Dechra
Pharmaceuticals PLC

Half-Yearly Financial Report 2019

for the six months ended 31 December 2018 (the Period)

Monday, 25 February 2019

"Trading across the Group has commenced well in the second half, with particularly strong growth continuing in the USA. Material synergies from the AST Farma and Le Vet acquisition will increase in the second half and initial indications are that our recent acquisition, Venco, is performing to our expectations."

Ian Page, Chief Executive Officer

Highlights

- Trading in the Period was strong and in line with management expectations.
- Reported Group revenue for the Period increased by 19.1% at Constant Exchange Rate (CER) (19.2% at Actual Exchange Rate (AER)).
- European Pharmaceuticals (EU Pharmaceuticals) revenue growth was 18.9% at CER (18.1% at AER).
- North American Pharmaceuticals (NA Pharmaceuticals) revenue growth was 19.3% at CER (21.0% at AER).
- Underlying operating profit growth was 28.0% at CER (28.2% at AER) with operating margin expansion of 190 bps to 26.3%.
- Reported operating profit declined mainly due to increased amortisation of the acquired intangibles.
- Strong cash conversion of 110.0% driven by the expected unwinding of working capital.
- AST Farma, Le Vet, RxVet and Caledonian acquisitions performing well and in line with our expectations; acquisition of Laboratorios Vencofarma do Brasil Ltda (Venco) completed.
- Underlying diluted EPS growth of 11.4% to 41.76 pence. Interim dividend increased by 29.6% to 9.5 pence.

Financial Summary

	Six months ended 31.12.18 £m	Six months ended 31.12.17 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
Revenue	**231.4**	194.1	19.2%	**19.1%**
Underlying				
Operating profit	**60.8**	47.4	28.2%	**28.0%**
Operating profit %	**26.3%**	24.4%	190 bps	**190 bps**
EBITDA	**65.3**	51.0	27.9%	**27.7%**
Diluted EPS	**41.76p**	37.58p	11.1%	**11.4%**
Reported				
Operating profit	**17.0**	26.3	(35.5%)	**(35.8%)**
Diluted EPS	**15.09p**	28.69p	(47.4%)	**(47.4%)**

The Group presents a number of non-GAAP Alternative Performance Measures (APMs). This allows investors to understand better the underlying performance of the Group, by excluding non-underlying items as set out in note 8. EBITDA is defined as underlying earnings before interest, tax, depreciation and amortisation.

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Investec Bank plc, 30 Gresham Street, London, EC2V 7QP — (ref: Dechra)

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Notes: Foreign Exchange Rates

FY2019 H1 Average	EUR 1.1243: GBP 1.0	USD 1.2954: GBP 1.0
FY2019 H1 Closing	EUR 1.1179: GBP 1.0	USD 1.2800: GBP 1.0
FY2018 H1 Average	EUR 1.1205: GBP 1.0	USD 1.3176: GBP 1.0
FY2018 H1 Closing	EUR 1.1271: GBP 1.0	USD 1.3517: GBP 1.0
FY2018 Average	EUR 1.1286: GBP 1.0	USD 1.3465: GBP 1.0
FY2018 Closing	EUR 1.1286: GBP 1.0	USD 1.3157: GBP 1.0

Half-Yearly Financial Report 2019
for the six months ended 31 December 2018

Introduction
Trading in the Period was strong with above market growth continuing to be delivered in our European (EU) Pharmaceuticals Segment and with another excellent performance in our North American (NA) Pharmaceuticals Segment. We have continued our strategic international expansion with a small bolt-on acquisition to strengthen our equine portfolio in Australasia and completed a more significant move into Latin America through the acquisition of a Brazilian company. The acquisitions of AST Farma, Le Vet and RxVet, made in the prior year, are performing well and in line with our expectations. Companion Animal Products (CAP) continue to be the main driver of growth; we have also had good performances in Equine and Food producing Animal Products (FAP). The pipeline has delivered numerous global registrations and continues to be strengthened as we identify new opportunities. We continue to complete preparations for a worst case scenario Brexit.

In the commentary which follows all financial references will be at CER unless otherwise stated.

Operational Review
European Pharmaceuticals
In the Period our total EU Pharmaceuticals Segment reported net revenue increased by 18.9% including acquisitions. Excluding non-core third party contract manufacturing, which we are strategically exiting, and treating acquisitions on a like-for-like basis, our existing net revenue in EU Pharmaceuticals increased by 4.4%, an above market performance.

All major countries delivered above market growth in the Period, with exceptional performances from Poland, Italy and Spain. Finland underperformed due to temporary regulatory issues, which have now been resolved, as did Denmark due to a loss of FAP business. CAP, Equine and FAP performed to our expectations; our Nutritional sales declined as outlined later in this report.

Our International business (Dechra Veterinary Products (DVP) International), which due to its low materiality is currently included in this Segment, declined on a like-for-like basis as expected due to our inability to realise sales in Iran following the reimposition of US sanctions, and the phasing of deliveries to Japan.

North American Pharmaceuticals
Our NA Pharmaceuticals Segment reported net revenue growth of 19.3%. Our portfolio, which is mainly CAP and Equine, has continued to benefit from growth following the investment made in increasing the scale of our direct sales force in the previous financial year. This has resulted in increased penetration and market share across all our therapeutic sectors as we are able to make more one-to-one contact with veterinarians in practice. Our core growth was enhanced by the absence from the market of a competitor to our endocrinology product, *Zycortal*®. The competitor is now back in stock; however, it is hoped that we will retain a longer term benefit of an increased market share.

Product Category Performance
CAP remains the main driver of growth at 30.1% over the corresponding period across all therapeutic sectors, with endocrinology, antibiotic tablets and anaesthesia and analgesia outperforming. Equine growth, at 12.2%, was in line with our expectations and FAP also delivered growth of 5.4%, despite the loss of poultry vaccine sales into Iran. During the Period, Nutrition was the only disappointment with sales declining by 4.7%; this is almost entirely down to a poor performance in France, where sales of therapeutic pet diets are increasingly being made through alternative channels and where we are disadvantaged due to our veterinary only focus. Although these sales through veterinarians are declining, we believe that our veterinary strategy, together with recent quality improvements in the products and packaging, will compensate us for this market decline as we target increased market share.

Acquisition
On 8 October 2018 we announced a small bolt-on acquisition of the trade and assets of Caledonian Holdings Ltd. (Caledonian) for a cash consideration of £4.4 million. Caledonian, whose revenue to the end of June 2017 was £1.8 million, was acquired to enhance our Australasian equine portfolio to support our existing products, including *Osphos*®, which was recently launched in both Australia and New Zealand. The acquisition will also create an opportunity for Dechra to increase its market penetration of equine products into the Asian market.

On 19 October 2018 we announced the acquisition, which was subsequently completed on 17 December 2018, of Laboratorios Vencofarma do Brasil Ltda (Venco) for a total consideration of £33.2 million with £4.6 million of net debt balances assumed on acquisition (gross consideration of £37.8 million). Venco, which had revenue of R$65.0 million (£11.6 million) in 2017, has a large portfolio of FAP products, mainly vaccines, which are sold predominantly within Brazil. Venco has recently been increasing its presence through distribution partnerships into other Latin American and international markets. The acquisition provides Dechra with a strategically significant presence in Brazil, which is the fourth biggest FAP market in the world, and in Vaccines, which is the fastest growing therapeutic area within FAP globally. We will invest significantly over the next three years to develop the business and to increase its presence in Latin America. We will continue to develop the existing Venco pipeline and also utilise their regulatory expertise to register relevant Dechra products in the region; this will enable us to grow CAP sales as the region's markets develop further.

