Dechra®
Pharmaceuticals PLC

Half-Yearly Financial Report 2022

for the six months ended 31 December 2021 (the Period)

Monday, 21 February 2022

"Future prospects remain excellent as we strengthen the Group's infrastructure, continue to outperform markets and identify and deliver new strategic growth opportunities"

Ian Page, Chief Executive Officer

Highlights

- Reported Group revenue for the Period increased by 15.9% at Constant Exchange Rate (CER) (10.9% at Actual Exchange Rate (AER)).
- European Pharmaceuticals (EU Pharmaceuticals) revenue growth was 10.5% at CER (5.4% at AER).
- North American Pharmaceuticals (NA Pharmaceuticals) revenue growth was 26.1% at CER (21.2% at AER).
- Underlying operating profit growth was 22.0% at CER (16.2% at AER) with underlying operating margin improving by 140 bps to 28.2%.
- Reported operating profit increased by 50.1% at CER (42.4% at AER) driven by the strong trading performance.
- Strong underlying cash conversion of 110.0%.
- Underlying diluted EPS growth of 24.0% at CER (17.9% at AER) to 64.01 pence. Interim dividend increased by 8.0% to 12.00 pence.

Financial Summary

	Six months ended 31.12.21 £m	Six months ended 31.12.20 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
Revenue	**332.4**	299.8	10.9%	**15.9%**
Underlying				
Operating profit	**93.9**	80.8	16.2%	**22.0%**
Operating profit %	**28.2%**	27.0%	120bps	**140bps**
EBITDA	**101.3**	88.2	14.9%	**20.6%**
Diluted EPS	**64.01p**	54.28p	17.9%	**24.0%**
Total				
Operating profit	**57.4**	40.3	42.4%	**50.1%**
Cash generated from operating activities before interest and taxation	**103.3**	85.1	21.4%	
Diluted EPS	**37.38p**	21.44p	74.3%	**84.6%**

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. Underlying EBITDA is defined as underlying earnings before interest, tax, depreciation and amortisation. Underlying cash conversion is defined as cash generated from operations before interest and taxation expressed as a percentage of underlying operating profit.

Enquiries

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Analysts Briefing: Today at 9.00 am (UK time) via
https://webcasting.brrmedia.co.uk/broadcast/61f2c34112956e448c99470d
For assistance please contact Fiona Tooley

If you would like to ask a question please dial in: +44 (0)330 336 9601
Confirmation Code: 7560179
(ref: Half Year Results)

Notes: Foreign Exchange Rates

FY2022 H1 Average	EUR 1.1744: GBP 1.00	USD 1.3635: GBP 1.00
FY2022 H1 Closing	EUR 1.1901: GBP 1.00	USD 1.3479: GBP 1.00
FY2021 H1 Average	EUR 1.1060: GBP 1.00	USD 1.3060: GBP 1.00
FY2021 H1 Closing	EUR 1.1123: GBP 1.00	USD 1.3649: GBP 1.00
FY2021 Average	EUR 1.1287: GBP 1.00	USD 1.3466: GBP 1.00
FY2021 Closing	EUR 1.1654: GBP 1.00	USD 1.3850: GBP 1.00

Half-Yearly Financial Report 2022

for the six months ended 31 December 2021

Introduction

The Group is pleased to report excellent growth in the first half of our financial year. We outperformed a market that has seen strong growth as it continued to benefit, in our major international markets, from increased spending on pets as a result of COVID-19 restrictions. This growth was delivered across all product categories and all major therapeutic areas. Strategic progress has also been made through the acquisition of a number of complementary products and through progress in our product development pipeline. Towards the end of the Period and at the start of the second half we have seen markets returning to more normalised, robust levels of historic growth.

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

Operational Review

European Pharmaceuticals

In the Period, our total European Pharmaceuticals Segment net revenue increased by 10.5%.

All European countries, excluding the UK, delivered growth in all product categories with Companion Animal Products (CAP) being the primary driver. Food producing Animal Products (FAP) also grew strongly and Nutrition continued the forward momentum seen in the prior financial year. UK revenues were flat due to the pre-Brexit inventory build of £7.0 million included in the comparable period in the prior year.

Our International business, which is reported in this Segment, performed well, especially through our businesses in Brazil, Australia, and New Zealand. Sales through distribution partners grew well from both existing products and new product launches following successful regulatory approvals. In addition, we have successfully launched Tri-Solfen® for cattle and sheep in Australia and New Zealand.

North American Pharmaceuticals

In the Period, our total North American Segment net revenue increased by 26.1%.

This growth, which was ahead of management expectations, benefited from a strong overall market and new product introductions. The USA is almost entirely CAP and Equine with growth being delivered across all therapeutic areas. The primary driver in North America is the USA where we continue to expand our product portfolio (see Acquisitions below) and are benefiting from the increased number and capabilities of our sales team who, in the majority, are now back making important face-to-face visits following relaxation of the restrictions from COVID-19. Both Canada and Mexico also performed well and have continued to benefit from new product launches.

Product Category Performance

CAP, which represents the majority of our business at 73.9% of Group turnover, grew by 17.0% over the corresponding period last year. Growth was delivered in almost every therapeutic area with exceptional growth being delivered in endocrinology, topical dermatology and anti-infectives. Mirataz® and Osurnia®, acquired in April 2020 and July 2020 respectively, both performed in line with expectations.

FAP, representing 11.8% of Group turnover, delivered growth of 12.2%, a strong performance following the slowdown seen in the second half of last year due to outbreaks of avian influenza and African Swine fever across several key markets and benefiting from the launch of Tri-Solfen® in Australia and New Zealand.

Equine, representing 7.2% of Group turnover, grew by 10.1% as we continue to benefit from the launch of new products in the prior financial year and market penetration and lifecycle management of our leading brand Equipalazone®.

Nutrition, which represents 5.5% of Group turnover, delivered 22.0% growth in the Period. Momentum from the growth seen in the prior financial year from our Specific® branded range of pet diets has continued in the first half of the financial year being reported. This growth has been driven by successfully winning new customers in our largest market, France, and has been enhanced by excellent market penetration in the international markets of Japan and South Korea.

Acquisitions

We have continued to identify and execute product acquisitions which complement existing markets and therapeutic sectors. The majority of these acquisitions strengthen our biggest and key market, the USA, especially through our Equine portfolio.

The equine products acquired are:

- Rompun® (xylazine injection) and Butorphanol Tartrate Injection from Elanco™ Animal Health which complement our anaesthesia and analgesia portfolio;
- Sucromate™ Equine (deslorelin acetate) sterile suspension from Thorn Bioscience L.L.C. which expands our Equine portfolio into reproduction; and
- ProVet APC™ (Autologous Platelet Concentrate) and ProVet BMC™ (Bone Marrow Concentrate) systems from Hassinger Biomedical. These two patented medical devices harness growth factors from the horse's whole blood, which when injected back into the horse positively enhances healing results in soft tissue injuries. The ProVet APC™ system is a revolutionary device and is arguably the fastest and most transportable platelet concentrator available to the veterinary industry.

Our CAP portfolio in the USA has also been strengthened through the acquisition of the inhalant anaesthetics Isoflurane®, USP and Sevoflurane®, USP which complements our anaesthesia and analgesia product range and expands our veterinary surgical suite. Our leading topical dermatology range has also been strengthened by a collaboration with Bioiberica for the licence and distribution of its Atopivet® range of products for cats and dogs with the addition of products such as Atopivet® Collar, Atopivet® Spot-On and Atopivet® Mousse which offer unique alternatives to multi-modal dermatology therapy.

