic and business cycles, the terms and conditions of the Dechra Group’s, AST Farma’s, Le Vet’s or the Enlarged Group’s financing arrangements, foreign currency rate fluctuations, competition in the Dechra Group’s, AST Farma’s, Le Vet’s or the Enlarged Group’s principal markets, acquisitions or disposals of businesses or assets and trends in the Dechra Group’s, AST Farma’s, Le Vet’s or the Enlarged Group’s principal industries. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof.

Readers of this Announcement are advised to refer, in particular, to Appendix 3 of this Announcement for a more complete discussion of the factors that could affect the Dechra Group’s, AST Farma’s, Le Vet’s or the Enlarged Group’s future performance and the industry in which the Dechra Group, AST Farma and Le Vet Group operate or the Enlarged Group would operate. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this Announcement may not occur.

The forward-looking statements contained in this Announcement speak only as of the date of this Announcement. Dechra, the Dechra Directors and Investec each expressly disclaim any obligation or undertaking to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by applicable law or regulation, the Listing Rules, the DTRs, the rules of the London Stock Exchange or the FCA.

Investec Bank plc is authorised by the Prudential Regulatory Authority and regulated in the United Kingdom by the Prudential Regulation Authority and the Financial Conduct Authority and is acting exclusively for Dechra and no one else in connection with the Acquisition, the Placing, the content of this Announcement and other matters described in this Announcement. Investec will not regard any other person as their client in relation to the Acquisition, the Placing, the content of this Announcement and other matters described in this Announcement and will not be responsible to anyone (including any Placees) other than Dechra for providing the protections afforded to their respective clients or for providing advice to any other person in relation to the Acquisition, the Placing, the content of this Announcement or any other matters referred to in this Announcement.

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This Announcement contains certain financial measures that are not defined or recognised under IFRS (International Financial Reporting Standards), including EBITDA (being earnings before interest, tax, depreciation, amortisation). Information regarding these measures are sometimes used by investors to evaluate the efficiency of a company's operation and its ability to employ its earnings toward repayment of debt, capital expenditures and working capital requirements. There are no generally accepted principles governing the calculation of these measures and the criteria upon which these measures are based can vary from company to company. These measures, by themselves, do not provide a sufficient basis to compare Dechra’s performance with that of other companies and should not be considered in isolation or as a substitute for operating profit or any other measure as an indicator of operating performance, or as an alternative to cash generated from operating activities as a measure of liquidity.

No statement in this Announcement is intended as a profit forecast or estimate for any period and no statement in this Announcement should be interpreted to mean that earnings, earnings per share or income, cash flow from operations or free cash flow for the Dechra Group, AST Farma, Le Vet or the Enlarged Group, as appropriate, for the current or future years would necessarily match or exceed the historical published earnings, earnings per share or income, cash flow from operations or free cash flow for the Dechra Group, AST Farma, Le Vet or the Enlarged Group, as appropriate.

Neither the content of Dechra’s website (or any other website) nor the content of any website accessible from hyperlinks on Dechra’s website (or any other website) is incorporated into or forms part of this Announcement.

# Dechra Pharmaceuticals PLC (“Dechra”)

# Proposed Acquisition of AST Farma B.V. (“AST Farma”) and Le Vet Beheer B.V. (“Le Vet”)

**And**

**Placing of new Ordinary Shares to raise £100 million (net)**

1. **Introduction**

Dechra announces that it has conditionally agreed to acquire both AST Farma and Le Vet who are European developers of generic and generic plus animal pharmaceutical products predominantly for companion animals.

Under the terms of the Acquisition, Dechra is paying to the Sellers an aggregate consideration of €340.0 million (£298 million) on a debt-free cash-free basis, subject to adjustment for working capital. Dechra has worked with AST Farma and Le Vet for a number of years, beginning with Dechra’s acquisition of Eurovet Animal Health B.V. (“**Eurovet**”) in 2012. In more recent years, the relationship has expanded through further distribution agreements for certain products and was further enhanced when Dechra acquired Genera in 2015, with whom AST Farma and Le Vet had an existing relationship. Dechra is a distributor of a number of AST Farma's and Le Vet's products in the following countries: UK, Ireland, France, Italy, Norway, Sweden, Denmark, Spain, Portugal, Poland, Slovenia, Croatia, Bosnia Herzegovina, Serbia, Macedonia and Kosovo. Today, Dechra represents approximately 13 per cent. of the combined turnover of AST Farma and Le Vet.

Dechra also announces the launch of the Placingfurther details of which are set out below. The net proceeds of the Placing will be used to fund the Acquisition in part. The remaining Acquisition consideration is being funded through the Consideration Shares and the drawdown under the New Facilities Agreement. The Placing is not conditional upon Completion and is subject to the terms and conditions set out in Appendix 1 (which forms part of this Announcement).

The Acquisition, to be effected by the Share Purchase Agreement, constitutes a Class 1 transaction for the Company under the Listing Rules and therefore requires and is conditional on, inter alia, Shareholder approval. Completion is targeted for 13 February 2018.

# Background to and reasons for the Acquisition

## Dechra’s strategy

Dechra's objectives are to innovate, develop, register, acquire, manufacture, supply and market high quality products to the veterinary profession worldwide. Dechra also offers high levels of service, technical support and educational training to support the Dechra brand and to develop strong relationships and be recognised as an important partner to veterinarians.

# To support the objectives, Dechra's four strategic growth drivers are summarised as follows:

* + - * + ***Pipeline Delivery:*** Dechra aims to deliver its pipeline on time, at the right costs and with the expected returns. It is also important that the Group refills the pipeline so that it has a constant flow of new products in future years.
        + ***Portfolio Focus:*** Dechra is a specialist veterinary pharmaceuticals business focused on Companion Animal Products, Equine, Food producing Animal Products and Nutrition. The Group is looking to maximise its revenue by focusing on clearly defined therapeutic sectors.
        + ***Geographical Expansion***: Dechra has identified a number of markets that present both volume and profit opportunities in the medium to long term. The Group’s entry strategies will vary depending on the local market dynamics.
        + ***Acquisition:*** Dechra's priority is to target strategic acquisitions that will expand the Group’s geographical footprint and/or enhance its product portfolio.

The Directors believe the Acquisition fits these strategic growth drivers, by providing further scale in existing markets, broadening its product offering and expanding its pipeline re-enforcing their strategic growth drivers of pipeline delivery and portfolio focus.

## Reasons for the acquisition of AST Farma and Le Vet

***Enhance the Group’s offering in the Netherlands and across Europe***

The addition of AST Farma to Dechra's existing operations in the Netherlands will provide critical mass. Dechra would look to build upon AST Farma's reputation within the Dutch market and share best practice with its existing business to provide a stronger partner for companion animal veterinarians in the Netherlands through the combined product ranges.

***New opportunities with AST Farma direct to vet model***

As described below, AST Farma in the Netherlands employ a direct to vet model which avoids the use of wholesalers. Dechra will look to use these relationships to develop new opportunities, particularly with its existing range of products which are currently sold in the Netherlands through wholesalers.

***Access to a broad portfolio of products***

Both in the Netherlands and across Europe, Dechra will gain access to a broad portfolio of over 90 registered products, which will strengthen the Group’s position in key markets. In certain markets, notably Germany and Belgium, Dechra does not currently have access to any of AST Farma and Le Vet’s products.

***Access to a robust pipeline***

In line with one of Dechra’s four strategic growth drivers, Pipeline Delivery, the acquisition of AST Farma and Le Vet will provide access to a pipeline of over 30 products, including eight already submitted for EU registration, which will materially enhance Dechra’s own product pipeline within its current companion animal and therapeutic focus areas. In addition, following the Acquisition, Sebastiaan and Alexander Tesink, the founders of AST Farma and Le Vet respectively, will continue to develop further novel products outside of the Enlarged Group and which are not included in the accessible pipeline of products mentioned below. As a result and as part of the Acquisition, Dechra has entered into a five year agreement that gives us the right of first refusal to acquire the marketing rights in respect of any such products developed by Sebastiaan and Alexander Tesink.

***Attractive financial returns for Dechra***

The Acquisition is expected to be materially earnings enhancing for the year ending 30 June 2019, the first full financial year of ownership, and to deliver returns in excess of Dechra’s cost of capital in a timely manner.

***Synergy benefits***

The Directors believe there will be potential synergy benefits from the Acquisition. These will fall into three areas:

* + - * + Revenue synergies: the main target will be to bring sales that are currently made through third party marketing partners in-house over time and retain the distributor margin, which would be material.
        + Cost synergies: there will be some minor cost synergies through removing duplicated functions.
        + Manufacturing: the existing contract manufacturers of AST Farma and Le Vet are also the same partners for Dechra, which limits the short term need for any manufacturing integration. Over time, Dechra could look to bring some of this manufacturing in-house.

# Information on AST Farma and Le Vet

## Overview of AST Farma and Le Vet

AST Farma is one of the leading companion animal pharmaceutical companies in the Netherlands, focused on generic plus products. It was established in 1999 by Sebastiaan Tesink, the ultimate owner of AST Farma, starting with a small range of companion animal products he had acquired. The business and its reputation have grown strongly through launching niche products, including ranges for minor species, and by offering added value services to veterinarians such as customised dispensing boxes, dosing information, vaccine books and syringes. Market research in the Netherlands assessing customers’ opinions of suppliers has consistently scored AST Farma as number one or two among companion animal veterinarians.

The Directors consider AST Farma to be an innovative and customer orientated company. The Directors consider that part of its success in this regard is due to its direct to vet delivery model, with the majority of sales going direct rather than through a wholesaler. Over the past approximately 15 years, AST Farma has been focused on developing quality generic plus products, often as the first veterinary licenced product behind the originator product, similar to what Dechra has been doing with their own product development strategy.

Le Vet, established by Alexander Tesink, the brother of Sebastiaan, has focused on the European markets outside of the Netherlands and began operations in 2002. Alexander and Sebastiaan Tesink together are the ultimate owners of Le Vet. Working closely with AST Farma, Le Vet has developed a strong portfolio of products registered in Europe, and established a network of marketing partners, including Dechra, to sell them.

AST Farma currently has approximately 90 pharmaceutical products which it markets in the Netherlands, of which 70 are registered by AST Farma. 60 of these products are registered by Le Vet in all EU member states and marketed through a network of distribution partners. For the year ended 31 December 2016, revenues for AST Farma and Le Vet were derived as to approximately 80 per cent. from CAP, 10 per cent. from Equine and 10 per cent. from farm animals. Approximately 90 per cent. of revenues are from the sale of generic and generic plus products, however they do have some innovative niche products, including a recently approved novel CAP pain product. The main categories are antibiotic tablets for dogs and cats, anaesthesia and analgesia for dogs, cats and horses, and a range of ear and eye preparations for dogs and cats. While mostly generic in nature, the companies have been very successful in adding value compared to the originator by developing flavoured tablets, improving administration methods, reducing pain by administration and by adding indications and species. In addition they have been successful in taking a number of products from human medicine and registering the first veterinary version.