The acquisitions of AST Farma, Le Vet and RxVet, acquired in the previous year, are performing well. The integration and synergies being delivered are in line with pre-acquisition expectations. AST Farma has now completely merged with our Dutch commercial business; both their own and the original Dechra range of products were made available to Dutch veterinary practices on the direct-to-vet service from 1 January 2019. A significant proportion of Le Vet's previous distribution agreements have been terminated in line with our integration schedule; significant synergies will be delivered in the second half once existing distributor labelled stock in the supply chain has washed through, thereby enabling us to increase market penetration post the launch of the Dechra branded product.

Pipeline Delivery

The most significant individual product registered in the Period is a generic Cyclosporine capsule for the USA which originally came into the Group from the Putney acquisition. In addition, numerous EU registrations have been achieved in multiple countries, originating from the original Dechra programme and also through the AST Farma and Le Vet pipeline. Several international registrations have also been completed, including new products for Australia, New Zealand and Mexico. The pipeline is being strengthened as we identify new development ideas; we continue to assess novel pharmaceuticals for the veterinary market and agreements have been signed to access new technology through third party relationships. As planned we have increased our research and development (R&D) costs to support this; in the first half R&D has increased as expected by 41.7%, representing 5.2% of revenue (2018: 4.3%), whilst maintaining Group operating margin expansion.

Animal Ethics Pty Ltd is making good progress on the global registration of Tri-Solfen®. The parent company, Medical Ethics Pty Ltd, of which Dechra owns 33%, has also received regulatory approval for the protocol to conduct phase two clinical trials for the treatment of venous leg ulceration in humans.

Manufacturing and Supply Chain

We have recently appointed a new Director of Manufacturing and Supply Chain who commenced work on 1 February 2019. Simon Francis has a huge amount of global experience in running multiple pharmaceutical manufacturing sites; in his most recent role he was involved in the manufacturing and supply chain strategy with Novartis. Whilst good progress has been made on the five year plan to rationalise and improve efficiency within our manufacturing site network, further rationalisation has been paused to enable Simon to critique and approve the current plan.

People

With effect from 1 February 2019, Lisa Bright joined the Board as an additional Non-Executive Director of the Company. Lisa's appointment brings skills to the Board in strategic and operational leadership in global market leading pharmaceuticals and emerging biotech companies gained over her 25 year career in the industry. These skills will be invaluable as we continue our international expansion strategy and develop our employee engagement interaction.

Financial Review

Group revenue in the Period was £231.4 million, a growth of 19.1%.

- Revenue in EU Pharmaceuticals grew by 18.9% to £142.8 million.
    - Existing revenue was £122.7 million, a growth of 2.2%. Existing revenue includes a planned reduction of 20.1% in third party contract manufacturing (non-veterinary pharmaceuticals); excluding this, existing revenue increased by 4.4% to £114.1 million.
    - Acquisitions revenue from RxVet, AST Farma, Le Vet, Caledonian, and Venco added £20.1 million, each of which is performing in line with our pre-acquisition expectations.
- Our NA Pharmaceuticals Segment revenue grew strongly to £88.6 million, an increase of 19.3% as we leverage additional commercial investment in 2018.

Revenue	**Six months ended 31.12.18 £m**	Six months ended 31.12.17 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
EU Pharmaceuticals – Existing	**122.7**	120.9	1.5%	**2.2%**
NA Pharmaceuticals – Existing	**88.6**	73.2	21.0%	**19.3%**
Group Total – Existing	**211.3**	194.1	8.9%	**8.7%**
EU Pharmaceuticals – Acquisitions	**20.1**	–	–	–
NA Pharmaceuticals – Acquisitions	**–**	–	–	–
Group Total – Acquisitions	**20.1**	–	–	–
Group Total	**231.4**	194.1	19.2%	**19.1%**

Half-Yearly Financial Report 2019 continued

The product categories of CAP, FAP and Equine posted growth in the Period. Nutrition declined due to competition, and Other due to the planned strategic exit from non-core third party contract manufacturing business (non-veterinary pharmaceuticals):

Revenue	**Six months ended 31.12.18 £m**	Restated † Six months ended 31.12.17 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
CAP	**165.1**	126.4	30.6%	**30.1%**
Equine	**16.4**	14.7	11.6%	**12.2%**
FAP	**25.4**	24.2	5.0%	**5.4%**
Subtotal Pharmaceuticals	**206.9**	165.3	25.2%	**24.9%**
Nutrition	**13.9**	14.8	(6.1%)	**(4.7%)**
Other*	**10.6**	14.0	(24.3%)	**(25.0%)**
Total	**231.4**	194.1	19.2%	**19.1%**

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

† Restated for the reallocation of £1.7 million of revenue from the Equine category to the CAP category.

Group underlying gross margin percentage in the Period grew by 230 bps to 58.0% (2018: 55.7%), mainly due to a more favourable sales mix. Group Selling, General and Administration (SG&A) expenses increased to £61.4 million, broadly similar as a percentage of revenue at 26.5% (2018: 27.0%).

Group underlying operating profit in the Period was £60.8 million, a growth of 28.0%, with underlying operating margin increasing by 190 bps to 26.3% as the revenue growth continued to translate to operating leverage. This includes the effect of previously reported changes from the adoption of IFRS 15 (refer to note 14), and the absence of revenue from Iran (EU Pharmaceuticals) due to USA sanctions, as outlined at the 2018 Preliminary Results.

- Underlying operating profit in EU Pharmaceuticals increased to £45.8 million, a growth of 34.7%.
  - Existing underlying operating profit in EU Pharmaceuticals was £35.5 million, an increase of 4.6%. Operating margin increased by 60 bps to 28.9%. Excluding third party contract manufacturing, underlying operating profit increased by 1.2% to £33.3 million, with underlying operating margin of 29.2% (2018: 30.2%), down 100bps, due to product category mix.
  - Underlying operating profit from Acquisitions added £10.3 million, representing an operating margin of 51.2%.
- NA Pharmaceuticals' underlying operating profit grew strongly to £31.6 million, an increase of 22.0%, with the operating margin stronger at 35.7% (2018: 34.8%) from leverage of 2018's commercial investment.
- Pharmaceuticals R&D underlying expenditure increased to £12.0 million, an increase of 41.7%, representing 5.2% of revenue (2018: 4.3% of revenue), with the addition of many new territory product registrations and further expansion of the product development pipeline with several exciting opportunities.
- Corporate costs grew 17.9% to £4.6 million (2018: £3.9 million), supporting the ongoing organic and acquisition driven growth of the business.

Net underlying finance expense increased by 116.7% to £6.5 million (2018: £3.0 million), reflecting the increased debt service costs from the new debt drawn to finance acquisitions made in the last 12 months. Underlying profit before taxation increased by 22.3% to £54.2 million, reflecting the growth in operating profit generated from Existing and Acquisition businesses.