We are also pleased to have announced, post the Period end, that we agreed terms with Anivive Lifesciences, Inc to acquire the worldwide rights to Verdinexor, a novel treatment of all forms and stages of canine lymphoma in dogs. The product, currently sold as LAVERDIA-CA1 in the USA is a novel oral SINE (selective inhibitor of nuclear export) drug and the first oral tablet for canine lymphoma. It was conditionally approved by the FDA Center for Veterinary Medicine on 11 January 2021 and expands our portfolio into oncology. Dechra acquired the worldwide marketing rights, the rights to the intellectual property, the marketing authorisations (when granted) and associated regulatory documentation, supply contracts with third parties in relation to the raw material and manufacture of the finished product. Sales of the product in the USA commenced, under conditional approval, in July 2021. Full dossier submissions are planned for the USA, UK, EU, Brazil, Australia, Japan and Canada.

Product Development

Progress continues to be made on the pipeline with several global product approvals achieved and new submissions imminent. The most material product approvals are the Equine Strangles vaccine, for the EU market and Amoxi-Clav suspension for the US market which is expected to be the first branded generic, complementing our Clavacillian range of antimicrobial tablets.

Our partner, Animal Ethics Pty Ltd has successfully registered Tri-Solfen® for piglet castration in Great Britain; however, they have withdrawn the European application. It became evident that certain countries considered the product should be sterile, based on European quality rules for human and veterinary medicines, as it is being applied to an open wound. However, this legislation does permit veterinary medicines to be non-sterile where there is scientific justification. The regulatory bodies chose not to take advantage of this exemption, despite a strong evidence based justification for the safety and clinical need being provided to them. Currently piglet castrations are conducted on farms in a completely unsterile environment, we have proven that Tri-Solfen® actually reduces the likelihood of infection in wounds in this environment. In collaboration with Medical Ethics Pty Ltd (the parent company of Animal Ethics Pty Ltd) we are currently exploring the best route to achieve a future registration.

Enablers

People

Our people are unquestionably the cornerstone of our success. The dedication and commitment from our people throughout the COVID-19 pandemic has been exceptional and we have maintained productivity at all levels of the organisation throughout the Period.

With effect from 1 January 2022, Alison Platt has been appointed Chair of the Board (and Chair of the Nomination Committee) following the retirement of Tony Rice. The Board would like to thank Tony for his excellent contribution to the development of the Group over the last five years and we wish him all the best in his future.

In Australia we have appointed Gunter Schuele as General Manager following the retirement of Peter Clarke. Peter has played an excellent role in transforming the business into a Dechra organisation and delivering strong growth throughout this Period.

We have developed a Future Facing Leaders programme and have identified 24 employees who will attend this two year programme to identify management talent to support the growth of Dechra in the future.

It is pleasing to report that our business in Portland has been voted as the number one place to work in the State of Maine.

Following the success of the UK and US Save as You Earn Scheme, we launched this into 18 new countries with 39% of staff taking up the offer.

Manufacturing and Supply Chain

The investment in systems and people in Quality over the last two years has significantly enhanced processes and our ability to supply our high levels of growth. We have now exited virtually all third party human manufacturing from our Skipton and Fort Worth sites. A capital investment programme at our Skipton site is underway which will create additional space to support the strategic objective of increasing the amount of products that we manufacture in-house. The capital investment at our European logistics centre is almost complete creating 6,150 pallet spaces; the site will be officially opened in April 2022.

Information Technology

Digital technology continues to be a main strategic focus for the business. Excellent progress continues to be made in developing and enhancing inward, customer and stakeholder facing services. We have commenced the investment in a new quality and document management system that will support our Manufacturing, Product Development, Regulatory and Technical Services departments. The system will significantly streamline and enhance quality control, quality monitoring, pharmaceutical risk analysis and pharmacovigilance. We have also approved investment to move most of our manufacturing sites on to one consolidated, upgraded ERP system over the next five years. The Salesforce customer relationship management system, which has been successfully used for many years within the USA, has now been fully rolled out across Europe and has also been introduced into a number of our international organisations. Our International team has launched a new digital platform, The Hub, which is an information marketing portal for our distribution partners and will provide detailed product information and marketing updates to support our product sales through these important customers.

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Environmental, Social, Governance (ESG)

Decarbonising the business remains a top priority and we are continuing to execute our "Making a Difference" plan and working towards our commitment of setting verifiable targets across the entire value chain through the Science Based Targets initiative.

During the period we engaged all Dechra employees in the inaugural "Dechra Climate Race" using technology provided by Deedster. The Deedster application was downloaded by almost half of our workforce during the successful four week event and delivered our aim of educating our team, promoting climate engagement and the benefits of sustainable living.

Financial Review

The Group presents a number of non-GAAP Alternative Performance Measures (APMs). This allows investors to understand better the underlying performance of the Group by excluding certain non-underlying items as set out in notes 3, 4, 5, 8 and 11. As underlying results include the benefits of acquisitions but exclude significant costs such as amortisation of acquired intangibles, expenses related to acquisitions and subsequent integration activities, they should not be regarded as a complete picture of the Group's financial performance, which is presented in its Total results. The exclusion of non-underlying items may result in underlying earnings being materially higher or lower than Total earnings. In particular, when significant amortisation of acquired intangibles, impairments and costs associated with acquisitions and subsequent integration activities are excluded, underlying earnings will be higher than Total earnings.

Group revenue in the Period was £332.4 million, a growth of 15.9%.

- Revenue in EU Pharmaceuticals grew by 10.5% to £206.1 million.
  - Existing revenue was £201.9 million, an increase of 8.3%.
  - Acquisition revenue consists of £2.2 million from *Osurnia* (relating to the July sales for which there is no comparative) and £2.0 million from Tri-Solfen® ANZ following the launch in August.
- Our NA Pharmaceuticals Segment revenue increased by 26.1% to £126.3 million.
  - Existing revenue was £125.1 million, an increase of 25.0%.
  - Acquisition revenue consists of £0.6 million from *Osurnia* (relating to the July sales for which there is no comparative) and £0.6 million from the product rights deals that were completed in the Period.

Revenue	**Six months ended 31.12.21 £m**	Six months ended 31.12.20 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
EU Pharmaceuticals – Existing[1]	**201.9**	195.6	3.2%	**8.3%**
NA Pharmaceuticals – Existing[2]	**125.1**	104.2	20.1%	**25.0%**
Group Total – Existing	**327.0**	299.8	9.1%	**14.1%**
EU Pharmaceuticals – Acquisitions[3]	**4.2**	–	–	**–**
NA Pharmaceuticals – Acquisitions[4]	**1.2**	–	–	**–**
Group Total – Acquisitions	**5.4**	–	–	**–**
EU Pharmaceuticals – Total	**206.1**	195.6	5.4%	**10.5%**
NA Pharmaceuticals – Total	**126.3**	104.2	21.2%	**26.1%**
Group Total	**332.4**	299.8	10.9%	**15.9%**

1. EU Pharmaceuticals – Existing including like-for-like *Osurnia*.
2. NA Pharmaceuticals – Existing including like-for-like *Osurnia*.
3. EU Pharmaceuticals – Acquisition comprises *Osurnia* (July sales) and Tri-Solfen ANZ.
4. NA Pharmaceuticals – Acquisition comprises *Osurnia* (July sales) and other US product rights deals

The pharmaceutical product categories of CAP, FAP and Equine all posted double digit growth in the Period with CAP continuing to be the largest proportion of Dechra's business and the fastest growing. Nutrition also posted excellent growth with strong performance in all its key markets. Other revenue increased slightly as we completed our planned strategic exit from non-core business, including third party manufacturing.