A selection of AST Farma and Le Vet's registered products include:

* + - * + Clavubactin® – in their portfolio since 2002 with Mutual Recognition in 2003, this is an improved version of Synulox, a widely used antibiotic used for the treatment of a wide range of infections in dogs.
        + Metrobactin® – in their portfolio since 2015 after completion of a Decentralised Procedure to all EU member states in that same year. The first veterinary registered Metronidazol for the treatment of a wide range of infections in dogs and cats.
        + Phenoleptil® – in their portfolio since 2009 with Mutual Recognition in 2010 and 2012, Fenobarbital tablets for the treatment of epilepsy in dogs
        + Prevomax® – in their portfolio since 2017 after completion of a Centralised Procedure to all EU member states, an improved version of Cerenia for the treatment of nausea and vomiting in dogs and cats.
        + Prednicortone® – in their portfolio since 2015 after completion of a Decentralised Procedure to all EU member states, for the symptomatic treatment or as adjunct treatment of inflammatory and immune-mediated diseases in dogs and cats.
        + Equisolon® – in their portfolio since 2014 after completion of a Centralised Procedure to all EU member states, for the alleviation of inflammatory and clinical parameters associated with recurrent airway obstruction in horses

In addition to those products currently registered and being marketed and sold, AST Farma and Le Vet have a strong pipeline of 30 generic and generic plus products in development, including eight already submitted for EU registration. Additionally, in recent weeks, two products have been successfully approved which will be marketed soon after Completion, one of which is the first Pan European veterinary license for the use of Tramadol for pain relief in dogs. The Directors believe that the success of AST Farma and Le Vet in recent years of achieving product approvals in the EU, added to these very recent licenses, should lead to a good conversion of the existing pipeline. The pipeline will further expand Dechra’s offering to companion animal and equine practitioners while at the same time add increased strength and depth to our current focus therapeutic areas.

In terms of manufacturing and product development, whilst AST Farma and Le Vet do not have these capabilities, they do exist in the wider group owned by Sebastiaan and Alexander Tesink, with the majority of the manufacturing undertaken by these other companies and the balance by third parties. The manufacturing and product development capabilities do not form part of the Acquisition, however AST Farma and Le Vet will enter into ongoing agreements as part of the Acquisition to maintain access to these capabilities to continue the development of the product pipeline Dechra is acquiring as part of the Acquisition. In addition, Dechra will have a right of first refusal to products at a much earlier stage in their development and which do not form part of this transaction.

Both AST Farma and Le Vet are based in Oudewater in the Netherlands and employ, together, approximately 30 people. The employees comprise teams in sales, regulatory, customer services, finance and warehouse and logistics. Alexander and Sebastiaan Tesink are not joining Dechra following the Acquisition. However, they have each entered into a consultancy agreement to assist with the transition and will, in aggregate, through their respective holding companies be a c.3.6 per cent. shareholder of the Enlarged Group as a result of the Consideration Shares to be issued pursuant to the Acquisition (based on the number of Ordinary Shares in issue as at 24 January 2018 (being the latest practicable date prior to publication of this Announcement) together with the Consideration Shares and the Placing Shares). In addition, Dechra will continue to have access to the necessary product development expertise (as described above) following Completion until such time as the acquired pipeline is registered.

## AST Farma financial information

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| **Summary of certain financial statements from 31 December 2014 to 31 December 2016 (€m)** | | | |
|  | **31 Dec 2014** | **31 Dec 2015** | **31 Dec 2016** |
| Turnover | 17.2 | 18.2 | 19.9 |
| Adjusted EBITDA | 8.4 | 9.1 | 10.0 |
| Adjusted Operating profit | 8.3 | 9.0 | 10.0 |
| Profit Before Tax | 7.4 | 8.0 | 8.9 |
| Total gross assets | 4.1 | 4.7 | 5.2 |
| Net assets | 1.1 | 1.2 | 1.3 |

*Note: The above figures are taken from AST Farma’s financial statements, which were originally prepared under Dutch GAAP, but which for the purposes of the Acquisition have been prepared under IFRS and presented in a form consistent with Dechra’s accounting policies*.

## Le Vet financial information

|  |  |  |  |
| --- | --- | --- | --- |
| **Summary of certain financial statements from 31 December 2014 to 31 December 2016 (€m)** | | | |
|  | **31 Dec 2014** | **31 Dec 2015** | **31 Dec 2016** |
| Turnover | 12.2 | 15.7 | 23.2 |
| Adjusted EBITDA | 2.9 | 4.5 | 8.1 |
| Adjusted Operating profit | 2.4 | 3.9 | 7.0 |
| Profit Before Tax | 0.7 | 2.0 | 2.3 |
| Total gross assets | 6.8 | 8.0 | 14.4 |
| Net assets | 3.5 | 5.0 | 6.8 |

*Note: The above figures are taken from Le Vet’s financial statements, which were originally prepared under Dutch GAAP, but which for the purposes of the Acquisition have been prepared under IFRS and presented in a form consistent with Dechra’s accounting policies*.

EBITDA is operating profit before depreciation and amortisation. Adjusted operating profit and adjusted EBITDA is operating profit and EBITDA, respectively, after adding back royalties that relate to costs paid by both AST Farma and Le Vet to AST Farma Beheer B.V. in relation to certain product registrations held by AST Farma Beheer B.V., which is the parent company of AST Farma. As part of the Acquisition, these products are being transferred to AST Farma and Le Vet and the royalty costs will no longer be paid following Completion.

In relation to Le Vet only, their company’s auditors have been unable to perform sufficient audit procedures to obtain reasonable assurance as to the completeness of turnover and related financial items. The two principal reasons for this are (i) a lack of segregation of duties within Le Vet’s finance function, which was undertaken by one employee; and (ii) the absence of a formal inventory count coupled with inventory valuation issues in 2014, means it has not been possible to reconcile between opening inventory balances, purchases, sales and closing inventory balance.

The Reporting Accountants have performed a review of the audit files and performed additional testing where necessary to issue their opinion on the financial information of Le Vet which will be included in the Circular to be sent to Dechra Shareholders. The conclusion at the end of their work was that the Reporting Accountants have not been able to obtain sufficient audit evidence to provide a basis for an opinion in respect of the financial information for the three years ended 31 December 2016.

The disclaimer in the Reporting Accountant’s opinion states that Le Vet did not implement and maintain appropriate or sufficient internal controls to ensure the completeness of the underlying accounting records, to a standard of reliability that is necessary for the Reporting Accountants to provide an unmodified audit opinion. Although the Reporting Accountants have been able to verify characteristics such as the accuracy of the information that has been included in the company’s accounting records, through work in accordance with International Standards on Auditing, there remains the potential for transactions not to have been included in the company’s accounting records. As such the Reporting Accountants are not able to verify the completeness of the financial information. As a result of the nature of the modification, which notes that there is potential for unknown balances not to have been entered into the company's accounting records, it is not practicable for the Reporting Accountant to quantify the possible effects of the modification.

The Directors believe that, in spite of the disclaimer of opinion, the Acquisition of AST Farma and Le Vet, which are inter-conditional i.e. they will either both happen or none will happen, is in the best interests of Shareholders as a whole.

Le Vet is a high-growth, profitable and cash generative business which Dechra has been working with since 2012 following its acquisition of Eurovet. Dechra is a significant partner to Le Vet, representing approximately 20 per cent. of Le Vet’s revenues and is well known to Dechra management, operating in the same markets. Despite the fact the Le Vet financial information may not be complete, the Directors believe the financial position is supported. In addition, under the pharmaceutical regulatory environment (cGMP – current good manufacturing practice) that Le Vet (and AST Farma and Dechra) are required to operate, the receipt of product from a third party manufacturer and the release of product at the point of shipment must be independently validated by a registered Qualified Person. This provides an additional controls check on the completeness and accuracy of all inbound and outbound transactions undertaken by the business independently of the operational and financial processes, on which the Directors can place reliance.

The Directors consider the Acquisition as one transaction split across two companies. Le Vet is closely associated with AST Farma, with significant cross shareholdings, significant product overlap and share the same auditors. While AST Farma received a clean audit opinion, this can provide no assurances over the position and performance of Le Vet. However, Dechra has conducted extensive financial, commercial, tax and legal due diligence on both businesses, which has confirmed both the Directors expectations and the representations made by the Sellers. As part of this the Directors have reconciled Dechra’s purchases from Le Vet with Le Vet’s sales to Dechra, which represents 20 per cent. of Le Vet’s total revenue. Further, Le Vet’s reported revenue numbers have been validated with independently available market share data. Dechra has also sought appropriate protections for Shareholders through the Share Purchase Agreement.

While the Directors place importance on the historical financial information, a significant component to the value the Directors have placed on both AST Farma and Le Vet is the pipeline of products in development for which there is no account in the three year track record. Finally, the Directors are aware their ongoing obligations as directors of a premium listed company and as part of the transaction have prepared a detailed integration plan to ensure it can continue to meet these obligations following completion of the Acquisition, which incorporates plans to resolve the issues highlighted in the Reporting Accountants’ disclaimer of opinion.

# Financial effects of the Acquisition

Under the terms of the Acquisition, Dechra is acquiring AST Farma and Le Vet for an aggregate consideration of €340.0 million (£298 million) on a debt-free cash-free basis and subject to adjustment for working capital at Completion. The consideration for the Acquisition is being satisfied through a combination of issuing the Consideration Shares, with the balance to be satisfied in cash from the net proceeds of the Placing and new debt facilities

Dechra, as part of the Share Purchase Agreement, has agreed to continue to operate the Oudewater site, which is owned by companies controlled by Sebastiaan and Alexander Tesink, and maintain operations there for at least three years following Completion. In addition, Dechra has also agreed to maintain certain levels of manufacturing for five years at certain existing sites in which the Sellers hold minority interests.

***Earnings per share and ROCE vs WACC1***

The Directors expect the impact of the Acquisition and the Placing to be accretive to underlying earnings per share in the year-ending 30 June 2018 before transaction costs and one-off integration costs and to be materially accretive to underlying earnings per share in the year-ending 30 June 2019. Dechra expects to report one off transaction and integration costs associated with the Acquisition of £3.5 million for the year ended 31 July 2018.

The Directors expect the Acquisition to generate an underlying return on capital employed in excess of Dechra’s weighted average cost of capital in the year-ending 30 June 2019.

The Directors expect the leverage ratio to be approximately 1.95 times net debt to EBITDA on Completion, reducing to approximately 1.7 times by 30 June 2018.

## 1 The contents of this paragraph does not constitute a profit forecast nor should it be interpreted to mean that the earnings per share of the Enlarged Group for the first full year after the transaction will increase.

## Dividend policy

Following Completion, the Board expect to continue its progressive dividend policy recognising investment opportunities as they arise.

## Debt Financing

Dechra is currently party to a £235 million revolving credit facility with a syndicate of lenders. To fund the Acquisition in part, and any further potential acquisitions, Dechra has entered into the New Facility Agreement with the same syndicate of lenders. The New Facility Agreement is a multi-currency term loan facility for £350 million, which must be repaid by 31 December 2020. Drawdown is subject to certain conditions, which includes a minimum of £90.0 million having been raised by the Placing. Any amounts not drawn by 30 June 2018 will cease to be available. Dechra is expecting to drawn down approximately £124 million under the new facility to fund the Acquisition.

# Trading information

## Dechra

Dechra released the following statement on 9 January 2018.