The Group underlying effective tax rate (ETR) has increased slightly to 20.8% (2018: 20.5%), reflecting the regional mix of operating profits, as well as the acquisitions (mainly AST Farma and Le Vet) offset by the benefit of the USA Tax Cuts and Jobs Act (TCJA). The Group underlying ETR is expected to receive upward pressure for 2020 financial year following further changes (adverse) to USA taxation rules relating to debt interest deductibility (as highlighted in the Group's emerging risks on page 56 of the 2018 Annual Report). Our current expectation is for the Group underlying ETR to be in the range 22% to 23% for 2020 financial year. The reported ETR of 72.2% (credit) includes the tax effect impact of non-underlying profit before tax items and an exceptional tax credit of £7.5 million due to the change in the Dutch corporate rate from 25.0% to 20.5% from 1 January 2019.

Underlying diluted EPS grew by 11.4% to 41.76 pence (2018: 37.58 pence). Reported diluted EPS fell by 47.4% to 15.09 pence (2018: 28.69 pence), reflecting the non-underlying acquisition and tax effects.

Non-underlying items of £45.2 million (2018: £25.3 million) relating to operating profit and profit before tax are fully set out in note 8. Reported operating profit was £17.0 million (2018: £26.3 million) and reported profit before tax was £9.0 million (2018: £19.0 million). The decline in both cases reflects the increase in amortisation charges relating to intangibles from the acquisition of AST Farma and Le Vet.

Net cash inflow from operating activities was £56.2 million, with a cash conversion rate of 110.0% driven by the expected unwinding of working capital balances from 2018 in the first half. EBITDA increased to £65.3 million, an increase of 27.7%. Net debt increased to £229.6 million (from £211.4 million at 30 June 2018) with additional debt to fund acquisitions in the first half, representing net debt to EBITDA banking covenant leverage of 1.82 times.

Dividend
The Board is pleased to declare an interim dividend of 9.5 pence per share, which represents a growth of 29.6% compared to the prior year. The dividend will be payable on 8 April 2019 to shareholders on the Register at 8 March 2019. The ordinary shares will become ex-dividend on 7 March 2019.

Risks and Uncertainties
The Group, like every business, faces risks and uncertainties in both its day-to-day operations and through events relating to the achievement of its strategic objectives. The Board is accountable for risk management and regularly reviews and monitors the key business risks. The Board does not consider that the principal risks and uncertainties have changed since the publication of the Group's 2018 Annual Report and Accounts. The Group's principal risks and their mitigation are described on pages 54 to 59 of the 2018 Annual Report, a copy of which is available at www.dechra.com. Of these risks, the following could have a material impact on the Group's performance over the remaining six months of the current financial year, and are summarised below:

- **Competitive Environment**

  The environment within which the Group operates remains competitive and the launch of alternative products in our key therapeutic sectors is a key risk. We continue to experience competition from US distributors' private label products and direct competition on a number of products in our European portfolio.

  We continue to mitigate these risks by closely monitoring the market, investing in lifecycle management strategies for our key products, and ongoing focus on our sales force effectiveness.

- **Customer and Marketplace Changes**

  There has been continuing expansion of veterinary buying groups and corporate customers in Europe and North America, together with the growth of Internet channels in North America. These customers present opportunities to grow our revenue and sales volumes but they may also impact margins due to corporate discounts.

  We mitigate these risks by managing our corporate customer relationships with dedicated key account managers, the review and approval of corporate pricing and discounting policies for each customer group.

- **Supply Chain**

  Our manufacturing and supply chain network manages the supply of our diverse portfolio of products from our own sites, our contract manufacturing network, and third party suppliers. Our key product supply risks are: the reliance on third party suppliers for a number of key raw materials and finished products; and the adherence to increasing regulatory standards on product quality.

  We mitigate the third party reliance risk by maintaining buffer stocks, dual sourcing arrangements for key products, and the ongoing performance monitoring of our key suppliers. We operate a global sales and operations planning process to manage supply chain performance, and continue to refine and improve this process.

  We mitigate our product quality risks through our manufacturing quality management systems. We both continue to allocate additional resources to our product quality teams, and to invest in the ongoing development of our quality management systems to provide the required levels of regulatory compliance.

- **Currency Movements**

  We are an international business that trades in many currencies and are therefore exposed to volatility in exchange rates. The Euro and US Dollar are two of the major currencies in which we trade and given the current global political and economic environment, we expect continued currency volatility that could impact our results. In the first six months of the year we made a foreign exchange transactional loss of £1.2 million on trading activities (2018: a loss of £0.5 million), and a translational gain of £5.3 million on revaluing our balance sheet at the 31 December 2018 exchange rate.

- **Brexit**

  Whilst the final outcome of the Brexit negotiations is still unclear, our contingency preparations for a hard Brexit are progressing towards completion ahead of 29 March 2019, and in line with the scope and cost expectations communicated at the time of the 2018 full year results.

Outlook
Trading across the Group has commenced well in the second half, with particularly strong growth continuing in the USA. Material synergies from the AST Farma and Le Vet acquisition will increase in the second half and initial indications are that our recent acquisition, Venco, is performing to our expectations. Despite the uncertainty surrounding Brexit, we remain confident in the outlook for the remainder of the financial year.

Responsibility Statement of the Directors in respect of the Half-Yearly Financial Report

The Directors confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;
- the interim management report (this comprises the Half-Yearly Financial Report) includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The Directors of Dechra Pharmaceuticals PLC at 3 September 2018 are listed in its Annual Report and Accounts for the year ended 30 June 2018 on pages 64 to 67. Since that date Lisa Bright was appointed as a Non-Executive Director on 1 February 2019.

By Order of the Board.

Ian Page
Chief Executive Officer
25 February 2019

Richard Cotton
Chief Financial Officer

Forward-Looking Statements
This document contains certain forward-looking statements which reflect the knowledge and information available to the Company during the preparation and up to the publication of this document. By their very nature, these statements depend upon circumstances and relate to events that may occur in the future thereby involving a degree of uncertainty. Therefore, nothing in this document should be construed as a profit forecast by the Company.

About Dechra
Dechra is an international specialist veterinary pharmaceuticals and related products business. Our expertise is in the development, manufacture, and sales and marketing of high quality products exclusively for veterinarians worldwide. The majority of Dechra's products are focused on key therapeutic categories where we have leading market positions, and many of our products are used to treat medical conditions for which there is no other effective solution or have a clinical or dosing advantage over competitive products.

For more information please visit: www.dechra.com or corporate.enquiries@dechra.com.

Stock Code: Full Listing (Pharmaceuticals): DPH.