Revenue	**Six months ended 31.12.21 £m**	Six months ended 31.12.20 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
CAP	**245.5**	219.0	12.1%	**17.0%**
FAP	**39.2**	36.8	6.5%	**12.2%**
Equine	**24.1**	22.8	5.7%	**10.1%**
Subtotal Pharmaceuticals	**308.8**	278.6	10.8%	**15.8%**
Nutrition	**18.4**	15.9	15.7%	**22.0%**
Other*	**5.2**	5.3	(1.9%)	**3.8%**
Total	**332.4**	299.8	10.9%	**15.9%**

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

Group underlying gross margin percentage in the Period was maintained at 56.9% (2021: 56.9%). Group underlying Selling, General and Administration (SG&A) expenses increased to £81.8 million in the Period but reduced as a percentage of revenue to 24.6% (2021: 24.9%) as our cost base started to normalise as previously indicated.

Group underlying operating profit in the Period increased by 22.0% (16.2% at AER) to £93.9 million, as revenue growth was leveraged strongly to increase underlying operating margin by 120 bps to 28.2% (on an AER basis).

- EU Pharmaceuticals underlying operating profit was £69.7 million, an increase of 12.2% with the operating margin increasing by 50bps to 33.8%.
  - Existing underlying operating profit in EU Pharmaceuticals was £67.2 million, an increase of 8.2%. Operating margin remained consistent at 33.3%.
  - Underlying operating profit from the *Osurnia* July sales and Tri-Solfen® acquisition added £2.5 million, representing an operating margin of 59.5%.
- NA Pharmaceuticals underlying operating profit was £43.6 million, an increase of 25.6%, with the operating margin reducing by 10 bps to 34.5%.
  - Existing underlying operating profit in NA Pharmaceuticals was £43.1 million, an increase of 24.0%. Operating margin reduced by 20 bps to 34.5% driven by SG&A normalisation as noted above.
  - Underlying operating profit from the *Osurnia* July sales and the other product rights acquisitions generated £0.5 million, representing an operating margin of 41.7%.
- Pharmaceuticals R&D underlying expenditure decreased to £13.5 million representing 4.1% of revenue (2021: 5.0% of revenue). This included £0.5 million (2021: £2.6 million) of spend in relation to Akston and ongoing investment in new territory registrations and more novel product development opportunities. The period on period decrease is due in part to the strong revenue growth of the business but mainly as a result of project cost phasing (including Akston) which we expect to catch up in the second half of the year.
- Corporate costs increased by 9.3% to £5.9 million (2021: £5.4 million) principally due to further investment in the Central functions to support the growth of the Group.

Net underlying finance expense decreased by 26.3% to £4.0 million (2021: £5.7 million), with debt service costs in line and a small foreign exchange gain realised versus a £1.2 million loss in the Prior Period.

The Group underlying Effective Tax Rate (ETR) has increased to 23.0% (2021: 21.4%), reflecting the regional mix of operating profits and the loss of the UK Patent Box benefit, as indicated previously. The Group Total ETR is 23.8% (2021: 34.2%) and includes the tax effect impact of non-underlying profit before tax items and an exceptional deferred tax charge of £0.9 million (2021: £4.9 million), due to the Dutch corporate tax rate increasing to 25.8% from 1 January 2022.

Non-underlying items of £37.1 million (2021: £39.7 million) relating to profit before tax are fully set out in note 8, and principally relate to the amortisation of intangible assets.

Total operating profit was £57.4 million (2021: £40.3 million) increasing by 50.1% (42.4% at AER) and Total profit before tax was £53.4 million (2021: £35.4 million) increasing by 59.6% (50.8% at AER). The increase in both metrics primarily reflects the strong trading performance and the reduction in amortisation charges from previously acquired intangible assets in the Period.

Underlying diluted EPS grew by 24.0% (17.9% at AER) to 64.01 pence (2021: 54.28 pence). Total diluted EPS increased by 84.6% (74.3% at AER) to 37.38 pence (2021: 21.44 pence), reflecting the improvement in Total profit before tax and the lower deferred tax charge impact from the increase in the Dutch tax rate.

Half-Yearly Financial Report 2022 continued

The key movement on the Statement of Financial Position relates to non-current assets which reduced to £801.7 million (from £821.9 million at 30 June 2021). The reduction in the intangible assets balance included within this was as a result of the product acquisitions completed during the Period being more than offset by the amortisation of acquired intangibles and the remeasurement of the Tri-Solfen® contingent consideration against the intangible asset, following the delay in the European registration of that product.

Cash generated from operating activities before interest and taxation increased by 21.4% to £103.3 million resulting in an underlying cash conversion rate of 110.0%. Net debt decreased to £193.1 million (from £200.2 million at 30 June 2021). The net debt to proforma underlying EBITDA (adjusted for the impact of acquisitions) banking covenant leverage (on a pre IFRS16 basis) is 0.9 times.

Dividend

The Board is pleased to declare an interim dividend of 12.00 pence per share, which represents a growth of 8.0% on the prior period. The dividend will be payable on 7 April 2022 to shareholders on the Register at 4 March 2022. The ordinary shares will become ex-dividend on 3 March 2022.

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 2021 Annual Report and Accounts. The Group's principal risks and their mitigation are described on pages 76 to 82 of the 2021 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 against a number of products, predominantly in the EU.

  We continue to mitigate these risks by closely monitoring the market, investing in lifecycle management strategies for our key products, and an 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; however, they may also impact margins due to corporate discounts.

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

- **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 several of our 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 have allocated additional resources to our product quality teams and we continue 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. Given the current global political and economic environment, we expect continued currency volatility and this could impact our results. In the first six months of the year we made a foreign exchange transactional gain of £0.2 million on trading activities (2021: a gain of £0.2 million).

Outlook

Trading at the start of the second half remains strong, especially in our major markets which are returning to historic levels of growth as they normalise following the diminishing influence of COVID-19. Future prospects remain excellent as we strengthen the Group's infrastructure, continue to outperform markets and identify and deliver new strategic growth opportunities.

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 UK;
- 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 21 February 2022 are listed in its Annual Report and Accounts for the year ended 30 June 2021 on pages 88 and 89, with the exception of Tony Rice and Denise Goode who have retired and resigned respectively.

By Order of the Board

Ian Page
Chief Executive Officer
21 February 2022

Paul Sandland
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 a global veterinary pharmaceuticals and related products business. Our expertise is in the development, manufacture, marketing and sales 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 2021