*“The Board of Dechra issues the following unaudited Trading Update covering the half year reporting period from 1 July to 31 December 2017 (the Period).*

***Highlights***

* *Trading in the Period was strong and in line with management expectations*
* *Reported Group revenue for the Period increased by c.10.5% at constant exchange rate (CER) (c.11.5% at actual exchange rate (AER))*
* *European Pharmaceuticals revenue growth was c.5.5% at CER (AER c.8.5%)*
* *North America Pharmaceuticals revenue growth was c.20.0% at CER (AER c.17.5%)*
* *Small bolt on acquisition of RxVet Limited, New Zealand, was completed.*

***Operational Review***

*European Pharmaceuticals*

*In the Period, our European Pharmaceuticals segment reported revenue increased by c.5.5% at CER (c.8.5%% at AER). Excluding third party contract manufacturing, and treating Apex on a like for like basis1, revenues increased by c.4.0% at CER (c.7.0% at AER).*

*1 Apex was acquired in October 2016*

*North American Pharmaceuticals*

*In the Period, our North American segment reported revenue increased by c.20.0% at CER (c.17.5% at AER).*

***Pipeline Delivery***

*New product registrations were achieved in the Period. In European Pharmaceuticals, this included Avishield® IB H120, our second EU registered poultry vaccine. A number of minor registrations were achieved in our International division following its formation in July 2017.*

*In North America we have now launched all the dosage sizes of Amoxi-Clav tablets in the US, and Vetoryl® and Osphos® in Mexico.*

***Acquisition***

*In December 2017 we completed the acquisition of RxVet Limited, a small CAP business in New Zealand. RxVet have been Dechra’s distributor since 2010, with revenue in the year to March 2017 of NZ$1.4 million; sales of Dechra products account for approximately half of this. The former owner managers will remain with the business and help to increase market share and build Dechra’s presence in the region.*

***US tax***

*Following the passing into law of the Tax Cuts and Jobs Act (the Act) in USA, the Group is in the process of reviewing and quantifying the effect of the Act on Dechra. Overall, an initial provisional assessment indicates that the effect is expected to be modestly favourable on an ongoing underlying basis. A material one-off non-cash non-underlying credit will arise due to the revaluation of Deferred Tax balances. Further details will be provided with the announcement of the Interim Results.”*

Since the date of this trading statement, Dechra continues to trade in line with the Directors' expectations.

## AST Farma

During the financial year ended 31 December 2017, AST Farma is expected to have delivered continued revenue growth, mainly driven by new product launches to its product portfolio. Adjusted operating margins are expected to be in line with the Directors’ expectations.

## Le Vet

During the financial year ended 31 December 2017, Le Vet is expected to have delivered strong revenue growth, driven by a combination of continued market penetration and new product launches. Adjusted operating margins are expected to be in line with the Directors’ expectations.

# Principal terms of the Acquisition

## Summary of the Acquisition

The Purchasers and the Sellers have entered into a conditional Share Purchase Agreement in respect of the Acquisition, pursuant to which the Purchasers have agreed, on the terms and subject to the conditions of the Share Purchase Agreement, to acquire AST Farma and Le Vet. The Acquisition will be governed by laws of the Netherlands.

Under the terms of the Share Purchase Agreement, the Purchasers have agreed to pay €340 million, 75 per cent. of which is to be paid by way of cash and 25 per cent. in the form of the Consideration Shares. The number of Consideration Shares is based on the average closing price of a Dechra Share for the 30 trading days prior to the date of this announcement. The consideration is priced on a debt free /cash free/ normalised working capital basis – and so an estimated purchase price will be paid on completion, which will then be adjusted on a € for € basis to reflect any debt/cash at Completion and to the extent working capital at Completion is above or below a normalised working capital level. Such adjustment will be done by way of completion accounts and any adjustment will be satisfied in cash.

The Sellers will be bound by lock-in provisions in respect of the Consideration Shares which prohibits them for a period of 24 months from disposing of any interest in the Consideration Shares, subject to customary exemptions.

## Conditions to Completion

Completion is conditional upon, among other things:

* + - * + approval of the Acquisition as a “Class 1 transaction” for the purposes of the Listing Rules by a simple majority of Dechra Shareholders (the “**Dechra Shareholder Approval**”);
        + the completion by the Sellers of a pre-Completion carve-out of certain shares and assets;
        + the transfer of certain product registrations and associated intellectual property rights from one of the Sellers to AST Farma and/or Le Vet;
        + no material warranty breach between signing and Completion;
        + no breach of pre-Completion covenants; and
        + no material adverse change has occurred in relation to AST Farma or Le Vet.

# The Placing

Under the terms of the Placing, Dechra will place 5,121,952 Placing Shares, representing approximately c.5.5 per cent. of the current issued ordinary share capital of Dechra, with existing institutional shareholders and new institutional investors at the Placing Price of 2050 pence per Placing Share, raising approximately £105 million (gross) (approximately £100 million (net)). The Placing is being fully underwritten by Investec subject to the conditions and termination rights set out in the Placing Agreement.

The Bookbuild will open with immediate effect following this Announcement. The timing of the closing of the

Bookbuild and allocations are at the discretion of Investec following consultation with Dechra. Details of the results of the Placing will be announced as soon as practicable after the close of the Bookbuild.

The Placing Price represents a discount of approximately 0.6 per cent. to the closing mid-market price of 2062 pence per ordinary share of 1 pence each in the capital of Dechra (the "**Ordinary Shares**") on 24 January 2018, being the latest practicable date prior to the publication of this Announcement.

The Directors take a prudent view of balance sheet leverage and typically target maximum Net Debt to underlying EBITDA of 2 times, though under the right circumstances are prepared to allow leverage to increase to a level above this in the short term. The Directors considered it was therefore appropriate to issue equity to fund the proposed Acquisition in part and to raise equity funding at the time of the announcement of the Acquisition in order to provide certainty of that equity funding. Further, the Group are exploring a number of other acquisitions and the Board felt it desirable to maintain financial flexibility in the light of these further opportunities.

The Placing Shares, when issued, will rank pari passu in all respects with each other and with the existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid on the existing Ordinary Shares after the date of issue.

Applications will be made to the FCA and to the London Stock Exchange for Admission of the Placing Shares. It is expected that Admission of the Placing Shares will become effective on or around 30 January 2018 and that dealings in the Placing Shares will commence at that time.

The Placing is conditional, among other things, upon Admission of the Placing Shares becoming effective and the Placing Agreement having been unconditional and not having been terminated in accordance with its terms. Appendix 1 (which forms part of this Announcement) sets out further information relating to the Placing Agreement.

In the event that the Acquisition does not complete, the Directors would consider, in light of circumstances at the time, the appropriate use of the funds raised, including the extent to which they should be retained for general purposes or used in relation to other capital investments or acquisition opportunities as well as the appropriate extent to which the funds would be returned to Shareholders.

This Announcement should be read in its entirety. In particular, your attention is drawn to the “Important

Notices” section of this Announcement, to the detailed terms and conditions of the Placing and further information relating to the Bookbuild set out in Appendix 1 (which forms part of this Announcement).

# Placing Statistics

|  |  |
| --- | --- |
| Number of Ordinary Shares in issue before the Placing | 93,491,670 |
| Number of Placing Shares to be issued pursuant to the Placing | 5,121,952 |
| Placing Price | 2050 pence |
| Gross proceeds of the Placing | £105 million |
| Estimated net proceeds of the Placing | £100 million |
| Number of Ordinary Shares in issue immediately following the Placing including the Consideration Shares | 102,284,247 |
| Placing Shares as a percentage of the enlarged share capital | 5.0 per cent. |
|  | |

1. **Further information**

Further details in relation to the Acquisition will be set out in the Circular which is expected to be published in due course.

# Recommendation

The Board considers that the Acquisition is in the best interests of Dechra and its Shareholders as a whole and, accordingly, the Board unanimously recommends that Shareholders vote in favour of the resolution in respect of the Acquisition to be proposed at the Dechra General Meeting, as the Directors intend to do so in respect of their own beneficial holdings of 878,718 Ordinary Shares representing, in aggregate, 0.94 per cent. of the ordinary share capital of Dechra as at 24 January 2018, being the latest practicable date prior to the publication of this Announcement.

# APPENDIX 1 - TERMS AND CONDITIONS OF THE PLACING

IMPORTANT INFORMATION ON THE PLACING FOR INVITED PLACEES ONLY.

MEMBERS OF THE PUBLIC ARE NOT ELIGIBLE TO TAKE PART IN THE PLACING. THIS ANNOUNCEMENT AND THE TERMS AND CONDITIONS SET OUT IN THIS APPENDIX ARE FOR INFORMATION PURPOSES ONLY AND ARE DIRECTED ONLY AT: (A) PERSONS IN MEMBER STATES OF THE EUROPEAN ECONOMIC AREA (“**EEA**”) WHO ARE QUALIFIED INVESTORS AS DEFINED IN SECTION 86(7) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000, AS AMENDED, (“**FSMA**”) BEING PERSONS FALLING WITHIN THE MEANING OF ARTICLE 2(1)(E) OF DIRECTIVE 2003/71/EC, AS AMENDED, INLCUDING BY DIRECTIVE 2010/71/EU, TO THE EXTENT IMPLEMENTED AND INCLUDES ANY RELEVANT IMPLEMENTING DIRECTIVE MEASURE IN ANY MEMBER STATE) (THE “**PROSPECTUS DIRECTIVE**”) (“**QUALIFIED INVESTORS**”); (B) IF IN THE UNITED KINGDOM, PERSONS WHO FALL WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE “**ORDER**”) OR ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) (“HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS, ETC”) OF THE ORDER; OR (C) PERSONS TO WHOM IT MAY OTHERWISE BE LAWFULLY COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “**RELEVANT PERSONS**”).

THIS ANNOUNCEMENT AND THE TERMS AND CONDITIONS SET OUT IN THIS APPENDIX MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS APPENDIX AND THE TERMS AND CONDITIONS SET OUT HEREIN RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. THIS ANNOUCEMENT (INCLUDING THIS APPENDIX) DOES NOT ITSELF CONSTITUTE A SALE OR SUBSCRIPTION OF ANY SECURITIES IN THE COMPANY.

THE SECURITIES REFERRED TO HEREIN HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR UNDER THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, OR TRANSFERRED IN, OR INTO, THE UNITED STATES, EXCEPT PURSUANT TO AN APPLICABLE EXEMPTION FROM, OR AS PART OF A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN COMPLIANCE WITH THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. NO PUBLIC OFFERING OF SECURITIES IS BEING MADE IN THE UNITED STATES, THE UNITED KINGDOM OR ELSEWHERE WHERE SUCH PUBLIC OFFERING WOULD BE UNLAWFUL.

EACH PLACEE SHOULD CONSULT WITH ITS OWN ADVISERS AS TO LEGAL, TAX, BUSINESS AND RELATED ASPECTS OF AN INVESTMENT IN PLACING SHARES.

Unless otherwise defined in these terms and conditions, capitalised terms used in these terms and conditions shall have the meaning given to them in Appendix 2 to this Announcement.