Condensed Consolidated Income Statement
for the six months ended 31 December 2018

		Six months ended 31.12.18			Six months ended 31.12.17			Year ended 30.06.18		
	Note	**Underlying £m**	**Non-underlying items* (notes 4 & 8) £m**	**Total £m**	Underlying £m	Non-underlying items* (notes 4 & 8) £m	Total £m	Underlying £m	Non-underlying items* (notes 4 & 8) £m	Total £m
Revenue	2	**231.4**	**–**	**231.4**	194.1	–	194.1	407.1	–	407.1
Cost of sales		**(97.2)**	**(2.8)**	**(100.0)**	(85.9)	–	(85.9)	(179.6)	(5.1)	(184.7)
Gross profit		**134.2**	**(2.8)**	**131.4**	108.2	–	108.2	227.5	(5.1)	222.4
Selling, general and administrative expenses		**(61.4)**	**(37.6)**	**(99.0)**	(52.4)	(17.0)	(69.4)	(110.0)	(52.0)	(162.0)
Research and development expenses		**(12.0)**	**(3.4)**	**(15.4)**	(8.4)	(4.1)	(12.5)	(18.3)	(8.0)	(26.3)
Operating profit	2	**60.8**	**(43.8)**	**17.0**	47.4	(21.1)	26.3	99.2	(65.1)	34.1
Share of loss of investments accounted for using the equity method		**(0.1)**	**(0.1)**	**(0.2)**	(0.1)	(0.1)	(0.2)	(0.1)	(0.2)	(0.3)
Finance income	3	**–**	**–**	**–**	0.1	–	0.1	1.5	–	1.5
Finance expense	4	**(6.5)**	**(1.3)**	**(7.8)**	(3.1)	(4.1)	(7.2)	(6.9)	0.5	(6.4)
Profit before taxation	2	**54.2**	**(45.2)**	**9.0**	44.3	(25.3)	19.0	93.7	(64.8)	28.9
Income taxes	5	**(11.3)**	**17.8**	**6.5**	(9.1)	17.0	7.9	(19.2)	26.4	7.2
Profit for the period		**42.9**	**(27.4)**	**15.5**	35.2	(8.3)	26.9	74.5	(38.4)	36.1
Attributable to:										
Owners of the parent		**42.9**	**(27.4)**	**15.5**	35.2	(8.3)	26.9	74.5	(38.4)	36.1
Non-controlling interests		**–**	**–**	**–**	–	–	–	–	–	–
		42.9	**(27.4)**	**15.5**	35.2	(8.3)	26.9	74.5	(38.4)	36.1
Earnings per share										
Basic	7			**15.14p**			28.80p			37.24p
Diluted	7			**15.09p**			28.69p			37.04p
Dividend per share (interim and full)	6			**9.50p**			7.33p			25.50p

* The Group presents a number of non-GAAP Alternative Performance Measures (APMs). This allows investors to understand better the underlying performance of the Group, by excluding non-underlying items as set out in note 8.

Condensed Consolidated Statement of Comprehensive Income
for the six months ended 31 December 2018

	Six months ended		Year ended
	31.12.18	31.12.17	30.06.18
	£m	£m	£m
Profit for the period	**15.5**	26.9	36.1
Other comprehensive income:			
Items that will not be subsequently recycled to the profit or loss:			
Remeasurement of defined benefit pension scheme	**0.1**	0.1	–
	0.1	0.1	–
Items that may be subsequently recycled to the profit or loss:			
Foreign currency translation differences for foreign operations	**5.3**	(1.9)	(0.4)
	5.3	(1.9)	(0.4)
Total comprehensive income for the period	**20.9**	25.1	35.7
Attributable to:			
Owners of the parent	**20.9**	25.1	35.7
	20.9	25.1	35.7

Condensed Consolidated Statement of Financial Position

as at 31 December 2018

ASSETS	Note	**As at 31.12.18 £m**	As at 31.12.17 £m	Restated As at 30.06.18 £m
Non-current assets				
Intangible assets		**714.5**	372.1	709.8
Property, plant and equipment		**55.3**	44.5	45.3
Investments		**10.5**	10.7	10.5
Deferred tax assets		**3.9**	0.7	3.8
Total non-current assets		**784.2**	428.0	769.4
Current assets				
Inventories		**97.4**	64.3	86.6
Trade and other receivables		**77.7**	68.1	81.6
Cash and cash equivalents	9	**86.9**	75.8	79.7
Total current assets		**262.0**	208.2	247.9
Total assets		**1,046.2**	636.2	1,017.3
LIABILITIES				
Current liabilities				
Borrowings	9	**(1.1)**	(1.2)	(1.2)
Trade and other payables		**(84.0)**	(63.0)	(75.7)
Deferred and contingent consideration		**(5.8)**	(1.3)	(8.8)
Current tax liabilities		**(13.4)**	(4.6)	(5.9)
Total current liabilities		**(104.3)**	(70.1)	(91.6)
Non-current liabilities				
Borrowings	9	**(315.4)**	(173.4)	(289.9)
Deferred income		**(0.1)**	–	(0.2)
Deferred and contingent consideration		**(29.0)**	(36.9)	(28.0)
Employee benefit obligations		**(3.2)**	(3.4)	(3.0)
Provisions		**(2.6)**	(3.3)	(2.8)
Deferred tax liabilities		**(87.5)**	(33.8)	(96.8)
Total non-current liabilities		**(437.8)**	(250.8)	(420.7)
Total liabilities		**(542.1)**	(320.9)	(512.3)
Net assets		**504.1**	315.3	505.0
EQUITY				
Issued share capital		**1.0**	0.9	1.0
Share premium account		**277.2**	174.1	276.7
Own shares		**(0.4)**	(0.7)	(0.4)
Foreign currency translation reserve		**23.1**	16.3	17.8
Merger reserve		**84.4**	1.8	84.4
Retained earnings		**118.8**	121.3	125.5
Total equity attributable to equity holders of the parent		**504.1**	313.7	505.0
Non-controlling interests		**–**	1.6	–
Total equity		**504.1**	315.3	505.0