	Note	Six months ended 31.12.21 Underlying £m	Six months ended 31.12.21 Non-underlying items* (notes 3, 4,5,8,11) £m	Six months ended 31.12.21 Total £m	Six months ended 31.12.20 Underlying £m	Six months ended 31.12.20 Non-underlying items* (notes 3, 4,5,8,11) £m	Six months ended 31.12.20 Total £m	Year ended 30.06.21 Underlying £m	Year ended 30.06.21 Non-underlying items* (notes 3, 4,5,8,11) £m	Year ended 30.06.21 Total £m
Revenue	2	**332.4**	**–**	**332.4**	299.8	–	299.8	608.0	–	608.0
Cost of sales		**(143.2)**	**(0.5)**	**(143.7)**	(129.1)	–	(129.1)	(262.1)	–	(262.1)
Gross profit		**189.2**	**(0.5)**	**188.7**	170.7	–	170.7	345.9	–	345.9
Selling, general and administrative expenses		**(81.8)**	**(34.2)**	**(116.0)**	(74.8)	(38.2)	(113.0)	(151.3)	(73.8)	(225.1)
Research and development expenses		**(13.5)**	**(1.8)**	**(15.3)**	(15.1)	(2.3)	(17.4)	(32.4)	(4.4)	(36.8)
Operating profit	2	**93.9**	**(36.5)**	**57.4**	80.8	(40.5)	40.3	162.2	(78.2)	84.0
Share of profit/(loss) of investments accounted for using the equity method	11	**0.6**	**–**	**0.6**	–	(0.4)	(0.4)	(0.4)	(0.7)	(1.1)
Finance income	3	**0.3**	**–**	**0.3**	–	1.4	1.4	–	3.8	3.8
Finance expense	4	**(4.3)**	**(0.6)**	**(4.9)**	(5.7)	(0.2)	(5.9)	(11.7)	(1.0)	(12.7)
Profit before taxation	2	**90.5**	**(37.1)**	**53.4**	75.1	(39.7)	35.4	150.1	(76.1)	74.0
Income taxes	5	**(20.8)**	**8.1**	**(12.7)**	(16.1)	4.0	(12.1)	(32.5)	14.0	(18.5)
Profit for the period		**69.7**	**(29.0)**	**40.7**	59.0	(35.7)	23.3	117.6	(62.1)	55.5
Earnings per share										
Basic	7			**37.59p**			21.56p			51.33p
Diluted	7			**37.38p**			21.44p			51.03p
Dividend per share (interim and full)	6			**12.00p**			11.11p			40.50p

* 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 2021

	Six months ended		Year ended
	31.12.21 £m	31.12.20 £m	30.06.21 £m
Profit for the period	**40.7**	23.3	55.5
Other comprehensive (expense)/income:			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency cash flow hedge			
– fair value movements	**–**	(1.7)	(1.7)
Foreign currency translation differences for foreign operations	**(6.0)**	(13.9)	(28.0)
Income tax relating to components of other comprehensive income/(expense)	**0.3**	0.4	(0.2)
	(5.7)	(15.2)	(29.9)
Total comprehensive income for the period	**35.0**	8.1	25.6

Condensed Consolidated Statement of Financial Position
as at 31 December 2021

ASSETS	Note	As at 31.12.21 £m	As at 31.12.20 £m	As at 30.06.21 £m
Non-current assets				
Intangible assets		**689.4**	734.9	715.8
Property, plant and equipment		**92.3**	78.9	87.0
Investments	11	**17.7**	17.0	17.1
Deferred tax assets		**2.3**	4.3	2.0
Total non-current assets		**801.7**	835.1	821.9
Current assets				
Inventories		**149.4**	140.6	149.5
Current tax receivables		**14.3**	4.2	17.6
Trade and other receivables		**85.6**	87.0	106.7
Cash and cash equivalents	9	**123.7**	139.0	118.4
Assets classified as held for sale	16	**3.0**	–	–
Total current assets		**376.0**	370.8	392.2
Total assets		**1,177.7**	1,205.9	1,214.1
LIABILITIES				
Current liabilities				
Borrowings and lease liabilities	9	**(3.1)**	(3.9)	(3.1)
Trade and other payables		**(99.9)**	(111.0)	(113.5)
Contingent consideration	13	**(7.0)**	(4.5)	(22.6)
Current tax liabilities		**(19.2)**	(13.7)	(16.6)
Total current liabilities		**(129.2)**	(133.1)	(155.8)
Non-current liabilities				
Borrowings and lease liabilities	9	**(313.7)**	(339.1)	(315.5)
Contingent consideration	13	**(50.1)**	(46.3)	(57.6)
Provisions		**(2.2)**	(2.4)	(3.5)
Deferred tax liabilities		**(43.4)**	(59.6)	(48.8)
Total non-current liabilities		**(409.4)**	(447.4)	(425.4)
Total liabilities		**(538.6)**	(580.5)	(581.2)
Net assets		**639.1**	625.4	632.9
EQUITY				
Issued share capital		**1.1**	1.1	1.1
Share premium account		**413.3**	410.6	411.6
Hedging reserve		**–**	–	–
Foreign currency translation reserve		**(17.6)**	2.8	(11.9)
Merger reserve		**84.4**	84.4	84.4
Retained earnings		**157.9**	126.5	147.7
Total equity		**639.1**	625.4	632.9

Condensed Consolidated Statement of Changes in Shareholders' Equity

for the six months ended 31 December 2021

	Attributable to owners of the parent						
	Issued share capital £m	Share premium account £m	Hedging reserve £m	Foreign currency translation reserve £m	Merger reserve £m	Retained earnings £m	**Total equity £m**
Six months ended 31 December 2020							
At 1 July 2020	1.1	409.3	–	16.3	84.4	126.4	**637.5**
Profit for the period	–	–	–	–	–	23.3	**23.3**
Foreign currency cash flow hedge – fair value movements	–	–	(1.7)	–	–	–	**(1.7)**
Foreign currency translation differences for foreign operations	–	–	–	(13.9)	–	–	**(13.9)**
Income tax relating to components of other comprehensive expense	–	–	–	0.4	–	–	**0.4**
Total comprehensive (expense)/income for the period	–	–	(1.7)	(13.5)	–	23.3	**8.1**
Reclassified to cost of acquired intangibles	–	–	1.7	–	–	–	**1.7**
Transactions with owners							
Dividends paid	–	–	–	–	–	(25.9)	**(25.9)**
Share-based payments	–	–	–	–	–	2.7	**2.7**
Shares issued	–	1.3	–	–	–	–	**1.3**
Total contributions by and distribution to owners	–	1.3	–	–	–	(23.2)	**(21.9)**
At 31 December 2020	1.1	410.6	–	2.8	84.4	126.5	**625.4**
Year ended 30 June 2021							
At 1 July 2020	1.1	409.3	–	16.3	84.4	126.4	**637.5**
Profit for the period	–	–	–	–	–	55.5	**55.5**
Foreign currency cash flow hedge – fair value movements	–	–	(1.7)	–	–	–	**(1.7)**
Foreign currency translation differences for foreign operations	–	–	–	(28.0)	–	–	**(28.0)**
Income tax relating to components of other comprehensive expense	–	–	–	(0.2)	–	–	**(0.2)**
Total comprehensive (expense)/income for the period	–	–	(1.7)	(28.2)	–	55.5	**25.6**
Reclassified to cost of acquired intangibles	–	–	1.7	–	–	–	**1.7**
Transactions with owners							
Dividends paid	–	–	–	–	–	(37.9)	**(37.9)**
Share-based payments	–	–	–	–	–	3.7	**3.7**
Shares issued	–	2.3	–	–	–	–	**2.3**
Total contributions by and distribution to owners	–	2.3	–	–	–	(34.2)	**(31.9)**
At 30 June 2021	1.1	411.6	–	(11.9)	84.4	147.7	**632.9**
Six months ended 31 December 2021							
At 1 July 2021	**1.1**	**411.6**	**–**	**(11.9)**	**84.4**	**147.7**	**632.9**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**40.7**	**40.7**
Foreign currency cash flow hedge – fair value movements	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Foreign currency translation differences for foreign operations	**–**	**–**	**–**	**(6.0)**	**–**	**–**	**(6.0)**
Income tax relating to components of other comprehensive expense	**–**	**–**	**–**	**0.3**	**–**	**–**	**0.3**
Total comprehensive (expense)/income for the period	**–**	**–**	**–**	**(5.7)**	**–**	**40.7**	**35.0**
Transactions with owners							
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(31.8)**	**(31.8)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**1.3**	**1.3**
Shares issued	**–**	**1.7**	**–**	**–**	**–**	**–**	**1.7**
Total contributions by and distribution to owners	**–**	**1.7**	**–**	**–**	**–**	**(30.5)**	**(28.8)**
At 31 December 2021	**1.1**	**413.3**	**–**	**(17.6)**	**84.4**	**157.9**	**639.1**