Neither the Company nor Investec makes any representation to persons who are invited to and who choose to participate in the Placing (“**Placees**”) regarding an investment in the securities referred to in this Announcement under the laws applicable to such Placees. Each Placee should consult its own advisers as to the legal, tax, business, financial and related aspects of an investment in the Placing Shares.

By participating in the Placing, Placees will be deemed to have read and understood this Announcement, including this Appendix, in its entirety and to be making such offer on the terms and conditions, and to be providing the representations, warranties, acknowledgements, and undertakings contained in this Appendix.

In particular each such Placee represents, warrants and acknowledges that:

* 1. it is a Relevant Person (as defined above) and undertakes that it will acquire, hold, manage or dispose of any Placing Shares that are allocated to it for the purposes of its business;
  2. in the case of any Placing Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Placing Shares acquired by it in the Placing have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any member state of the EEA which has implemented the Prospectus Directive other than Qualified Investors or in circumstances in which the prior consent of Investec has been given to the offer or resale; or (ii) where Placing Shares have been acquired by it on behalf of persons in any member state of the EEA other than Qualified Investors, the offer of those Placing Shares to it is not treated under the Prospectus Directive as having been made to such persons; and
  3. (a) (i) it is not in the United States and (ii) it is not acting for the account or benefit of a person in the United States, unless in the case of this clause (ii), acting with investment discretion for such person or, if such person is a corporation or partnership, the person agreeing to purchase the Placing Shares is an employee of such person authorised to make such purchase; (b) it is a dealer or other professional fiduciary in the United States acting on a discretionary basis for a non-US person (other than an estate or trust) in reliance on Regulation S under the Securities Act; (c) it is otherwise acquiring the Placing Shares in an “offshore transaction” as defined in Regulation S under the Securities Act; or (d) it is a “qualified institutional buyer” (a “QIB”) (as defined in Rule 144A under the Securities Act) and it has duly executed an investor letter in a form provided to it and delivered the same to Investec or its affiliates.

The Company and Investec will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements.

This Announcement does not constitute an offer to sell or issue or the solicitation of an offer to buy or subscribe for Placing Shares in any jurisdiction in which such offer or solicitation is or may be unlawful. This Announcement and the information contained herein is not for publication or distribution, directly or indirectly, to persons in the United States, Australia, Canada, Hong Kong, Japan, New Zealand, the Republic of South Africa or Singapore or in any jurisdiction in which such publication or distribution is unlawful. No public offer of securities of the Company is being made in the United Kingdom, United States or elsewhere where such public offer would be unlawful.

The Placing Shares are being offered and sold outside the United States in accordance with Regulation S under the Securities Act. Any offering to be made in the United States will be made pursuant to an exemption from, or in a transaction not subject to, registration under the Securities Act.

The Placing Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission or other regulatory authority in the United States, nor have any of the foregoing authorities passed upon or endorsed the merits of the Placing or the accuracy or adequacy of this Announcement. Any representation to the contrary is a criminal offence in the United States.

The relevant clearances have not been, nor will they be, obtained from the securities commission of any province or territory of Canada; no prospectus has been lodged with, or registered by, the Australian Securities and Investments Commission or the Japanese Ministry of Finance; the relevant clearances have not been, and will not be, obtained for the South Africa Reserve Bank or any other applicable body in the Republic of South Africa in relation to the Placing Shares and the Placing Shares have not been, nor will they be, registered under or offered in compliance with the securities laws of any state, province or territory of Australia, Canada, Hong Kong, Japan, New Zealand, South Africa or Singapore. Accordingly, the Placing Shares may not (unless an exemption under the relevant securities laws is applicable) be offered, sold, resold or delivered, directly or indirectly, in or into Australia, Canada, Hong Kong, Japan, New Zealand, South Africa or Singapore or any other jurisdiction outside the United Kingdom.

Persons (including, without limitation, nominees and trustees) who have a contractual or other legal obligation to forward a copy of this Appendix or the Announcement of which it forms part should seek appropriate advice before taking any action.

In this Appendix, unless the context otherwise requires, “Placee” means a person (including individuals, funds or others) on whose behalf a commitment to subscribe for Placing Shares has been given.

**Details of the Placing Agreement and the Placing Shares**

Investec has entered into the Placing Agreement with the Company under which it has, on the terms and subject to the conditions set out therein, undertaken to use its reasonable endeavours to procure subscribers for the Placing Shares. Investec has also agreed with the Company, to the extent that Placees are not procured, to take up the Placing Shares at the Placing Price, or in the event of any default by any Placee in paying the Placing Price in respect of any Placing Shares allotted to it, to take up such Placing Shares themselves at the Placing Price, in each case, on the terms of and subject to the conditions set out in the Placing Agreement.

The Placing Shares will, when issued, be credited as fully paid and will rank *pari passu* in all respects with the Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid on or in respect of the Ordinary Shares after the date of issue of the Placing Shares.

The Company, subject to certain exceptions (including the issue of the Consideration Shares), has agreed not to allot, issue or grant any rights in respect of any of its Ordinary Shares in the period from the date of this Announcement until 90 days after Admission without Investec’s prior consent.

**Application for listing and admission to trading**

Application will be made to the FCA for admission of the Placing Shares to the Official List and to London Stock Exchange for admission to trading of the Placing Shares on its main market for listed securities (together, “Admission”). It is expected that Admission will become effective on or around 30 January 2018 and that dealings in the Placing Shares will commence at that time.

**Bookbuild**

Investec will today commence the Bookbuild to determine demand for participation in the Placing by Placees.  This Appendix gives details of the terms and conditions of, and the mechanics of participation in, the Placing.  No commissions will be paid to Placees or by Placees in respect of any Placing Shares.

Investec and the Company shall be entitled to effect the Placing by such alternative method to the Bookbuild as they may, in their sole discretion, determine.

**Participation in, and principal terms of, the Placing**

1. Investec is arranging the Placing as sole bookrunner, underwriter and agent of the Company.

2. Participation in the Placing will only be available to persons who may lawfully be, and are, invited to participate by Investec.  Investec and its affiliates are entitled to enter bids in the Bookbuild as principal.

3. The results of the Bookbuild will be announced on a Regulatory Information Service (“RIS”) following the completion of the Bookbuild.

4. To bid in the Bookbuild, Placees should communicate their bid by telephone to their usual sales contact at Investec.  Each bid should state the number of Placing Shares which the prospective Placee wishes to subscribe for at the Placing Price.  Investec reserves the right not to accept a bid from a potential Placee. Bids may be scaled down by Investec on the basis referred to paragraph 7 below.

5. The Bookbuild is expected to close no later than 4.30 p.m. today but may be closed earlier or later at the discretion of Investec (following consultation with the Company).  Investec may, in agreement with the Company, accept bids that are received after the Bookbuild has closed.

6. Each prospective Placee’s allocation will be determined by Investec in it is discretion following consultation with, and taking into account the reasonable requests of, the Company and will be confirmed to Placees orally by Investec (as agent for the Company) following the close of the Bookbuild and a trade confirmation will be dispatched as soon as possible thereafter. Investec’s oral confirmation to such Placee will constitute an irrevocable legally binding commitment upon such person (who will at that point become a Placee) in favour of Investec and the Company, under which it agrees to subscribe for the number of Placing Shares allocated to it at the Placing Price on the terms and conditions set out in this Appendix and in accordance with the Company’s articles of association.

7. Investec may choose to accept bids, either in whole or in part, on the basis of allocations determined at their discretion (in consultation with the Company) and may scale down any bids for this purpose on such basis as it may determine. Investec may also, notwithstanding paragraphs 4 and 5 above, subject to the prior consent of the Company (i) allocate Placing Shares after the time of any initial allocation to any person submitting a bid after that time and (ii) allocate Placing Shares after the Bookbuild has closed to any person submitting a bid after that time.  The Company reserves the right (upon agreement with Investec) to reduce the amount to be raised pursuant to the Placing, in its absolute discretion.

8. A bid in the Bookbuild will be made on the terms and subject to the conditions in this Announcement and will be legally binding on the Placee on behalf of which it is made and, except with Investec’s consent, will not be capable of variation or revocation after the time at which it is submitted.  Each Placee will also have an immediate, separate, irrevocable and binding obligation, owed to Investec, as agent for the Company, to pay it (or as it may direct) in cleared funds an amount equal to the product of the Placing Price and the number of Placing Shares such Placee has agreed to subscribe for and the Company has agreed to issue and allot.

9. Except as required by law or regulation, no press release or other announcement will be made by Investec or the Company using the name of any Placee (or its agent), in its capacity as Placee (or agent), other than with such Placee's prior written consent.

10. Irrespective of the time at which a Placee's allocation pursuant to the Placing is confirmed, settlement for all Placing Shares to be acquired pursuant to the Placing will be required to be made at the same time, on the basis explained below under “Registration and Settlement”.

11. All obligations under the Bookbuild and Placing will be subject to fulfilment of the conditions referred to below under “Conditions of the Placing” and to the Placing not being terminated on the basis referred to below under “Right to terminate under the Placing Agreement”.

12. By participating in the Bookbuild, each Placee will agree that its rights and obligations in respect of the Placing will terminate only in the circumstances described below and will not be capable of rescission or termination by the Placee.

13. To the fullest extent permissible by law, none of (a) Investec; (b) any of Investec’s affiliates, agents, directors, officers, consultants or employees; (c) to the extent not contained in (a) or (b), any person connected with Investec as defined in FSMA ((b) and (c) being together, “affiliates” and individually an “affiliate” of Investec); or (d) any person acting on Investec’s behalf shall have any liability to Placees (or to any other person whether acting on behalf of a Placee or otherwise).  In particular, neither Investec nor any of its affiliates shall have any liability (including to the extent permissible by law, any fiduciary duties) in respect of Investec’s conduct of the Bookbuild or of such alternative method of effecting the Placing as Investec and the Company may agree.

**Conditions of the Placing**

The Placing is conditional upon the Placing Agreement becoming unconditional and not having been terminated in accordance with its terms. Investec’s obligations under the Placing Agreement in respect of the Placing Shares are conditional on, *inter alia*:

(a) the Company having performed all of its obligations under the Placing Agreement to be performed prior to Admission and not being in breach of the Placing Agreement;

(b) no Major Default or breach of a Major Representation (each as defined in the New Facility Agreement) having occurred under the New Facility Agreement and the Share Purchase Agreement not having become capable of termination, in each case, prior to Admission;

(c) the Company allotting, subject only to Admission, the Placing Shares in accordance with the Placing Agreement; and

(d) Admission taking place not later than 8.00 a.m. on 30 January 2018 or such later date as the Company and Investec may otherwise agree but not being later 8.00 a.m. on 6 February 2018.

The Placing Agreement, and therefore the Placing, are not conditional on the proposed Acquisition. The Company has agreed definitive terms in respect of the proposed Acquisition as described in this Announcement. However, no assurance can be given that the proposed Acquisition will be completed or completed on the terms described herein.

If (i) any of the conditions contained in the Placing Agreement are not fulfilled or, where permissible, waived by Investec by the respective time or date where specified (or such later time and/or date as the Company and Investec may agree); (ii) any of such conditions becomes incapable of being fulfilled; or (iii) the Placing Agreement is terminated in the circumstances specified below under “Right to terminate the Placing Agreement”, the Placing will not proceed and the Placee’s rights and obligations hereunder in relation to the Placing Shares shall cease and terminate at such time and each Placee agrees that no claim can be made by the Placee in respect thereof.