Condensed Consolidated Statement of Changes in Shareholders' Equity

for the six months ended 31 December 2018

	Attributable to owners of the parent								
	Issued share capital £m	Share premium account £m	Own shares £m	Foreign currency translation reserve £m	Merger reserve £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Six months ended 31 December 2017									
At 1 July 2017	0.9	173.4	(0.7)	18.2	1.8	107.4	**301.0**	1.6	**302.6**
Profit for the period	–	–	–	–	–	26.9	**26.9**	–	**26.9**
Foreign currency translation differences for foreign operations	–	–	–	(1.9)	–	–	**(1.9)**	–	**(1.9)**
Remeasurement of defined benefit pension scheme, net of tax	–	–	–	–	–	0.1	**0.1**	–	**0.1**
Total comprehensive income for the period	–	–	–	(1.9)	–	27.0	**25.1**	–	**25.1**
Transactions with owners									
Dividends paid	–	–	–	–	–	(14.3)	**(14.3)**	–	**(14.3)**
Share-based payments	–	–	–	–	–	1.2	**1.2**	–	**1.2**
Shares issued	–	0.7	–	–	–	–	**0.7**	–	**0.7**
Total contributions by and distribution to owners	–	0.7	–	–	–	(13.1)	**(12.4)**	–	**(12.4)**
At 31 December 2017	0.9	174.1	(0.7)	16.3	1.8	121.3	**313.7**	1.6	**315.3**
Year ended 30 June 2018									
At 1 July 2017	0.9	173.4	(0.7)	18.2	1.8	107.4	**301.0**	1.6	**302.6**
Profit for the period	–	–	–	–	–	36.1	**36.1**	–	**36.1**
Foreign currency translation differences for foreign operations, net of tax	–	–	–	(0.4)	–	–	**(0.4)**	–	**(0.4)**
Total comprehensive income	–	–	–	(0.4)	–	36.1	**35.7**	–	**35.7**
Transactions with owners									
Dividends paid	–	–	–	–	–	(21.8)	**(21.8)**	–	**(21.8)**
Share-based payments	–	–	–	–	–	4.3	**4.3**	–	**4.3**
Shares issued (Restated)†	0.1	103.3	–	–	82.6	–	**186.0**	–	**186.0**
Acquisition of non-controlling interest	–	–	–	–	–	(0.2)	**(0.2)**	(1.6)	**(1.8)**
Recycle of own shares to retained earnings	–	–	0.3	–	–	(0.3)	**–**	–	**–**
Total contributions by and distribution to owners	0.1	103.3	0.3	–	82.6	(18.0)	**168.3**	(1.6)	**166.7**
At 30 June 2018 (Restated)†	1.0	276.7	(0.4)	17.8	84.4	125.5	**505.0**	–	**505.0**
Six months ended 31 December 2018									
At 1 July 2018	**1.0**	**276.7**	**(0.4)**	**17.8**	**84.4**	**125.5**	505.0	**–**	505.0
Change in accounting policy	**–**	**–**	**–**	**–**	**–**	**(4.9)**	(4.9)	**–**	(4.9)
At 1 July 2018 (Restated)*	**1.0**	**276.7**	**(0.4)**	**17.8**	**84.4**	**120.6**	500.1	**–**	500.1
Profit for the period	**–**	**–**	**–**	**–**	**–**	**15.5**	15.5	**–**	15.5
Foreign currency translation differences for foreign operations	**–**	**–**	**–**	**5.3**	**–**	**–**	5.3	**–**	5.3
Remeasurement of defined benefit pension scheme, net of tax	**–**	**–**	**–**	**–**	**–**	**0.1**	0.1	**–**	0.1
Total comprehensive income for the period	**–**	**–**	**–**	**5.3**	**–**	**15.6**	20.9	**–**	20.9
Transactions with owners									
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(18.6)**	(18.6)	**–**	(18.6)
Share-based payments	**–**	**–**	**–**	**–**	**–**	**1.4**	1.4	**–**	1.4
Shares issued	**–**	**0.5**	**–**	**–**	**–**	**–**	0.5	**–**	0.5
Total contributions by and distribution to owners	**–**	**0.5**	**–**	**–**	**–**	**(17.2)**	(16.7)	**–**	(16.7)
At 31 December 2018	**1.0**	**277.2**	**(0.4)**	**23.1**	**84.4**	**118.8**	504.1	**–**	504.1

† Restated as detailed in note 1.
* Restated as detailed in note 14.

Condensed Consolidated Statement of Cash Flows

for the six months ended 31 December 2018

	Note	Six months ended 31.12.18 £m	Six months ended 31.12.17 £m	Year ended 30.06.18 £m
Cash flows from operating activities				
Operating profit		**17.0**	26.3	34.1
Non-underlying items		**43.8**	21.1	65.1
Underlying operating profit		**60.8**	47.4	99.2
Adjustments for:				
Depreciation		**2.5**	2.4	4.8
Amortisation and impairment		**2.0**	1.2	2.6
Profit on disposal of tangible assets		**–**	(0.1)	–
Equity-settled share-based payments expense		**1.4**	1.2	2.4
Underlying operating cash flow before changes in working capital		**66.7**	52.1	109.0
Increase in inventories		**(4.3)**	(8.0)	(22.5)
Decrease/(increase) in trade and other receivables		**9.7**	0.1	(9.5)
(Decrease)/increase in trade and other payables		**(1.7)**	1.5	8.6
Cash generated from operating activities before interest, taxation and non-underlying items		**70.4**	45.7	85.6
Cash outflows in respect of non-underlying items		**(3.5)**	(0.2)	(4.4)
Cash generated from operating activities before interest and taxation		**66.9**	45.5	81.2
Interest paid		**(4.8)**	(2.3)	(5.7)
Income taxes paid		**(5.9)**	(4.3)	(11.5)
Net cash inflow from operating activities		**56.2**	38.9	64.0
Cash flows from investing activities				
Proceeds of sale of property, plant and equipment		**–**	0.4	–
Acquisition of subsidiaries (net of cash acquired)	10	**(37.2)**	(1.1)	(227.3)
Acquisition of non-controlling interests		**–**	(1.8)	(1.8)
Purchase of other intangible non-current assets		**(4.0)**	(2.4)	(6.4)
Capitalised development expenditure		**(0.5)**	(0.1)	(1.3)
Purchase of property, plant and equipment		**(6.7)**	(2.4)	(4.9)
Net cash outflow from investing activities		**(48.4)**	(7.4)	(241.7)
Cash flows from financing activities				
Proceeds from the issue of share capital		**0.5**	0.7	103.3
New borrowings		**44.5**	–	133.4
Expenses of raising borrowing facilities		**(0.2)**	(2.0)	(3.9)
Repayment of borrowings		**(27.7)**	(0.4)	(17.2)
Dividends paid		**(18.6)**	(14.3)	(21.8)
Net cash (outflow)/inflow from financing activities		**(1.5)**	(16.0)	193.8
Net increase in cash and cash equivalents		**6.3**	15.5	16.1
Cash and cash equivalents at start of period		**79.7**	61.2	61.2
Exchange differences on cash and cash equivalents		**0.9**	(0.9)	2.4
Cash and cash equivalents at end of period		**86.9**	75.8	79.7
Reconciliation of net cash flow to movement in net (borrowings)/cash				
Net increase in cash and cash equivalents		**6.3**	15.5	16.1
Repayment of borrowings		**27.7**	0.4	17.2
Expenses of raising borrowing facilities		**0.2**	2.0	3.9
New borrowings		**(44.5)**	–	(133.4)
Acquisition of subsidiary borrowings		**(3.6)**	–	–
Exchange differences on cash and cash equivalents		**0.9**	(0.9)	2.4
Retranslation of foreign borrowings		**(4.8)**	4.7	3.3
Other non-cash changes		**(0.4)**	(0.5)	(0.9)
Movement in net (borrowings)/cash in the period		**(18.2)**	21.2	(91.4)
Net borrowings at start of period		**(211.4)**	(120.0)	(120.0)
Net borrowings at end of period	9	**(229.6)**	(98.8)	(211.4)

Cash conversion is defined as cash generated from operating activities before interest and taxation as a percentage of underlying operating profit.

Notes to the Financial Statements
for the six months ended 31 December 2018

1 Basis of Preparation and Principal Accounting Policies

Dechra Pharmaceuticals PLC (Dechra or the Company) is a company registered and domiciled in the United Kingdom. The condensed set of financial statements as at, and for, the six months ended 31 December 2018 comprises the Company and its subsidiaries (together referred to as the Group).

This interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. However, the external auditor PricewaterhouseCoopers LLP has carried out a review of the condensed set of financial statements and their report in respect of the six months to 31 December 2018 is set out in the Independent Review Report. The Group financial statements as at, and for, the year ended 30 June 2018 prepared in accordance with IFRS as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under EU adopted IFRS are available upon request from the Company's registered office at 24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA.