Condensed Consolidated Statement of Cash Flows

for the six months ended 31 December 2021

	Note	Six months ended 31.12.21 £m	Six months ended 31.12.20 £m	Year ended 30.06.21 £m
Cash flows from operating activities				
Operating profit		**57.4**	40.3	84.0
Non-underlying items		**36.5**	40.5	78.2
Underlying operating profit		**93.9**	80.8	162.2
Adjustments for:				
Depreciation		**5.2**	5.3	11.0
Amortisation and impairment		**2.2**	2.1	4.5
Release of government grant		**(0.7)**	(0.3)	(0.6)
(Profit)/loss on disposal of tangible assets		**(0.3)**	0.5	–
Loss on disposal of intangible assets		**–**	–	0.3
Equity settled share-based payment expense		**1.3**	2.7	2.8
Underlying operating cash flow before changes in working capital		**101.6**	91.1	180.2
Increase in inventories		**(2.9)**	(23.6)	(36.6)
Decrease/(increase) in trade and other receivables		**19.1**	3.3	(19.7)
(Decrease)/increase in trade and other payables		**(14.5)**	16.5	20.3
Cash generated from operating activities before interest, taxation and non-underlying items		**103.3**	87.3	144.2
Cash outflows in respect of non-underlying items		**–**	(2.2)	(3.0)
Cash generated from operating activities before interest and taxation		**103.3**	85.1	141.2
Interest paid		**(3.4)**	(4.0)	(7.7)
Interest on lease liabilities		**(0.2)**	(0.2)	(0.5)
Income taxes paid		**(11.6)**	(22.8)	(43.9)
Net cash inflow from operating activities		**88.1**	58.1	89.1
Cash flows from investing activities				
Proceeds from disposal of tangible assets		**0.1**	0.3	0.2
Proceeds from disposal of intangible assets		**–**	–	0.2
Amounts relating to current and previous acquisitions		**(0.4)**	(0.4)	(0.9)
Acquisition of investment in associates		**–**	–	(0.8)
Purchase of property, plant and equipment		**(11.2)**	(6.6)	(18.9)
Capitalised development expenditure		**(0.3)**	(0.1)	(1.3)
Purchase of other intangible non-current assets	10	**(38.0)**	(109.4)	(114.6)
Net cash outflow from investing activities		**(49.8)**	(116.2)	(136.1)
Cash flows from financing activities				
Proceeds from the issue of share capital		**1.7**	1.3	2.3
Repayment of borrowings		**–**	(0.6)	(15.9)
Principal elements of lease payments		**(1.9)**	(1.9)	(3.6)
Dividends paid		**(31.8)**	(25.9)	(37.9)
Net cash outflow from financing activities		**(32.0)**	(27.1)	(55.1)
Net increase/(decrease) in cash and cash equivalents		**6.3**	(85.2)	(102.1)
Cash and cash equivalents at start of period		**118.4**	227.4	227.4
Exchange differences on cash and cash equivalents		**(1.0)**	(3.2)	(6.9)
Cash and cash equivalents at end of period		**123.7**	139.0	118.4
Reconciliation of net cash flow to movement in net borrowings				
Net increase/(decrease) in cash and cash equivalents		**6.3**	(85.2)	(102.1)
New borrowings and lease liabilities		**(2.5)**	(3.0)	(5.8)
Repayment of borrowings and lease liabilities		**2.1**	2.7	20.0
Exchange differences on cash and cash equivalents		**(1.0)**	(3.2)	(6.9)
Retranslation of foreign borrowings		**1.5**	12.8	22.4
Other non-cash changes		**0.7**	(0.5)	(0.2)
Movement in net borrowings in the period		**7.1**	(76.4)	(72.6)
Net borrowings at start of period		**(200.2)**	(127.6)	(127.6)
Net borrowings at end of period	9	**(193.1)**	(204.0)	(200.2)

Underlying 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 2021

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 2021 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 2021 is set out in the Independent Review Report. The Group financial statements as at, and for, the year ended 30 June 2021 prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU 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 and Accounts for the year ended 30 June 2021 and the unaudited financial information in the Half-Yearly Financial Report for the six months ended 31 December 2020. The comparative figures for the financial year ended 30 June 2021 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.

The condensed set of financial statements for the six months ended 31 December 2021 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 UK adopted IAS 34 '*Interim Financial Reporting*'. 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 2021. This condensed set of financial statements was approved by the Board of Directors on 21 February 2022.

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 Group's consolidated financial statements for the year ended 30 June 2021 as described in pages 166 to 175 of the Annual Report.

In April 2021, the IFRS Interpretations Committee published its final agenda decision on Configuration and Customisation costs in a Cloud Computing Arrangement. The agenda decision considers how a customer accounts for configuration or customisation costs in a cloud computing arrangement. The agenda decision does not have a material impact on the Group in respect of the current period or prior periods.

The Group has adopted the amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 as issued in August 2020. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships and financial instruments. Comparative amounts have not been restated, and there was no impact on the current period opening reserves amounts on adoption. Further details are included in note 9.

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.

The valuation of licensing agreements and the associated contingent consideration liabilities is a key source of estimation uncertainty surrounding the timing, likelihood and quantum of future royalty cash flows and the determination of an appropriate discount rate. Details of contingent consideration liabilities are outlined in note 13. Actual results may differ from these estimates.

The recognition and measurement of provisions for uncertain tax positions under IFRIC 23 is a key judgement and area of estimation uncertainty in terms of assessing the expected amounts to settle the obligation. Details of uncertain tax provisions are outlined in note 5. Actual results may differ from these estimates.

The impairment of goodwill and indefinite life assets is considered a key judgement in terms of determining the cash-generating units for assessing impairment. No triggers for impairment were identified in the period to 31 December 2021.

Going Concern

The Group meets its day-to-day working capital requirements through cash generation and its banking facilities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, including the impact of COVID-19, show that the Group should be able to operate within the level of its facilities secured. The assessment of the impact of COVID-19 remains consistent with that disclosed in the Annual Report and Accounts for the year ended 30 June 2021. 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 Half-Yearly Financial Report. 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.

Notes to the Financial Statements continued
for the six months ended 31 December 2021

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. In undertaking this aggregation, the assessment determined that the aggregated segments have similar products, production processes, customers and overall regulatory environments.

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

The North American Pharmaceuticals Segment consists of Dechra Veterinary Products US, Dechra Veterinary Products Canada, and Dechra Produtas Veterinarios (Mexico), which sells Companion Animal, Equine and Food producing Animal Products in those territories. The Segment also includes our manufacturing units based in Melbourne, Florida and Fort Worth, Texas, and includes third party manufacturing and other revenues from non-core activities.