Investec may, at its discretion and upon such terms as it thinks fit, waive fulfilment by the Company with the whole or any part of any of the Company's obligations in relation to the conditions in the Placing Agreement save that the above condition relating to Admission taking place may not be waived. Any such extension or waiver will not affect Placees’ commitments as set out in this Announcement.

Neither Investec, the Company nor any of their respective affiliates, agents, directors, consultants or employees shall have any liability, whether in contract, tort or otherwise, to any Placee (or to any other person whether acting on behalf of a Placee or otherwise) in respect of any decision any of them may make as to whether or not to waive or to extend the time and /or date for the satisfaction of any condition to the Placing nor for any decision they may make as to the satisfaction of any condition or in respect of the Placing generally and by participating in the Placing each Placee agrees that any such decision is within the absolute discretion of Investec.

**Right to terminate under the Placing Agreement**

Investec is entitled, at any time before Admission, to terminate the Placing Agreement in relation to its obligations in respect of the Placing by giving notice (or writing or orally) to the Company in certain circumstances, including (amongst others) a material breach of the warranties given to Investec in the Placing Agreement or the failure of the Company to comply with its obligations under the Placing Agreement.

By participating in the Placing, Placees agree that the exercise by Investec of any right of termination or other discretion under the Placing Agreement shall be within the absolute discretion of Investec and that it need not make any reference to Placees and that it shall have no liability to Placees whatsoever in connection with any such exercise.

**No Prospectus**

No offering document or prospectus has been or will be submitted to be approved by the FCA in relation to the Placing and Placees' commitments will be made solely on the basis of the information contained in this Announcement (including this Appendix) and the Exchange Information (as defined further below).

Each Placee, by accepting a participation in the Placing, agrees that the content of this Announcement (including this Appendix) is exclusively the responsibility of the Company and confirms that it has neither received nor relied on any other information (other than the Exchange Information), representation, warranty, or statement made by or on behalf of the Company or Investec or any other person and none of Investec, the Company, any other person acting on such person’s behalf or any of their respective affiliates will be liable for any Placee’s decision to participate in the Placing based on any other information, representation, warranty or statement which the Placees may have obtained or received. Each Placee acknowledges and agrees that it has relied on its own investigation of the business, financial or other position of the Company in accepting a participation in the Placing. Nothing in this paragraph shall exclude the liability of any person for fraudulent misrepresentation.

**Registration and Settlement**

Settlement of transactions in the Placing Shares following Admission will take place within CREST provided that, subject to certain exceptions, Investec and the Company reserve the right to require settlement for, and delivery of, the Placing Shares (or a portion thereof) to Placees by such other means as they deem necessary if delivery or settlement is not possible or practicable within the CREST system or would not be consistent with the regulatory requirements in any Placee’s jurisdiction.

Following close of the Bookbuild, each Placee allocated Placing Shares in the Placing will be sent a trade confirmation in accordance with the standing arrangements in place with Investec, stating the number of Placing Shares allocated to it at the Placing Price, the aggregate amount owed by such Placee to Investec and settlement instructions. Each Placee agrees that it will do all things necessary to ensure that delivery and payment is completed in accordance with either the standing CREST or certificated settlement instructions that it has in place with Investec.

It is expected that settlement will be on 30 January 2018 on a delivery versus payment basis in accordance with the instructions set out in the trade confirmation.

Interest is chargeable daily on payments not received from Placees on the due date in accordance with the arrangements set out above at the rate of two percentage points above LIBOR as determined by Investec.

Each Placee is deemed to agree that, if it does not comply with these obligations, Investec may sell any or all of the Placing Shares allocated to that Placee on such Placee's behalf and retain from the proceeds, for Investec’s account and benefit, an amount equal to the aggregate amount owed by the Placee plus any interest due. The relevant Placee will, however, remain liable for any shortfall below the aggregate amount owed by it and may be required to bear any stamp duty or stamp duty reserve tax (together with any interest or penalties) which may arise upon the sale of such Placing Shares on such Placee's behalf.

If Placing Shares are to be delivered to a custodian or settlement agent, Placees should ensure that the trade confirmation is copied and delivered immediately to the relevant person within that organisation. Insofar as Placing Shares are registered in a Placee’s name or that of its nominee or in the name of any person for whom a Placee is contracting as agent or that of a nominee for such person, such Placing Shares should, subject as provided below, be so registered free from any liability to UK stamp duty or stamp duty reserve tax. Placees will not be entitled to receive any fee or commission in connection with the Placing. If there are any circumstances in which any other stamp duty or stamp duty reserve tax (together with interest and penalties) is payable in respect of the issue of the Placing Shares, neither Investec nor the Company shall be responsible for the payment thereof.

**Representations, Warranties and Further Terms**

By participating in the Placing each prospective Placee (and any person acting on such prospective Placee’s behalf) irrevocably acknowledges, confirms, undertakes, represents, warrants and agrees (as the case may be) with the Company and Investec (in its capacity as sole bookrunner, underwriter and placing agent for the Company), in each case as a fundamental term of their application for Placing Shares, the following:

1. it has read this Announcement, including the Appendix, in its entirety and that its subscription of Placing Shares is subject to and based upon all the terms, conditions, representations, warranties, acknowledgements, agreements and undertakings and other information contained herein and undertakes not to redistribute or duplicate this Announcement;

2. no offering document or prospectus has been prepared in connection with the Placing and it has not received and will not receive a prospectus or other offering document in connection therewith;

3. the Ordinary Shares are listed on the premium listing segment of the Official List of the FCA, and the Company is therefore required to publish certain business and financial information in accordance with the rules and practices of the FCA (collectively “Exchange Information”), which includes a description of the nature of the Company's business and the Company's most gr balance sheet and profit and loss account and that it is able to obtain or access such information without undue difficulty, and is able to obtain access to such information or comparable information concerning any other publicly traded company, without undue difficulty;

4. neither Investec, the Company nor any of their respective affiliates, agents, directors, officers, consultants or employees nor any person acting on behalf of any of them has provided, and none of them will provide, it with any material regarding the Placing Shares or the Company other than this Announcement (including this Appendix), nor has it requested Investec, the Company, nor any of their affiliates or any person acting on behalf of any of them to provide it with any such information;

5. the content of this Announcement is exclusively the responsibility of the Company and that neither Investec, its affiliates nor any person acting on its or their behalf has or shall have any liability, in contract, tort or otherwise, for any information, representation or statement contained in this Announcement, any misstatements in or omission from any publicly available information relating to the Company, or any information previously or concurrently published by or on behalf of the Company, including, without limitation, the Exchange Information and will not be liable for any Placee's decision to participate in the Placing based on any information, representation or statement contained in this Announcement or otherwise. Each Placee further represents, warrants and agrees that the only information on which it is entitled to rely and on which such Placee has relied in committing itself to subscribe for the Placing Shares is contained in this Announcement and any Exchange Information, such information being all that it deems necessary to make an investment decision in respect of the Placing Shares and that it has neither received nor relied on any other information given or representations, warranties or statements made by any of Investec or the Company and neither Investec nor the Company will be liable for any Placee's decision to accept an invitation to participate in the Placing based on any other information, representation, warranty or statement. Each Placee further acknowledges and agrees that it has relied on its own investigation of the business, financial or other position of the Company in deciding to participate in the Placing. None of Investec, the Company or any of their respective affiliates has made any representations to it, express or implied, with respect to the Company, the Placing and the Placing Shares or the accuracy, completeness or adequacy of the Exchange Information, and each of them expressly disclaims any liability in respect thereof. Nothing in this paragraph or otherwise in this Announcement excludes the liability of any person for fraudulent misrepresentation made by that person;

6. unless otherwise specifically agreed in writing with Investec, it is not, and at the time the Placing Shares are subscribed for, neither it nor the beneficial owner of such Placing Shares will be a resident of Australia, Canada, Hong Kong, Japan, New Zealand, the Republic of South Africa or Singapore or any other state or jurisdiction in which it is unlawful to make or accept an offer to subscribe the Placing Shares (each a “Restricted Jurisdiction”) and further acknowledges that the Placing Shares have not been and will not be registered under the securities legislation of the United States or any Restricted Jurisdiction and, subject to certain exceptions, may not be offered, sold, taken up, renounced or delivered or transferred, directly or indirectly, within those jurisdictions;

7. the issue to it, or the person specified by it for registration as holder, of Placing Shares will not give rise to a liability under any of sections 67, 70, 93 or 96 of the Finance Act 1986 (depositary receipts and clearance services) and that the Placing Shares are not being acquired in connection with arrangements to issue depositary receipts or to transfer Placing Shares into a clearance system;

8. it has complied with its obligations under the Criminal Justice Act 1993, the Market Abuse Regulation (Regulation (EU) No. 596/2014), and in connection with money laundering and terrorist financing under the Proceeds of Crime Act 2002 (as amended), the Terrorism Act 2000 (as amended), the Terrorism Act 2006 and the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2007 and any related or similar rules, regulations or guidelines, issued, administered or enforced by any government agency having jurisdiction in respect thereof (the “Regulations”) and, if making payment on behalf of a third party, that satisfactory evidence has been obtained and recorded by it to verify the identity of the third party as required by the Regulations;

9. if a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, that the Placing Shares purchased by it in the Placing will not be acquired on a non-discretionary basis on behalf of, nor will they be acquired with a view to their offer or resale to, persons in a member state of the EEA which has implemented the Prospectus Directive other than Qualified Investors, or in circumstances in which the prior consent of Investec has been given to the offer or resale;

10. it has not offered or sold and, prior to the expiry of a period of six months from Admission, will not offer or sell any Placing Shares to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and which will not result in an offer to the public in the United Kingdom within the meaning of section 85(1) of FSMA;

11. it has not offered or sold and will not offer or sell any Placing Shares to persons in the EEA prior to Admission except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted in and which will not result in an offer to the public in any member state of the EEA within the meaning of the Prospectus Directive and will not result in any requirement for the publication of a prospectus pursuant to Article 3 of that Directive;

12. it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) relating to the Placing Shares in circumstances in which section 21(1) of FSMA does not require approval of the communication by an authorised person;

13. it has complied and will comply with all applicable laws with respect to anything done by it or on its behalf provisions of FSMA with respect to anything done by it in relation to the Placing Shares (including all relevant provisions of FSMA and the Financial Services Act 2012 in respect of anything done in, from or otherwise involving, the United Kingdom);

14. if in a member state of the EEA, unless otherwise specifically agreed with Investec in writing, it is a Qualified Investor;

15. if in the UK, it is a person (i) who has professional experience in matters relating to investments who falls within the definition of “investment professionals” in Article 19(5) of the Order; (ii) falling within Article 49(2)(a) to (d) (“High Net Worth Companies, Unincorporated Associations, etc”) of the Order; or (iii) to whom this Announcement may otherwise be lawfully communicated;