The prior year comparatives are derived from audited financial information for Dechra Pharmaceuticals PLC as set out in the Annual Report for the year ended 30 June 2018 and the unaudited financial information in the Half-Yearly Financial Report for the six months ended 31 December 2017. The comparative figures for the financial year ended 30 June 2018 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's external auditor PricewaterhouseCoopers LLP, and delivered to the Registrar of Companies. The report of the external auditor (i) was unqualified, (ii) did not include a reference to any matters to which the external auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

In the preparation of the condensed set of financial statements, comparative amounts for 30 June 2018 have been restated to provide for statutory merger relief from share premium on shares issued by a company when acquiring shares in another company. The share premium account has been reduced by £82.6 million and the merger reserve increased by £82.6 million.

The condensed set of financial statements for the six months ended 31 December 2018 is unaudited but has been reviewed by the external auditor.

Statement of Compliance

The condensed set of financial statements included in this Half-Yearly Financial Report has been prepared in accordance with IAS 34 '*Interim Financial Reporting*' as adopted by the EU. The condensed set of financial statements does not include all of the information required for the full annual financial statements, and should be read in conjunction with the Group financial statements for the year ended 30 June 2018.

This condensed set of financial statements was approved by the Board of Directors on 25 February 2019.

Significant Accounting Policies

As required by the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's consolidated financial statements for the year ended 30 June 2018 as described in pages 116 to 123 of the Annual Report, except where new or revised accounting standards have been applied as described below.

The Group has had to change its accounting policies as a result of adopting the following new standards:

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'

The impact of the adoption of these standards and the new accounting policies are disclosed in note 14 below.

A number of amendments to IFRSs became effective for the financial year beginning on 1 July 2018. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Estimates and Judgements

The preparation of a condensed set of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. In accounting for business combinations, the identifiable assets, liabilities and contingent liabilities acquired have to be measured at their fair values. In particular, some judgement is required in estimating the fair value of inventory with reference to current selling prices and costs to sell, and judgement in estimating the valuation of intangible assets and other identifiable intangible assets. Details concerning acquisitions and business combinations are outlined in note 10. Actual results may differ from these estimates.

New and Revised Standards

The IASB has issued a number of new standards which are not yet effective. They do not have any effect on the financial information contained within this report and will be more fully discussed in our Annual Report for the year ended 30 June 2019.

1 **Basis of Preparation and Principal Accounting Policies** continued

IFRS 16 – Leases

IFRS 16 is effective and will be applied for the financial year beginning 1 July 2019, and requires all leases to be recognised on the balance sheet. A detailed assessment of the impact of the new standard is progressing well, and is developing the data-set and processes that will be required. The most significant leases by value relate to property. Further work is required to validate the contracts which will represent leases under IFRS 16, including ongoing consideration of some supply chain contracts. The Group is also considering whether there are any reassessments of lease term required and the discount rate to be applied.

Going Concern

The Group meets its day-to-day working capital requirements through its banking facilities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements. Having reassessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing its condensed interim financial statements.

2 Operating Segments

The Group has three reportable segments, as discussed below, which are based on information provided to the Board of Directors, which is deemed to be the Group's chief operating decision maker. Several operating segments which have similar economic characteristics have been aggregated into the reporting segments.

The European Pharmaceuticals Segment comprises Dechra Veterinary Products EU, Dechra Veterinary Products International, Genera d.d. and Dechra Pharmaceuticals Manufacturing. This Segment operates internationally and manufactures and markets Companion Animal, Equine, Food producing Animal and Nutrition products. This Segment also includes third party manufacturing sales and other non-core businesses.

The North America (NA) Pharmaceuticals Segment consists of Dechra Veterinary Products US, Putney, Dechra Veterinary Products Canada and Dechra-Brovel, which sells Companion Animal, Food producing Animal and Equine products into those territories. The Segment also includes our manufacturing unit based in Melbourne, Florida.

The Pharmaceuticals Research and Development Segment includes all of the Group's pharmaceutical research and development activities. This Segment has no revenue.

	Six months ended		Year ended
	31.12.18	31.12.17	30.06.18
	£m	£m	£m
Revenue by segment			
European Pharmaceuticals	**142.8**	120.9	258.7
North America Pharmaceuticals	**88.6**	73.2	148.4
	231.4	194.1	407.1
Operating profit/(loss) by segment			
European Pharmaceuticals	**45.8**	34.2	77.0
North America Pharmaceuticals	**31.6**	25.5	48.3
Pharmaceuticals Research and Development	**(12.0)**	(8.4)	(18.3)
Segment operating profit	**65.4**	51.3	107.0
Corporate and other unallocated costs	**(4.6)**	(3.9)	(7.8)
Underlying operating profit	**60.8**	47.4	99.2
Amortisation of acquired intangibles	**(38.1)**	(19.1)	(54.1)
Remeasurement of contingent consideration	**–**	–	0.1
Expenses relating to Brexit	**(0.2)**	–	–
Fair value uplift of inventory acquired through business combinations	**(2.8)**	–	(5.1)
Rationalisation of manufacturing organisation	**(0.9)**	(0.5)	(2.9)
Expenses relating to acquisition activities	**(1.8)**	(1.5)	(3.1)
Operating profit	**17.0**	26.3	34.1
Share of losses in investment accounted for using the equity method	**(0.2)**	(0.2)	(0.3)
Finance income	**–**	0.1	1.5
Finance expense	**(7.8)**	(7.2)	(6.4)
Profit before taxation	**9.0**	19.0	28.9

Notes to the Financial Statements continued
for the six months ended 31 December 2018

2 Operating Segments continued

Revenue by product category	31.12.18 £m	Restated* Six months ended 31.12.17 £m	Restated* Year ended 30.06.18 £m
CAP	**165.1**	126.4	272.7
Equine	**16.4**	14.7	28.4
FAP	**25.4**	24.2	48.7
Nutrition	**13.9**	14.8	29.4
Other	**10.6**	14.0	27.9
	231.4	194.1	407.1

* Restated for the reallocation of £1.7 million of revenue from the Equine category to the CAP category (year ended 30 June 2018: £6.0 million).

3 Finance Income

	Six months ended 31.12.18 £m	Six months ended 31.12.17 £m	Year ended 30.06.18 £m
Finance income arising from:			
— Cash and cash equivalents	**–**	0.1	0.2
— Foreign exchange gains	**–**	–	1.3
	–	0.1	1.5

4 Finance Expense

Underlying	Six months ended 31.12.18 £m	Six months ended 31.12.17 £m	Year ended 30.06.18 £m
Finance expense arising from:			
— Financial liabilities at amortised costs	**5.1**	2.6	6.8
— Net interest on defined benefit obligations	**0.2**	–	0.1
— Foreign exchange losses	**1.2**	0.5	–
Underlying finance expense	**6.5**	3.1	6.9

Non-underlying	Six months ended 31.12.18 £m	Six months ended 31.12.17 £m	Year ended 30.06.18 £m
Finance expense arising from:			
— Fair value and other movements on deferred and contingent consideration	**1.3**	3.7	(0.9)
— Loss on extinguishment of debt	**–**	0.4	0.4
Non-underlying interest items	**1.3**	4.1	(0.5)
Total finance expense	**7.8**	7.2	6.4

Fair value and other movements on deferred and contingent consideration relates to foreign exchange and unwind of the discount associated with deferred and contingent consideration.