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

Reconciliation of reportable segment revenues and profit or loss:

	Six months ended		Year ended
	31.12.21 £m	31.12.20 £m	30.06.21 £m
Revenue by segment			
European Pharmaceuticals	**206.1**	195.6	388.5
NA Pharmaceuticals	**126.3**	104.2	219.5
	332.4	299.8	608.0
Underlying operating profit/(loss) by segment			
European Pharmaceuticals	**69.7**	65.0	127.8
NA Pharmaceuticals	**43.6**	36.3	75.9
Pharmaceuticals Research and Development	**(13.5)**	(15.1)	(32.4)
Underlying segment operating profit	**99.8**	86.2	171.3
Corporate and other unallocated costs	**(5.9)**	(5.4)	(9.1)
Underlying operating profit	**93.9**	80.8	162.2
Amortisation of acquired intangibles	**(35.4)**	(38.3)	(75.2)
Impairment of assets classified as held for sale	**(1.1)**	–	–
Rationalisation of manufacturing organisation	**–**	(0.9)	(1.6)
Expenses relating to acquisitions and subsequent integration activities	**–**	(1.3)	(1.4)
Total operating profit	**57.4**	40.3	84.0
Share of profit/(loss) in investments accounted for using the equity method	**0.6**	(0.4)	(1.1)
Finance income	**0.3**	1.4	3.8
Finance expense	**(4.9)**	(5.9)	(12.7)
Profit before taxation	**53.4**	35.4	74.0

	Six months ended		Year ended
Revenue by product category	**31.12.21 £m**	31.12.20 £m	30.06.21 £m
CAP	**245.5**	219.0	442.6
Equine	**24.1**	22.8	44.8
FAP	**39.2**	36.8	77.0
Nutrition	**18.4**	15.9	31.7
Other	**5.2**	5.3	11.9
	332.4	299.8	608.0

3 Finance Income

	Six months ended		Year ended
	31.12.21	31.12.20	30.06.21
Underlying	**£m**	£m	£m
Finance income arising from:			
— Cash and cash equivalents	**0.1**	–	–
— Foreign exchange gains	**0.2**	–	–
Underlying finance income	**0.3**	–	–
Non-underlying			
Finance income arising from:			
— Foreign exchange gains on contingent consideration	**–**	1.4	3.8
Non-underlying finance income	**–**	1.4	3.8
Total finance income	**0.3**	1.4	3.8

4 Finance Expense

	Six months ended		Year ended
	31.12.21	31.12.20	30.06.21
Underlying	**£m**	£m	£m
Finance expense arising from:			
— Financial liabilities at amortised costs	**4.1**	4.3	8.3
— Lease liability interest	**0.2**	0.2	0.5
— Foreign exchange losses	**–**	1.2	2.9
Underlying finance expense	**4.3**	5.7	11.7
Non-underlying			
Finance expense arising from:			
— Foreign exchange losses on contingent consideration	**0.1**	–	–
— Unwind of discount associated with contingent consideration	**0.5**	0.2	1.0
Non-underlying finance expense	**0.6**	0.2	1.0
Total finance expense	**4.9**	5.9	12.7

5 Income Tax Expense

The tax charge for the six months ended 31 December 2021 has been calculated based on (i) the estimated effective rate for the year ending 30 June 2022, plus (ii) the inclusion of an exceptional deferred tax charge of £0.9 million which has been recognised in full at 31 December 2021. This exceptional deferred tax charge arises as a consequence of the increase in the Dutch corporation tax rate from 25.0% to 25.8% effective from 1 January 2022. The total reported effective tax rate is 23.8% (six months ended 31 December 2020: 34.2%; year ended 30 June 2021: 25.0%). This includes the tax effect of non-underlying items as set out in note 8. The underlying effective tax rate is 23.0% (six months ended 31 December 2020: 21.4%).

The income taxes paid cash outflow in the period to 31 December 2020 of £22.8 million included an amount of £8.9 million relating to the partial settlement of a Mutual Agreement Procedure (MAP) across three countries. We expect to recover this amount when the MAP is concluded with the respective Competent Authorities in the next six months.

At 31 December 2021, the Group held a current provision of £6.3 million (30 June 2021: £5.7 million) in respect of uncertain tax provisions. The resolution of these tax matters may take many years. The range of reasonably possible outcomes within the next twelve months is £2.0 million to £8.0 million.

6 Dividends

The final dividend for the year ended 30 June 2021 of 29.39 pence per share, costing £31.8 million, has been paid in the Period.

The Directors have declared an interim dividend of 12.00 pence per share (six months ended 31 December 2020: 11.11 pence) costing £13.0 million (six months ended 31 December 2020: £12.0 million). It is payable on 7 April 2022 to shareholders whose names are on the Register of Members at close of business on 4 March 2022. The ordinary shares will become ex-dividend on 3 March 2022. 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 2022.

Notes to the Financial Statements continued
for the six months ended 31 December 2021

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
	31.12.21	31.12.20	30.06.21
	Pence	Pence	Pence
Basic earnings per share			
— Underlying*	**64.37**	54.60	108.77
— Basic	**37.59**	21.56	51.33
Diluted earnings per share			
— Underlying*	**64.01**	54.28	108.14
— Diluted	**37.38**	21.44	51.03

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	**69.7**	59.0	117.6
Earnings for basic and diluted earnings per share	**40.7**	23.3	55.5

	Number	Number	Number
Weighted average number of ordinary shares for basic earnings per share	**108,281,403**	108,062,314	108,119,864
Impact of share options	**610,619**	635,503	630,725
Weighted average number of ordinary shares for diluted earnings per share	**108,892,022**	108,697,817	108,750,589

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

The number of ordinary shares issued in the period to 31 December 2021 is 149,381 (period to 31 December 2020: 130,686).

8 Underlying Operating Profit, EBITDA and Profit before Taxation

		Six months ended		Year ended
		31.12.21	31.12.20	30.06.21
	Notes	**£m**	£m	£m
Operating profit				
Underlying operating profit is calculated as follows:				
Operating profit		**57.4**	40.3	84.0
Amortisation of acquired intangibles		**35.4**	38.3	75.2
Impairment of assets classified as held for sale		**1.1**	–	–
Rationalisation of manufacturing organisation		**–**	0.9	1.6
Expenses relating to acquisitions and subsequent integration activities		**–**	1.3	1.4
Underlying operating profit		**93.9**	80.8	162.2
Depreciation		**5.2**	5.3	11.0
Amortisation and impairment		**2.2**	2.1	4.5
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)		**101.3**	88.2	177.7
Profit before taxation				
Underlying profit before taxation is calculated as follows:				
Profit before taxation		**53.4**	35.4	74.0
Amortisation of acquired intangibles		**35.4**	38.3	75.2
Impairment of assets classified as held for sale		**1.1**	–	–
Rationalisation of manufacturing organisation		**–**	0.9	1.6
Expenses relating to acquisitions and subsequent integration activities		**–**	1.3	1.4
Share of realised non-underlying profit of investments accounted for using the equity method		**(0.4)**	–	–
Amortisation of notional acquired intangibles from equity accounting for associates		**0.4**	0.4	0.7
Foreign exchange losses/(gains) on contingent consideration		**0.1**	(1.4)	(3.8)
Unwind of discount associated with contingent consideration		**0.5**	0.2	1.0
Underlying profit before tax		**90.5**	75.1	150.1
Impact of non-underlying items on income tax				
Tax on non-underlying loss before tax items	5	**9.0**	8.9	16.6
Revaluation of deferred tax balances following the change in Dutch and UK tax rates	5	**(0.9)**	(4.9)	(4.8)
Release of fair value provision on acquisition	5	**–**	–	2.2
Total impact of non-underlying items on income tax		**8.1**	4.0	14.0

8 Underlying Operating Profit, EBITDA and Profit before Taxation continued

The Group's underlying gross profit of £189.2 million (2021: £170.7 million) excludes the impairment of inventory of £0.5 million relating to the sale of Agricultural business (see note 16).

The Group presents a number of non-GAAP Alternative Performance Measures (APMs). This is to allow investors to understand better the underlying performance of the Group.