16. that it and any person acting on its behalf has capacity and authority and is otherwise entitled to acquire the Placing Shares under the laws of all relevant jurisdictions which apply to it and that it has fully observed such laws and obtained all such governmental and other guarantees, permits, authorisations, approvals and consents which may be required thereunder and complied with all necessary formalities and that it has not taken any action or omitted to take any action which will or may result in Investec, the Company or any of their respective affiliates, directors, officers, agents, employees or advisers acting in breach of the legal or regulatory requirements of any jurisdiction in connection with the Placing and that the subscription for and purchase of the Placing Shares by it or any person acting on its behalf will be in compliance with applicable laws and regulations in the jurisdiction of its residence, the residence of the Company, or otherwise;

17. it has all necessary capacity and has obtained all necessary consents and authorities to enable it to commit to its participation in the Placing and to perform its obligations in relation thereto (including, without limitation, in the case of any person on whose behalf it is acting, all necessary consents and authorities to agree to the terms set out or referred to in this Announcement) and will honour such obligations;

18. it (and any person acting on its behalf) will make payment for the Placing Shares allocated to it in accordance with this Announcement on the due time and date set out herein, failing which the relevant Placing Shares may be placed with other subscribers or sold as Investec may in its sole discretion determine and without liability to such Placee;

19. its allocation (if any) of Placing Shares will represent a maximum number of Placing Shares which it will be entitled, and required, to subscribe for, and that Investec or the Company may call upon it to subscribe for a lower number of Placing Shares (if any), but in no event in aggregate more than the aforementioned maximum;

20. none of Investec, any of its affiliates or any person acting on behalf of any of them, is making any recommendations to it, advising it regarding the suitability of any transactions it may enter into in connection with the Placing and that participation in the Placing is on the basis that it is not and will not be treated for these purposes as a client of Investec and that Investec has no duties or responsibilities to it for providing the protections afforded to its clients or customers or for providing advice in relation to the Placing nor in respect of any representations, warranties, undertakings or indemnities contained in the Placing Agreement nor for the exercise or performance of any of its rights and obligations thereunder including any rights to waive or vary any conditions or exercise any termination right;

21. the person whom it specifies for registration as holder of the Placing Shares will be (i) itself or (ii) its nominee, as the case may be. None of Investec, the Company, any of their respective affiliates or any person acting on behalf of them will be responsible for any liability to stamp duty or stamp duty reserve tax resulting from a failure to observe this requirement. Each Placee and any person acting on behalf of such Placee agrees to participate in the Placing and it agrees to indemnify the Company and Investec in respect of the same on an after tax basis on the basis that the Placing Shares will be allotted to the CREST stock account of Investec who will hold them as nominee on behalf of such Placee until settlement in accordance with its standing settlement instructions;

22. these terms and conditions and any agreements entered into by it pursuant to these terms and conditions, and any non-contractual obligations arising out of or in connection with such agreements, shall be governed by and construed in accordance with the laws of England and Wales and it submits (on behalf of itself and on behalf of any person on whose behalf it is acting) to the exclusive jurisdiction of the English courts as regards any claim, dispute or matter arising out of any such contract, except that enforcement proceedings in respect of the obligation to make payment for the Placing Shares (together with any interest chargeable thereon) may be taken by the Company or Investec in any jurisdiction in which the relevant Placee is incorporated or in which any of its securities have a quotation on a recognised stock exchange;

23. indemnify on an after tax basis and hold the Company, Investec and their respective affiliates harmless from any and all costs, claims, liabilities and expenses (including legal fees and expenses) arising out of or in connection with any breach of the representations, warranties, acknowledgements, agreements and undertakings in this Appendix and further agrees that the provisions of this Appendix shall survive after completion of the Placing;

24. acknowledges that no action has been or will be taken by any of the Company, Investec or any person acting on behalf of the Company or Investec that would, or is intended to, permit a public offer of the Placing Shares in any country or jurisdiction where any such action for that purpose is required;

25. it has knowledge and experience in financial, business and international investment matters as is required to evaluate the merits and risks of subscribing for the Placing Shares. It further confirms that it is experienced in investing in securities of this nature and is aware that it may be required to bear, and is able to bear, the economic risk of, and is able to sustain, a complete loss in connection with the Placing. It further confirms that it has relied upon its own examination and due diligence of the Company and its associates taken as a whole, and the terms of the Placing, including the merits and risks involved, and not upon any view expressed or information provided by or on behalf of Investec;

26. its commitment to subscribe for Placing Shares on the terms set out herein and in the trade confirmation will continue notwithstanding any amendment that may in future be made to the terms of the Placing and that Placees will have no right to be consulted or require that their consent be obtained with respect to the Placing;

27. if it is subscribing for the Placing Shares as a fiduciary or agent for one or more investor accounts, it has full power and authority to make, and does make, the foregoing representations, warranties, acknowledgements, agreements and undertakings on behalf of each such accounts;

28. time is of the essence as regards its obligations under this Appendix;

29. any document that is to be sent to it in connection with the Placing will be sent at its risk and may be sent to it at any address provided by it to Investec;

30. the Placing Shares will be issued subject to the terms and conditions set out in this Appendix; and

31. the Company, Investec and their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, confirmations, undertakings, representations, warranties and agreements which are given to, and for the benefit of, Investec on its own behalf and to the Company on its own behalf and are irrevocable.

**Additional representations and warranties relating to the United States**

In addition to the foregoing, by participating in the Placing, each prospective Placee (and any person acting on such prospective Placee’s behalf) irrevocably acknowledges, confirms, undertakes, represents, warrants and agrees (as the case may be) with the Company and Investec (in its capacity as sole bookrunner, underwriter and placing agent for the Company), in each case as a fundamental term of their application for Placing Shares, the following:

*If outside the United States*

1. it is not a person located in the United States and you will acquire the Placing Shares in an “offshore transaction”, as defined in Regulation S under the Securities Act, conducted in accordance with Regulation S under the Securities Act and the Placing Shares were not offered to it by means of “directed selling efforts”, as defined in Regulation S under the Securities Act;

2. it is not acting on a non-discretionary basis for the account or benefit of a person located within the United States at the time the undertaking to subscribe for Placing Shares was given and it is not acquiring the Placing Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any Placing Shares into the United States; and

3. the Company, Investec and their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, confirmations, undertakings, representations, warranties and agreements which are given to, and for the benefit of, Investec on its own behalf and to the Company on its own behalf and are irrevocable.

*If in the United States*

Each Placee located in the United States shall make specific representation, warranties, agreements and acknowledgements pursuant to the U.S. investor representation letter.

**Miscellaneous**

The rights and remedies of Investec and the Company under these terms and conditions are in addition to any rights and remedies which would otherwise be available to each of them and the exercise or partial exercise of one will not prevent the exercise of others.

The agreement to settle a Placee’s subscription (and/or the subscription of a person for whom such Placee is contracting as agent) free of stamp duty and stamp duty reserve tax depends on the settlement relating only to a subscription by it and/or such person direct from the Company for the Placing Shares in question. Such agreement assumes that the Placing Shares are not being subscribed for in connection with arrangements to issue depositary receipts or to transfer the Placing Shares into a clearance service. If there are any such arrangements, or the settlement relates to any other subsequent dealing in the Placing Shares, UK stamp duty or stamp duty reserve tax may be payable, for which neither the Company nor Investec will be responsible, and the Placee to whom (or on behalf of whom, or in respect of the person for whom it is participating in the Placing as an agent or nominee) the allocation, allotment, issue or delivery of Placing Shares has given rise to such UK stamp duty or stamp duty reserve tax undertakes to pay such UK stamp duty or stamp duty reserve tax forthwith and to indemnify on an after-tax basis and to hold harmless the Company and Investec in the event that any of the Company and/or Investec has incurred any such liability to UK stamp duty or stamp duty reserve tax. If this is the case, each Placee should seek its own advice and notify Investec accordingly.

Each Placee, and any person acting on behalf of the Placee, acknowledges that Investec does not owe any fiduciary or other duties to any Placee in respect of any representations, warranties, undertakings or indemnities in the Placing Agreement.

Each Placee and any person acting on behalf of the Placee acknowledges and agrees that Investec or any of its affiliates may, at its absolute discretion, agree to become a Placee in respect of some or all of the Placing Shares.

When a Placee or person acting on behalf of the Placee is dealing with Investec, any money held in an account with Investec on behalf of the Placee and/or any person acting on behalf of the Placee will not be treated as client money within the meaning of the rules and regulations of the FCA made under FSMA. The Placee acknowledges that the money will not be subject to the protections conferred by the client money rules; as a consequence, this money will not be segregated from Investec’s money in accordance with the client money rules and will be used by Investec in the course of its own business and the Placee will rank only as a general creditor of Investec.

References to time in this Announcement are to London time, unless otherwise stated. All times and dates in this Announcement may be subject to amendment. Investec shall notify the Placees and any person acting on behalf of the Placees of any changes.

The price of shares and any income expected from them may go down as well as up and investors may not get back the full amount invested upon disposal of the shares. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

Neither the content of the Company’s website nor any website accessible by hyperlinks on the Company's website is incorporated in, or forms part of, this Announcement.

**Information to Distributors**

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended (“**MiFID II**”); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the “**MiFID II Product Governance Requirements**”), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any “manufacturer” (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the Placing Shares have been subject to a product approval process, which has determined that the Placing Shares are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the “**Target Market Assessment**”). Notwithstanding the Target Market Assessment, distributors should note that: the price of the Placing Shares may decline and investors could lose all or part of their investment; the Placing Shares offer no guaranteed income and no capital protection; and an investment in the Placing Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Placing. Furthermore, it is noted that, notwithstanding the Target Market Assessment, Investec will only procure investors who meet the criteria of professional clients and eligible counterparties.

For the avoidance of doubt, the Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Placing Shares.

Each distributor is responsible for undertaking its own target market assessment in respect of the Placing Shares and determining appropriate distribution channels.