5 Income Tax Expense

The tax charge for the six months ended 31 December 2018 has been calculated based on (i) the estimated effective rate for the year ending 30 June 2019, plus (ii) the inclusion of an exceptional tax credit of £7.5 million which has been recognised in full at 31 December 2018. This exceptional deferred tax credit arises as a consequence of the reduction in the Dutch corporation tax rate (from 25.0% to 20.5% over the period to 2022). The total reported effective tax rate is (72.2%) (six months ended 31 December 2017: (41.5%), year ended 30 June 2018: (24.9%)). This includes the tax effect of non-underlying items as set out in note 8. The underlying effective tax rate is 20.8% (six months ended 31 December 2017: 20.5%).

6 Dividends

The final dividend for the year ended 30 June 2018 of 18.17 pence per share costing £18.6 million has been paid in the period.

The Directors have declared an interim dividend of 9.5 pence per share (six months ended 31 December 2017: 7.33 pence) costing £9.7 million (six months ended 31 December 2017: £7.5 million). It is payable on 8 April 2019 to shareholders whose names are on the Register of Members at close of business on 8 March 2019. The ordinary shares will become ex-dividend on 7 March 2019.

6 Dividends continued

As the dividend was declared after the end of the period being reported and in accordance with IAS 10 '*Events After the Balance Sheet Date*', the interim dividend has not been accrued for in these financial statements. It will be shown as a deduction from equity in the financial statements for the year ending 30 June 2019.

7 Earnings per Share

Earnings per ordinary share have been calculated by dividing the profit attributable to equity holders of the parent after taxation for each financial period by the weighted average number of ordinary shares in issue during the period.

	Six months ended		Year ended
	31.12.18 Pence	31.12.17 Pence	30.06.18 Pence
Basic earnings per share			
— Underlying*	**41.89**	37.72	76.85
— Basic	**15.14**	28.80	37.24
Diluted earnings per share			
— Underlying*	**41.76**	37.58	76.45
— Diluted	**15.09**	28.69	37.04

The calculations of basic and diluted earnings per share are based upon:

	£m	£m	£m
Earnings for underlying basic and underlying diluted earnings per share	**42.9**	35.2	74.5
Earnings for basic and diluted earnings per share	**15.5**	26.9	36.1

	No.	No.	No.
Weighted average number of ordinary shares for basic earnings per share	**102,402,292**	93,326,118	96,942,002
Impact of share options	**319,294**	357,372	509,209
Weighted average number of ordinary shares for diluted earnings per share	**102,721,586**	93,683,490	97,451,211

* Underlying measures exclude non-underlying items as defined in note 8.

8 Underlying Operating Profit and Profit before Taxation

	Six months ended		Year ended
	31.12.18 £m	31.12.17 £m	30.06.18 £m
Operating profit			
Underlying operating profit is calculated as follows:			
Operating profit	**17.0**	26.3	34.1
Amortisation of acquired intangibles	**38.1**	19.1	54.1
Remeasurement of contingent consideration	**–**	–	(0.1)
Fair value uplift of inventory acquired through business combinations	**2.8**	–	5.1
Expenses relating to Brexit	**0.2**	–	–
Rationalisation of manufacturing organisation	**0.9**	0.5	2.9
Expenses relating to acquisition activities	**1.8**	1.5	3.1
Underlying operating profit	**60.8**	47.4	99.2
Depreciation	**2.5**	2.4	4.8
Amortisation and impairment	**2.0**	1.2	2.6
Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)	**65.3**	51.0	106.6
Profit before taxation			
Underlying profit before taxation is calculated as follows:			
Profit before taxation	**9.0**	19.0	28.9
Amortisation of acquired intangibles	**38.2**	19.2	54.3
Remeasurement of contingent consideration	**–**	–	(0.1)
Fair value uplift of inventory acquired through business combinations	**2.8**	–	5.1
Rationalisation of manufacturing organisation	**0.9**	0.5	2.9
Expenses relating to acquisition activities	**1.8**	1.5	3.1
Expenses relating to Brexit	**0.2**	–	–
Fair value and other movements on deferred and contingent consideration	**1.3**	3.7	(0.9)
Loss on extinguishment of debt	**–**	0.4	0.4
Underlying profit before tax	**54.2**	44.3	93.7
Impact of non-underlying items on income tax	**17.8**	17.0	26.4

8 Underlying Operating Profit and Profit before Taxation continued

The Group presents a number of non-GAAP Alternative Performance Measures (APMs). This is to allow investors to understand the underlying performance of the Group, excluding items associated with areas such as the amortisation and related cost of acquired intangibles, acquisition expenses, fair value uplift of inventory acquired through business combinations, rationalisation costs, loss on extinguishment of debt, and fair value and other movements on deferred and contingent consideration.

The Board monitors the performance of the business by focussing on underlying profit measures and incentivises management on this basis.

The following are excluded in determining underlying operating profit:

- Amortisation of acquired intangibles reflects the amortisation of the fair values of future cash flows recognised on acquisition in relation to the identifiable intangible assets acquired.
- Expenses relating to acquisition activities include legal and professional fees incurred during acquisitions in the period to 31 December 2018; these relate to the acquisition of Laboratorios Vencofarma do Brasil Ltda and the trade and assets of Caledonian Holdings Limited.
- The fair value uplift of inventory acquired through the business combinations is recognised in accordance with IFRS 3 'Business Combinations' to record the inventory acquired at fair value and its subsequent release into the income statement.
- Rationalisation costs relate to the integration and restructuring programmes implemented subsequent to acquisitions or the reorganisation of the manufacturing organisation.
- Fair value and other movements on deferred and contingent consideration.
- One off Brexit preparation costs that are not expected to be recurring.

9 Analysis of Net Borrowings

	As at 31.12.18 £m	As at 31.12.17 £m	As at 30.06.18 £m
Analysis of net debt			
Cash and cash equivalents	**86.9**	75.8	79.7
Bank loans	**(316.5)**	(174.6)	(291.1)
	(229.6)	(98.8)	(211.4)

10 Acquisitions

Acquisition of Venco

On 17 December 2018, Dechra acquired the entire share capital of Laboratorios Vencofarma do Brasil Ltda (Venco), a company with a large portfolio of vaccines and other Food producing Animal Products which it sells predominantly in Brazil. The Group paid £33.2 million (BRL 163.8 million) consideration in cash.

	Provisional fair value £m
Recognised amounts of identifiable assets acquired	
Property, plant and equipment	**6.3**
Inventory	**7.6**
Trade and other receivables	**4.5**
Trade and other payables	**(2.9)**
Cash	**1.1**
Borrowings	**(3.6)**
Intangible assets	**14.8**
Current tax liabilities	**(3.6)**
Deferred taxation	**(6.3)**
Net identifiable assets	**17.9**
Goodwill	**15.3**
Total consideration	**33.2**
Satisfied by:	
Cash	**33.2**
Total consideration transferred	**33.2**
Net cash outflow arising on acquisition	
Cash consideration	**33.2**
Less cash and cash equivalents	**(1.1)**
Net cash outflow arising on acquisition	**32.1**

The fair values shown above are provisional and may be amended if information not currently available comes to light. The provisional fair value adjustments made principally relate to harmonisation with Group IFRS accounting policies, including the application of fair values on acquisition, principally the recognition of fair value uplift on acquired inventory and intangibles in accordance with IFRS 3.

The goodwill of £15.3 million arising from the acquisition consists of geographical expansion in the Brazilian and South American markets, cross-selling synergies with other Dechra products, and the technical expertise of the assembled workforce.