# APPENDIX 2 - DEFINITIONS

The following definitions apply throughout this Announcement unless the context otherwise requires:

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| **“Acquisition”** | the proposed acquisition by the Group of AST Farma and Le Vet pursuant to the Share Purchase Agreement; |
| **“Admission”** | the admission of the Placing Shares and/or Consideration Shares (as applicable) to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities becoming effective in accordance with, respectively, the Listing Rules and the Admission and Disclosure Standards; |
| **“Announcement”** | this announcement (including its appendices); |
| **“AST Farma”** | AST Farma Farma B.V.; |
| **“AST Farma Group”** | AST Farma and its subsidiaries and “member of the AST Farma Group” shall be construed accordingly; |
| **“Average Closing Price”** | 2031 pence per Ordinary Share, being the average of the middle market closing price of an Ordinary Share for the 30 days up to and including 24 January 2018 (being the last Business Day prior to the date of this announcement), as derived from the Daily Official List |
| **“Business Day”** | a day (other than a Saturday or Sunday) in which clearing banks in the City of London are generally open for business; |
| **“CAP”** | companion animal products |
| **“Circular”** | the circular to be published by Dechra for the purposes of convening the Dechra General Meeting to consider and, if thought fit, approve, amongst others, the Acquisition; |
| **“Company”** or **“Dechra”** | Dechra Pharmaceuticals PLC; |
| **“Completion”** | completion of the Acquisition in accordance with the terms of the Share Purchase Agreement; |
| **“Conditions”** | the conditions to Completion as set out in the Share Purchase Agreement, including those summarised at paragraph 6.2 of this Announcement; |
| **“Consideration”** | the consideration payable by the Company to the Sellers, being €255 million (euro) in cash and 3,670,625 Ordinary Shares (equating to €85 million (euro) based on the Average Closing Price), in each case subject to adjustment as provided for in the Share Purchase Agreement |
| **“Consideration Shares”** | the 3,670,625 Ordinary Shares to be issued to the Sellers as part settlement of the Consideration; |
| **“CREST”** | the relevant system (as defined in the Regulations) in respect of which Euroclear is the operator (as defined in the Regulations); |
| **“Dechra General Meeting”** | the general meeting of Dechra to be convened for the purposes of considering and, if thought fit, approving the Acquisition |
| **“Dechra Group”** | the Company and its subsidiaries and “member of the Group” shall be construed accordingly; |
| **“Dechra Shareholder”** | a holder of Ordinary Shares; |
| **“Directors”** or the **“Board”** | the directors of the Company; |
| **“DTRs”** | the Disclosure Guidance and Transparency Rules made by the FCA pursuant to Part VI of FSMA; |
| **“EBITDA”** | means earnings before interest tax, depreciation and amortisation; |
| **“Enlarged Group”** | the Company as enlarged by the Acquisition; |
| **“Euroclear”** | Euroclear UK & Ireland Limited; |
| **“FCA”** or  **“Financial Conduct Authority”** | the UK Financial Conduct Authority; |
| **“Group”** or **“Dechra Group”** | the Company and its subsidiaries and “member of the Group” shall be construed accordingly; |
| **“Investec”** | Investec Bank plc; |
| **“Le Vet”** | Le Vet Beheer B.V.; |
| **“Le Vet Group”** | Le Vet and its subsidiaries and “member of the Le Vet Group” shall be construed accordingly |
| **“LSE” or “London Stock Exchange”** | London Stock Exchange plc; |
| **“New Dechra Shares”** | the Consideration Shares and the Placing Shares; |
| **“New Facility Agreement”** | a multi-currency term loan facility in an aggregate amount equal to £350 million, which is being used to part fund the Acquisition; |
| **“Ordinary Shares”** | ordinary shares of 1 pence each in the capital of the Company; |
| **“Placing”** | the conditional placing of the Placing Shares by the Company at the Placing Price pursuant to the terms of the Placing Agreement; |
| **“Placing Agreement”** | the agreement between the Company and Investec dated 24 January 2018 in connection with the Placing; |
| **“Placing Price”** | the issue price of 2050 pence per Placing Share pursuant to the Placing; |
| **“Placing Results Announcement”** | the announcement in the agreed form giving details of the results of the Placing; |
| **“Placing Shares”** | the 5,121,952 new Ordinary Shares to be issued and allotted at the Placing Price pursuant to the Placing; |
| **“Prudential Regulation Authority”** | the UK Prudential Regulation Authority; |
| **“Purchasers”** | Dechra and Dechra Finance B.V. |
| **“Regulations”** | the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) |
| **“Regulatory Information Service”** | means any of the services set out in Appendix 3 of the Listing Rules; |
| **“Reporting Accountants”** | PricewaterhouseCoopers LLP |
| **“Sellers”** | Stichting Beheer Hippo.**,** and Stichting Beheer Stokstaart, both limited partnerships incorporated under the laws of the Netherlands, having their registered office in Utrecht, the Netherlands; |
| **“Share Purchase Agreement”** | the conditional share purchase agreement dated 24 January 2018 between the Company and the Sellers relating to the Acquisition; |
| **“subsidiary”** | as defined in section 1159 of the 2006 Act; |
| **“UK” or “United Kingdom”** | the United Kingdom of Great Britain and Northern Ireland; |
| **“UKLA** or **UK Listing Authority”** | the FCA acting in its capacity as the competent authority for the purpose of Part VI of the FSMA; |
| **“uncertificated** or **in uncertificated form”** | means in respect of a share or other security, where that share or other security is recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which may be transferred by means of CREST |
| **“United States** or **US”** | means the United States of America, its territories and possessions, any state of the United States of America, the District of Columbia and all other areas subject to its jurisdiction and any political sub-division thereof |

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| Unless otherwise indicated in this Announcement, all references to “**£**”, “**GBP**”, “**pounds**”, ‘‘**pound sterling**’’, “**sterling**’’, “**p**”, “**penny**” or ‘**‘pence**’’ are to the lawful currency of the UK. |
| Unless otherwise indicated in this Announcement, all references to “**€**”, “**euros**”, or “**cents**” are to the lawful currency of the euro area. |

**APPENDIX 3 - RISK FACTORS**

1. **RISKS RELATING TO THE ACQUISITION**

***Satisfaction of the conditions precedent to Completion***

The implementation of the Acquisition is subject to the satisfaction (or waiver, if applicable) of the contractual conditions precedent contained in the Share Purchase Agreement, including amongst, others:

* approval of the Acquisition Resolution at the General Meeting;
* no material adverse change having occurred in the business, assets, financial or trading position profits or prospects of AST Farma and/or Le Vet; and
* no material warranty breach having been discovered prior to Completion

There is no guarantee that these (or any of the other) conditions will be satisfied (or waived, if applicable). A failure to satisfy the conditions may result in the Acquisition not completing.

***Warranties and indemnities in the Share Purchase Agreement***

The Share Purchase Agreement contains certain warranties and indemnities given in favour of the Company, breach of which could cause the Enlarged Group to incur liabilities and obligations in the event that it seeks to make a claim for such breach. As is usual in such a transaction, the warranties and indemnities in the Share Purchase Agreement are subject to specific negotiated limitations also contained in the Share Purchase Agreement. As a result of such limitations, the right of the Enlarged Group to recover damages or compensation in the event of contingent liabilities covered by such warranties or indemnities crystallising or an undisclosed liability of either AST Farma or Le Vet coming to light after Completion, may not be sufficient to cover the full extent of the liability in question.

***Reliance on key individuals***

AST Farma and Le Vet have a relatively small workforce and loss of, or failure to retain key individuals could have a significant impact on their respective businesses.

***Counterparty risk***

AST Farma and Le Vet engage the services of a contract research organisation in relation to their product development requirements. If that entity were to fail to meet its contractual obligations this could result in a delay in, or the failure of, new products to reach the market. A material part of the value Dechra has put on AST Farma and Le Vet is its product pipeline and failure to achieve future approvals or a delay in achieving them would deliver a lower overall return from the Acquisition.

***Lack of a clean audit opinion in relation to Le Vet***

As described more fully in paragraph 3.3 of this Announcement, while AST Farma received a clean audit opinion from both its auditors and the Reporting Accountant in respect of its financial years ended 31 December 2014, 2015 and 2016, neither Le Vet’s auditors nor the Reporting Accountant could provide a clean audit opinion for Le Vet and the Reporting Accountant for the purposes of this transaction has given a disclaimer of opinion in respect of these years, which states that the Reporting Accountant have been unable to perform sufficient procedures to obtain reasonable assurance as to the completeness of turnover and related financial items. The lack of completeness of the financial information is due to (i) a lack of segregation of duties within Le Vet’s finance function, which was undertaken by one employee; and (ii) the absence of a formal inventory count coupled with inventory valuation issues in 2014, means it has not been possible to reconcile between opening inventory balances, purchases, sales and closing inventory balance. Therefore there is a potential for unknown balances not to have been entered into the company's accounting records. Although Dechra will be implementing enhanced financial controls and reporting procedures following Completion, there is a risk that Dechra Shareholders will be basing any decision to approve the Acquisition on financial information for Le Vet that may not be complete.

1. **RISKS RELATING TO THE ENLARGED GROUP**

***Integration risk***

Whilst Dechra has past experience of integrating acquisitions, and the integration of the AST Farma and Le Vet businesses is expected to be relatively straightforward, the Enlarged Group’s success may in part be dependent upon Dechra’s ability to integrate both AST Farma and Le Vet, and any other businesses that it may acquire in the future, without disruption to the existing business.

Achieving the anticipated benefits of the Acquisition will depend in part upon whether AST Farma and Le Vet successfully integrate into the Dechra business in an effective and efficient manner. Dechra may not be able to accomplish this integration process successfully, either in full or in part, which could have a material adverse effect on the Enlarged Group’s results of operations, financial condition and/or prospects. The integration of businesses is complex and time-consuming.

The challenges of integrating AST Farma and Le Vet may also be exacerbated by differences between Dechra's and AST Farma's and Le Vet's operational and business culture and the need to implement cost cutting measures.

In addition, there will be integration and transaction costs (such as fees paid to legal, financial, accounting and other advisers and other fees paid in connection with the Acquisition), including costs associated with combining the operations of AST Farma and Le Vet with Dechra and achieving the synergies Dechra expects to obtain, and such costs may be significant.

An inability to realise the full extent of the anticipated benefits of the Acquisition, including estimated cost and revenue synergies, as well as any delays encountered in the integration process and realising such benefits, could have an adverse effect upon the revenues, level of expenses and operating results of the Enlarged Group, which may materially adversely affect the value of the Ordinary Shares after Completion.

***Cost savings and synergies achieved from the Acquisition may differ from those anticipated***

Dechra believes that the Consideration is justified in part by the business growth opportunities, margin benefits, cost savings and other synergies it expects to achieve by combining its operations with AST Farma and Le Vet. However, these expected business growth opportunities, margin benefits, cost savings and other synergies may not develop and other assumptions upon which Dechra determined to pursue the Acquisition may prove to be incorrect. The statements concerning potential synergies contained in this document relate to future actions and circumstances which, by their nature, involve issues, uncertainties and contingencies. As a result, the synergies may not be achieved, or those achieved could be materially different from those estimated.

Dechra may also face challenges in the following areas:

* redeploying resources in different areas of operations to improve efficiency;
* minimising the diversion of management attention from ongoing business concerns; and
* addressing possible differences between Dechra's business culture, processes, controls, procedures and systems, and those of AST Farma and Le Vet.

Under these circumstances, the business growth opportunities, margin benefits, cost savings and other synergies anticipated by Dechra to result from the Acquisition may not be achieved as expected, or at all, or may be delayed. To the extent that Dechra incurs higher integration costs or achieves lower margin benefits or fewer cost savings than expected, both its and the Enlarged Group’s results of operations, financial condition or prospects could be materially adversely affected and the price of the Ordinary Shares may suffer.

***Operating and financial restrictions as a result of increased debt facilities***

As a result of the Acquisition, the Enlarged Group will have an increased amount of debt and debt service obligations. This debt could have important adverse consequences insofar as it:

* requires the Group to dedicate a significant proportion of its cash flows from operations to fund payments in respect of the debt, thereby reducing the flexibility of the Group to utilise its cash to grow the business;
* increases the Group’s vulnerability to adverse general economic industry conditions;
* may limit the Group’s flexibility in planning for, or reacting to, changes in its business or the industry in which it operates;
* may limit the Group’s ability to raise additional debt or equity in the future; and
* could restrict the Group from making strategic acquisitions or exploiting business opportunities.