Acquisition related costs (included in operating expenses) amounted to £1.1 million. Venco's results are reported within the EU Pharmaceuticals Segment.

Venco contributed negligible revenue and negligible underlying operating profit for the period between the date of acquisition and the balance sheet date. If the acquisition had been completed on the first date of the financial year, the contribution to Group revenues for the period would have been £7.4 million and the contribution to Group underlying operating profit would have been £1.8 million. The reported operating loss after taking into account non-underlying items for the amortisation of intangible assets and the fair value uplift on inventory would be £3.1 million.

Notes to the Financial Statements continued
for the six months ended 31 December 2018

10 Acquisitions continued

Acquisition of Caledonian

On 8 October 2018, Dechra acquired the trade and assets of Caledonian Holdings Limited, an equine veterinary pharmaceuticals sales and distribution company based in New Zealand and Australia. The Group paid £4.4 million (NZD 8.7 million) consideration in cash.

	Provisional fair value £m
Recognised amounts of identifiable assets acquired	
Inventory	**0.8**
Trade and other receivables	**0.3**
Trade and other payables	**(0.3)**
Intangible assets	**4.0**
Deferred taxation	**(1.2)**
Net identifiable assets	**3.6**
Goodwill	**0.8**
Total consideration	**4.4**
Satisfied by:	
Cash	**4.4**
Total consideration transferred	**4.4**
Net cash outflow arising on acquisition	
Cash consideration	**4.4**
Net cash outflow arising on acquisition	**4.4**

The fair values shown above are provisional and may be amended if information not currently available comes to light. The provisional fair value adjustments made principally relate to harmonisation with Group IFRS accounting policies, including the application of fair values on acquisition, principally the recognition of fair value uplift on acquired inventory and intangibles in accordance with IFRS 3.

The goodwill of £0.8 million arising from the acquisition consists of continued geographic expansion into Australia and New Zealand, and also enables Dechra to grow its market penetration of equine products in the Asian market. None of the goodwill is expected to be deductible for income tax purposes.

Acquisition related costs (included in operating expenses) amounted to £55,000. Caledonian's results are reported within the EU Pharmaceuticals Segment.

Caledonian contributed £0.6 million revenue and £0.4 million to the Group's underlying operating profit for the period between the date of acquisition and the balance sheet date. If the acquisition had been completed on the first date of the financial year, the contribution to Group revenues for the period would have been £1.1 million and the contribution to Group underlying operating profit would have been £0.5 million. The reported operating loss after taking into account non-underlying items for the amortisation of intangible assets and the fair value uplift on inventory would be £0.1 million.

Prior Year Acquisitions

Following the acquisition of RxVet in December 2017, and AST Farma and Le Vet in February 2018, the disclosure of the final fair values of the assets and liabilities acquired has been included in the financial statements for the year ended 30 June 2018.

11 Foreign Exchange Rates

The following exchange rates have been used in the translation of the results of foreign operations.

	Average rate for the six months ended		Closing rate at	Closing rate at
	31.12.18	31.12.17	**31.12.18**	31.12.17
Euro	**1.1243**	1.1205	**1.1179**	1.1271
US Dollar	**1.2954**	1.3176	**1.2800**	1.3517
Danish Krone	**8.3856**	8.3371	**8.3477**	8.3912

12 Related Party Transactions

There have been no new related party transactions that have taken place in the first six months of the current financial year.

13 Subsequent Events

On 1 January 2019, Eurovet Animal Health B.V., a subsidiary of Dechra Pharmaceuticals PLC, changed the defined benefit pension scheme operated within the entity to a defined contribution pension scheme. The release of the liability held in respect of the defined benefit pension scheme will result in an underlying credit to the Income Statement of £2.7 million and a credit to the Statement of Comprehensive Income of £0.5 million which will be recognised in the second half of the financial year. The associated deferred tax asset of £0.6 million held in relation to this liability will also be released resulting in a debit to the Income Statement in the second half of the financial year.

14 Changes in Accounting Policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 July 2018, where they are different to those applied in prior periods.

The table below shows the impact on the opening balance sheet retained earnings as at 1 July 2018, from the adoption of IFRS 15; note only the line items affected by the change have been included:

Statement of Financial Position (extract)	**Reported 30.06.18 £m**	IFRS 15 £m	Restated 01.07.18 £m
Current liabilities			
Trade and other payables	**(75.7)**	(6.5)	(82.2)
Non-current liabilities			
Deferred tax liabilities	**(96.8)**	1.6	(95.2)
Equity			
Retained Earnings	**125.5**	(4.9)	120.6

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 'Revenue from Contracts with Customers' from 1 July 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions of IFRS 15, the Group have adopted the modified retrospective approach, recognising a cumulative adjustment to decrease equity at 1 July 2018. This adjustment represents the earlier recognition of rebates and discounts based on the most likely method of calculation, and the associated tax impact.

Following the clarification IFRS 15 provides over the treatment of variable consideration, the timing of rebates and the deductions and discounts recognition has been refined through adoption of the most likely amount method.

The adoption of IFRS 15 has resulted in revenue being £0.6 million lower in the current period compared to IAS 18. There is a corresponding deferred tax credit of £0.1 million recognised in relation to this.

IFRS 9 Financial Instruments – Impact of Adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 'Financial Instruments' from 1 July 2018 resulted in a change in accounting policies. In accordance with transitional provisions in IFRS 9, comparative figures have not been restated.

The Group has trade receivables for sales of inventory that are subject to IFRS 9's new expected credit loss model. The Group was required to revise its impairment methodology under IFRS 9 for this class of asset which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The impact of the change in impairment methodology on the Group's retained earnings was immaterial and therefore no adjustment has been made. Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due.

Cash and cash equivalents are also subject to the impairment requirements of IFRS 9; however, the identified impairment loss of this financial asset was immaterial.

Independent Review Report to Dechra Pharmaceuticals PLC

Report on the Condensed Consolidated Half-Yearly Financial Statements for the six months ended 31 December 2018

Our Conclusion

We have reviewed Dechra Pharmaceuticals PLC's Condensed Consolidated Half-Yearly Financial Statements (the Interim Financial Statements) in the Half-Yearly Financial Report 2019 of Dechra Pharmaceuticals PLC for the six month period ended 31 December 2018. Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, '*Interim Financial Reporting*', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What We Have Reviewed

The Interim Financial Statements comprise:

- the Condensed Consolidated Statement of Financial Position as at 31 December 2018;
- the Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income for the period then ended;
- the Condensed Consolidated Statement of Cash Flows for the period then ended;
- the Condensed Consolidated Statement of Changes in Shareholders' Equity for the period then ended; and
- the explanatory notes to the Interim Financial Statements.

The Interim Financial Statements included in the Half-Yearly Financial Report 2019 have been prepared in accordance with International Accounting Standard 34, *'Interim Financial Reporting*', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the Interim Financial Statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the Interim Financial Statements and the Review

Our Responsibilities and those of the Directors

The Half-Yearly Financial Report 2019, including the Interim Financial Statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-Yearly Financial Report 2019 in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the Interim Financial Statements in the Half-Yearly Financial Report 2019 based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a Review of Interim Financial Statements Involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, '*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*', issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Half-Yearly Financial Report 2019 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Interim Financial Statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham
25 February 2019

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