***A third party may claim that the products acquired by the Enlarged Group and/or the Enlarged Group’s customers are infringing its patents and trademarks***

There is a large number of companies seeking to develop novel delivery devices for, and formulations of, pharmaceutical products using a range of different drug delivery technologies. There are a significant number of filed and granted patents and other intellectual property that aim to protect these technologies. A third party may claim that the Enlarged Group or its customers are using inventions covered by the third party’s patents and may go to court to stop the Enlarged Group or its customers from engaging in normal operations and activities, including developing and marketing product. There is a risk that a court would decide that the Enlarged Group or its customers is infringing third party patents and would order the Enlarged Group or its customers to stop those activities and/or require the Enlarged Group or its customers to pay significant amounts in damages.

The commercial success of the Enlarged Group’s products may also depend on third parties not enforcing their trademark rights. If such third party is successful in enforcing its trademark, the Enlarged Group, or its licencees, may need to abstain from using a mark, obtain an alternative mark or reach commercial terms on the in-licensing of such third parties’ intellectual property rights.

An unfavourable decision could require the Enlarged Group or its customers to redesign or rebrand the Enlarged Group’s or its customers’ products, or require the Enlarged Group or its customers to licence a third party’s intellectual property. There is no guarantee that the Enlarged Group or its customers could enter such licence arrangements on favourable terms, or at all, and if a licence or redesign is not available the Enlarged Group or its customers could be forced to abandon a product entirely.

***Increasing influence of corporates and buying groups in the veterinarian sector***

The veterinarian sector is in a transitional stage with a number of local independent veterinarians being acquired and consolidated by blue chip corporate entities. This is particularly evident in the UK and Dutch veterinarian markets. Whilst, in many ways, greater exposure to this consolidation presents opportunities for growth (not least as the corporate owners frequently provide wider product mandates to their underlying veterinarians), corporate customers also govern greater rebates resulting in reduced sales prices for the Enlarged Group. Similarly, in the French market the Group is experiencing an increase in buying groups which can also collectively influence sales prices without the benefit of the increased mandates.

***Risk of supply chain failure***

Neither AST Farma nor Le Vet manufactures any of its own product range hence the Enlarged Group will be reliant on a number of key third party suppliers across the UK and Europe. If any such suppliers fail to provide products on time, and where an alternative source of supply is not readily available, this could have a material adverse effect on the Enlarged Group’s business.

***Change of control provisions***

AST Farma and Le Vet have a number of arrangements with suppliers, service providers and customers in relation to which the counterparties to those arrangements may, following the change of control on completion of the Acquisition, exercise any rights that they may have under any such arrangements to renegotiate the terms or terminate such arrangements. Although the Directors believe that the Enlarged Group will be considered more attractive as a larger supplier of a broader range of products and services to AST Farma's and Le Vet's respective and common customers and, notwithstanding that a number of those customer agreements are of a long term nature reflecting customer commitment to these relationships, there can be no guarantee that some customers will not seek to alter the terms on which they do business. Accordingly, the performance of the Enlarged Group could differ materially from that currently anticipated should such risk materialise and, in particular, the counterparties terminate their arrangements with the Enlarged Group.

***Shareholders will own a smaller percentage of the Enlarged Group than they currently own in Dechra***

After Completion, the existing shares in issue will represent a smaller percentage of the Enlarged Group than currently. Based on the number of Ordinary Shares in issue as at 24 January 2018 (being the latest practicable date prior to publication of this document), following Completion (taking into account both the Consideration Shares and the Placing Shares to be issued as part of the Acquisition), existing shares will represent approximately 91.4per cent. of the Enlarged Group.

***Future results of Dechra may differ materially from the unaudited pro forma financial information of the Enlarged Group presented in this document***

The future results of Dechra following Completion may be materially different from those shown in the pro forma financial information contained in this document, which show only a combination of Dechra's, AST Farma's and Le Vet's standalone historical results after Completion, subject to the matters noted therein. Dechra has estimated that it will record approximately £3.5 million in transaction expenses. The final amount of any charges relating to acquisition accounting adjustments that Dechra may be required to record will not be known until after Completion. These and other expenses and charges may be significantly higher or lower than estimated.

***Impairment of goodwill and/or other intangible assets of the Enlarged Group***

In connection with the accounting for the Acquisition, the Enlarged Group is expected to record an amount of goodwill and other intangible assets. Under IFRS, the Enlarged Group will need to assess, at least annually and potentially more frequently, whether the value of goodwill and other intangible assets has been impaired.

Any reduction or impairment of the value of goodwill or other intangible assets will result in a charge against earnings, which could materially adversely affect the Enlarged Group’s results of operations and shareholders’ equity in future periods.

1. **RISKS RELATING TO THE ORDINARY SHARES**

***The market price of the Ordinary Shares may decline as a result of the Merger***

The market price of the Ordinary Shares may decline as a result of the Acquisition if, among other reasons:

* Completion is delayed or does not occur on the terms and subject to the conditions envisaged in the Share Purchase Agreement;
* the integration of AST Farma's and Le Vet's businesses is delayed or unsuccessful;
* Dechra does not achieve the expected benefits of the Acquisition as rapidly or to the extent it anticipates or to the extent anticipated by analysts and/or investors;
* the effect of the Acquisition on the Enlarged Group’s financial results is not consistent with Dechra’s expectations or the expectations of analysts and/or investors; or
* Shareholders (including holders of Placing Shares) sell a significant number of Ordinary Shares after Completion.

In connection with the Acquisition and Placing Dechra expects that it will issue 8,792,577 New Dechra Shares (including both the Consideration Shares and Placing Shares), which will result in significant dilution of existing Ordinary Shares. This risk of dilution could result in downward pressure on the Ordinary Shares and encourage third parties to engage in short sales of Ordinary Shares. Accordingly, by increasing the number of shares offered for sale, material amounts of short selling and other activity could further contribute to depressing the market price of Ordinary Shares.

In addition, these factors could also make it more difficult for the Enlarged Group to raise funds through future offerings of Ordinary Shares. The issuance of the New Ordinary Shares and the sale of additional Ordinary Shares that may become eligible for sale in the public market from time to time upon exercise of options or the vesting of restricted securities could depress the market price of the Ordinary Shares. Moreover, the increase in the number of Ordinary Shares, or an increase in the number of Ordinary Shares outstanding following a future issuance, sale or transfer of Ordinary Shares by Dechra or the possibility of such an issue, sale or transfer may lead to sales of such shares or the perception that such sales may occur, either of which may adversely affect the market for, and the market price of, Ordinary Shares.

1. **EXISTING RISKS TO DECHRA POTENTIALLY IMPACTED BY THE ACQUISITION**

***Regulatory environment***

Dechra, AST Farma and Le Vet (and, following Completion, the Enlarged Group) operate in a sector which is subject to regulation from a number of regulatory authorities in different countries, which can range from authorisation of a new product or service, the manufacturing processes for new and existing products or the pricing of new and existing products or services. The international veterinary pharmaceutical services industry is highly regulated by numerous governmental authorities in the UK, Europe and the US, and by regulatory agencies in other countries where Dechra and the Enlarged Group intends to test or market its current product offering or products it may develop.

National and international regulatory authorities administer a wide range of laws and regulations governing the testing, approval, manufacturing, labelling, marketing and pricing of veterinary pharmaceutical products. Such authorities also review the quality, safety and effectiveness of veterinary pharmaceutical services and the distribution of veterinary pharmaceutical products. These regulatory requirements are a major factor in determining whether a substance can be developed into a marketable product, whether that product can be licenced for sale in a particular territory and the amount of time and expense associated with such development. Government regulation imposes significant costs and restrictions on the development of pharmaceutical products for animal use, including those that Dechra and the Enlarged Group is or will be developing and testing.

The development, clinical evaluation, manufacture and marketing of Dechra’s and the Enlarged Group’s products and services, and ongoing research and development activities, are subject to regulation by governments and regulatory agencies in all territories within which Dechra and the Enlarged Group intends to manufacture and market its products or offer its services (whether itself or through a partner or licensee). No assurance can be given that any of Dechra’s and the Enlarged Group’s products or services under development will successfully complete any necessary accreditation or regulatory review process or that any required regulatory approvals to manufacture and market these products and services will ultimately be obtained or maintained in all or any territories.

***Product liability and related insurance***

Dechra and the Enlarged Group operate in a sector which exposes them to potential product liability risk which are inherent in its business activities. There can be no assurance that the necessary insurance cover that the Group currently has will continue to be available to Dechra and the Enlarged Group in the future and, in particular, at an acceptable cost, if at all, or that, in the event of any claim, the level of insurance carried by Dechra and the Enlarged Group now or in the future will be adequate or that a product liability or other claim would not materially and adversely affect the Group’s or the Enlarged Group’s business.

***Disruption to Enlarged Group's premises or infrastructure***

Failure of laboratory, environmentally controlled storage or other infrastructure, could adversely affect quality and timeliness of service delivery. The Group has implemented a range of measures to mitigate the risk of such failures or business interruption arising from such failures. These include, but are not limited to, replication of laboratory facilities across multiple sites, dual-site backup hosting arrangements for business critical IT servers, off-site hosting arrangements for website and e-commerce applications, extensive firewall and encryption hardware and software, installation of backup power supply, duplicated inventory of biological product materials stored in a secure second facility, telemetry and alarm systems for critical equipment, environmentally controlled premises and appropriate service and maintenance arrangements. The Enlarged Group could, however, experience an interruption in the future and this could have a material adverse effect on the Enlarged Group’s business, financial condition and results of operations.

***Exchange rate fluctuation***

A significant proportion of the Enlarged Group’s revenue is derived from overseas, especially from Europe and the US. The Enlarged Group also has exposure to exchange rate risk through purchases and cash balances held and translational foreign exchange risk with respect to the Euro net assets of foreign subsidiaries. Dechra currently seeks to mitigate foreign currency risk in general by matching revenue and costs in the same currency. However, there can be no assurance that this approach will fully protect the Enlarged Group from exchange rate risk, following the addition of AST Farma's and Le Vet's businesses to the Enlarged Group, given its additional exposure to exchange rate risk, or that the Enlarged Group will continue to be able to enter into such arrangements on commercially reasonable terms. Any significant adverse fluctuations in currency rates could have a material adverse effect on the Enlarged Group’s business, financial condition, results of operations and prospects.

***New product development***

The Enlarged Group’s future growth is dependent on its ability to develop drugs, new formulations of drugs or identifying opportunities for generic drugs. Dechra, AST Farma and Le Vet each have a good track record in developing new products. Development of new products is dependent on such products coming through the Enlarged Group’s research and development department to drive future growth. At each stage of the development process there is a risk that the product does not pass internal requirements, particularly with respect to efficacy against the targeted disease/condition, or pass the relevant regulatory body’s approval process. A material part of the value Dechra has put on AST Farma and Le Vet is its product pipeline and failure to achieve future approvals would deliver a lower overall return from the Acquisition.

***First to market and market competitors***

The actions of existing competitors, or the entry of new competitors into the market, could result in decreased profitability and loss of market share for the Enlarged Group. Whilst the Company believes it is well positioned in its target business areas, there can be no assurance that the Enlarged Group will be able to maintain its present competitive position in the future. This could have a material impact on the Enlarged Group’s business, financial performance and prospects.