The Board monitors the performance of the business by focusing 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.
- The impairment of assets classified as held for sale of £1.1 million relates to the disposal of the Agricultural Chemicals business on 26 January 2022, refer to note 16.
- Rationalisation of the manufacturing organisation relates to the income statement costs associated with the strategic programme. This programme was completed in the previous financial year.
- There were no expenses relating to acquisition and subsequent integration activities in the current period.

9 Analysis of Net Borrowings

	As at 31.12.21 £m	As at 31.12.20 £m	As at 30.06.21 £m
Analysis of net debt			
Cash and cash equivalents	**123.7**	139.0	118.4
Lease liabilities	**(15.4)**	(15.8)	(15.9)
Bank loans	**(301.4)**	(327.2)	(302.7)
	(193.1)	(204.0)	(200.2)

	At 01.07.21 £m	Cash flows £m	New lease liabilities £m	Foreign exchange movements £m	Other non-cash movements £m	**At 31.12.21 £m**
Cash and cash equivalents	118.4	6.3	–	(1.0)	–	**123.7**
Lease liabilities within one year	(3.1)	2.1	(0.1)	–	(2.0)	**(3.1)**
Bank loans within one year	–	–	–	–	–	**–**
Lease liabilities after one year	(12.8)	–	(2.4)	(0.1)	3.0	**(12.3)**
Bank loans and senior loan notes after one year	(302.7)	–	–	1.6	(0.3)	**(301.4)**
Net debt	(200.2)	8.4	(2.5)	0.5	0.7	**(193.1)**

On 22 December 2021, the Group entered into an Amendment and Restatement Agreement in relation to the £340.0 million Revolving Credit Facility (RCF) maturing 25 July 2024. With effect from 1 January 2022, any new Borrowings drawn on the RCF will now use Risk Free Reference (RFR) rates instead of LIBOR rates. The relevant RFR rates for the principal Borrowings of the Group will be SONIA (for Borrowings in GBP), SOFR (for Borrowings in USD) and EURIBOR (for Borrowings in EUR). The interest rate charged on any new Borrowings drawn under the RCF will be the relevant RFR rate plus the Margin plus a Credit Adjustment Spread (CAS). The CAS charged on the RCF will be a minimum of 0.0326% and a maximum of 0.42826%, dependent upon the term and currency of the new Borrowings. The CAS will not be charged on any new Borrowings that are drawn in EUR currency.

At 31 December 2021, £187.0 million was drawn against the £340.0 million Revolving Credit Facility, and the EUR50.0 million and USD100.0 million senior secured notes were fully drawn. All covenants were met during the year ended 31 December 2021.

'Phase 2' of the amendments to IFRS 9, IAS39 and IFRS7 requires that, for financial instruments measured using amortised cost measurement, changes to the basis for determining the contractual cash flows required by interest rate benchmark reform are reflected by adjusting their effective interest rate. No immediate gain or loss is recognised. These expedients are only applicable to changes that are required by interest rate benchmark reform, which is the case if, and only if, the change is necessary as a direct consequence of interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

For the period ended 31 December 2021, the Group has applied the practical expedients provided under 'phase 2' to amendments to its RCF.

Notes to the Financial Statements continued
for the six months ended 31 December 2021

10 Acquisitions

The Group completed the following product rights acquisitions in the Period:

- the acquisition of Rompun® (xylazine injection) and Butorphanol Tartrate Injection from Elanco™ Animal Health for USD4.0 million (£3.0 million). A payment of £0.2 million was also made for inventory.
- the acquisition of Sucromate™ Equine sterile suspension from Thorn Bioscience L.L.C for USD9.0 million (£6.5 million). A payment of £8,000 was also made for inventory.
- the acquisition of ProVet APC™ and ProVet BMC systems from Hassinger Biomedical and DSM Medical for USD4.0 million (£3.0 million). A payment of £0.1 million was also made for inventory.
- the acquisition of Isoflurane® and Sevoflurane® from Halocarbon Life Sciences L.L.C. for USD12.0 million (£8.7 million).

The Group has considered the amendments to IFRS 3 'Business Combinations' and applied the optional concentration test to the transactions noted above that include the acquisition of inventory. Accordingly, it has been concluded that substantially all the value arising from the transaction relates to the product rights which are recognised as an intangible asset.

11 Investment in Associate

On 5 February 2021, the Group acquired a further 1.5% of the issued share capital of Medical Ethics Pty Ltd for a total consideration of AUD1.5 million (£0.8 million). Following the acquisition, the Group holds 49.5% of the issued share capital of Medical Ethics. The Group has significant influence but not control of the associate, and as a result will continue to equity account for the investment in the associate.

The Group undertook a provisional fair value exercise at the date of acquisition to allocate the cost of the investment to the individual assets, liabilities and contingent liabilities at their acquisition date fair values. The fair values attributed at the acquisition date were final and included in the financial statements for the year ended 30 June 2021.

Reconciliation of summarised financial information presented to the carrying amount of its interest in associates

	31.12.21 £m	31.12.20 £m	30.06.21 £m
Opening interest in associate	**5.2**	5.8	5.8
Fair value of associate acquired	**–**	–	0.5
Post-tax profit/(loss) from continuing operations	**0.6**	–	(0.4)
Non-underlying realised profit from continuing operations	**0.4**	–	–
Amortisation of notional intangible asset recognised on acquisition (net of tax)	**(0.4)**	(0.4)	(0.7)
Interest in associate	**5.8**	5.4	5.2
Goodwill	**11.9**	11.6	11.9
Carrying value of investment in associate	**17.7**	17.0	17.1

Following the delay of approval of Tri-Solfen® in the EU, the Group have considered the carrying value of the investment and are comfortable that it is not impaired.

12 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	
	31.12.21	31.12.20	**31.12.21**	31.12.20
Australian Dollar	**1.8632**	1.8064	**1.8583**	1.7681
Brazilian Real	**7.3646**	7.0341	**7.5095**	7.0893
Danish Krone	**8.7339**	8.2332	**8.8499**	8.2766
Euro	**1.1744**	1.1060	**1.1901**	1.1123
US Dollar	**1.3635**	1.3060	**1.3479**	1.3649

13 Contingent Consideration Liabilities

	As at 31.12.21 £m	As at 31.12.20 £m	As at 30.06.21 £m
Contingent consideration – less than one year	**7.0**	4.5	22.6
Contingent consideration – more than one year	**50.1**	46.3	57.6
	57.1	50.8	80.2

The consideration for certain acquisitions and licensing agreements includes amounts contingent on future events such as development milestones or sales performance. The Group has provided for the fair value of this contingent consideration as follows:

	Tri-Solfen® £m	StrixNB® & DispersinB® £m	Injectable Solution 1 £m	Injectable Solution 2 £m	*Mirataz* £m	*Phycox*® £m	Other £m	Total £m
As at 1 July 2020	33.0	0.8	3.3	4.4	10.9	2.3	1.5	56.2
Additions	–	–	–	–	–	–	2.0	2.0
Remeasurement through intangibles	(1.5)	–	(0.6)	(2.4)	0.2	(0.2)	–	(4.5)
Cash payments: investing activities	–	(0.1)	(0.8)	(0.1)	(0.3)	(0.4)	–	(1.7)
Finance expense	0.1	–	–	–	0.1	–	–	0.2
Foreign exchange adjustments	0.4	–	(0.3)	(0.1)	(1.1)	(0.2)	(0.1)	(1.4)
At 31 December 2020	32.0	0.7	1.6	1.8	9.8	1.5	3.4	50.8
As at 1 July 2020	33.0	0.8	3.3	4.4	10.9	2.3	1.5	56.2
Additions	24.7	–	–	–	–	–	3.2	27.9
Remeasurement through intangibles	2.3	0.1	(0.6)	(2.3)	5.4	(0.1)	0.1	4.9
Cash payments: investing activities	(2.8)	(0.3)	(0.8)	(0.2)	(0.6)	(0.9)	(0.4)	(6.0)
Finance expense	0.6	–	–	–	0.1	0.1	0.2	1.0
Foreign exchange adjustments	(1.6)	–	(0.3)	(0.1)	(1.4)	(0.2)	(0.2)	(3.8)
At 30 June 2021	56.2	0.6	1.6	1.8	14.4	1.2	4.4	80.2
As at 1 July 2021	56.2	0.6	1.6	1.8	14.4	1.2	4.4	80.2
Additions	–	–	–	–	–	–	1.2	1.2
Remeasurement through intangibles	(10.3)	–	0.1	0.1	0.7	0.2	0.1	(9.1)
Cash payments: investing activities	(14.3)	–	–	–	(0.5)	(0.4)	(0.6)	(15.8)
Finance expense	0.3	–	–	–	0.2	–	–	0.5
Foreign exchange adjustments	(0.3)	–	–	(0.1)	0.4	–	0.1	0.1
At 31 December 2021	**31.6**	**0.6**	**1.7**	**1.8**	**15.2**	**1.0**	**5.2**	**57.1**

Notes to the Financial Statements continued
for the six months ended 31 December 2021

13 Contingent Consideration Liabilities continued

The table below shows on an indicative basis the sensitivity to reasonably possible changes in key inputs to the valuations of the contingent consideration liabilities. There will be a corresponding opposite impact on the intangible asset.

	Tri-Solfen®	StrixNB® & DispersinB®	Injectable Solution 1	Injectable Solution 2	*Mirataz*	*Phycox*®	Other
Increase/(decrease) in financial liability							
10% increase in royalty forecasts £m	2.5	0.1	N/A	N/A	1.5	0.1	0.2
10% decrease in royalty forecast £m	(2.5)	(0.1)	N/A	N/A	(1.5)	(0.1)	(0.2)
1% increase in discount rates £m	(1.9)	–	–	–	(0.7)	–	(0.1)
1% decrease in discount rates £m	2.1	–	–	–	0.8	–	0.2
5% appreciation in currency £m	(1.5)	–	(0.1)	(0.1)	(0.7)	–	(0.2)
5% depreciation in currency £m	1.7	–	0.1	0.1	0.8	–	0.3
Discount rate range in six months ended 31.12.21	1.5%-20.8%	10.4%-11.7%	9.2%	9.2%	7.1%-9.5%	10.4%	8.6%-10.4%
Discount rate range in six months ended 31.12.20	1.3%-15.9%	10.1%-13.1%	9.2%	9.2%	7.5%-10.2%	10.1%	9.4%-10.1%
Discount rate range in 2021 financial year	0.0%-19.7%	10.4%-11.7%	9.2%	9.2%	7.5%-9.9%	10.4%	8.6%-10.4%
Aggregate cash outflow in relation to royalties (remaining terms of royalty agreement)							
31.12.21 £m (years)	42.6 (14.5)	0.8 (5.5)	N/A	N/A	22.8 (9.0)	1.1 (1.5)	3.1 (9.0)
31.12.20 £m (years)	41.6 (10.0)	1.0 (6.5)	N/A	N/A	15.7 (10.0)	1.7 (2.0)	1.8 (10.0)
31.06.21 £m (years)	58.5 (10.0)	0.8 (6.0)	N/A	N/A	22.5 (9.5)	1.3 (2.5)	3.4 (10.0)

The consideration for Tri-Solfen® is expected to be payable over a number of years, and relates to development milestones and sales performance. During the Period, the development milestones and sales performance royalties have been remeasured predominantly due to the delay in the EU approval of the pig castration application. The liability was discounted between 1.5% and 20.8%. The broad range of discount rates in respect of this licensing agreement reflects the commercial makeup of the arrangement, with discount rates for milestone payments related to regulatory approvals being lower and based on a cost of debt approach and those with more variability in timing and quantum of future cash flows being higher and based on a CAPM-based approach, also taking into account systematic risk associated with elements of the future cash flows.

The consideration payable for *Mirataz*, StrixNB® and DispersinB® relates to sales performance and is expected to be payable over a number of years.

The consideration for two separate licensing agreements for injectable solutions both relate to development milestones, and have been remeasured in the Period to reflect management's best estimate of the milestones that will be achieved.

Phycox relates to sales performance and arose as part of the acquisition of the trade and assets of PSPC Inc. in 2014.

Where a liability is expected to be payable over a number of years, the total estimated liability is discounted to its present value. With the exception of *Phycox*, all contingent consideration liabilities relate to licensing agreements.

14 Financial Risk Management and Financial Instruments

Financial Risk Factors

The Group's activities expose it to a variety of financial risks including foreign currency risk, fair value interest rate risk, credit risk and liquidity risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 30 June 2021. There have been no changes in any risk management policies since the year end.

Fair Values

The fair value of the Group's financial assets and liabilities are equal to the carrying value with the exception of senior loan notes. Senior loan notes are carried at amortised cost. The fair value of senior loan notes is estimated by discounting contractual future cash flows (Level 2 as defined by IFRS 13). Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. At 31 December 2021, the fair value of senior loan notes was £110.0 million (carrying value: £116.2 million).

14 Financial Risk Management and Financial Instruments continued

Fair Value Hierarchy

Financial instruments carried at fair value are required to be measured by reference to the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Contingent consideration is recorded at fair value based on risk-adjusted future cash flows discounted using appropriate interest rates, which are reviewed periodically. This constitutes a level 3 valuation method. The inputs relating to future cash flows will include cash flows relating to the relevant contractual arrangements. Quantified information about significant unobservable inputs is disclosed within note 13. Refer to the foreign exchange adjustments and unwind of discount on the contingent consideration balances in note 3 and 4 for amounts recognised in the Condensed Consolidated Income Statement in the period.

15 Related Party Transactions

The Group holds a 49.5% stake in Medical Ethics Pty Ltd, which is the holding company of Animal Ethics Pty Ltd. In 2017 the Group entered into a licensing agreement with Animal Ethics Pty Ltd for Tri-Solfen® for which the fair value of associated contingent consideration is disclosed in note 13. There have been no transactions with the Medical Ethics Group during the Period in relation to this agreement.

On 5 February 2021, the Group entered into a licensing agreement with Animal Ethics Pty Ltd for the marketing authorisations of Tri-Solfen® in Australia and New Zealand. Within the Period, the Group settled the balance of the payment for the marketing authorisations which was due on the first commercial sale of AUD26.0 million (£14.1 million). An associated royalty payment of AUD0.5 million (£0.2 million) has also been paid in the Period.

16 Subsequent Events

On 26 January 2022, Genera dd (a 100% subsidiary of the Group) sold the trademarks and registrations, inventory and accounts receivable balances associated with the Agricultural Chemicals business for HRK 27.0 million (£3.0 million). At 31 December 2021, the fair value of the assets held for sale was re-estimated to be HRK 27.0 million (£3.0 million) resulting in a non-underlying impairment of £1.1 million (£0.5 million to cost of sales and £0.6 million to administrative expenses). The carrying amounts of the assets at the date of sale were:

	26.01.22 £m
Inventories	1.5
Trade receivables	1.5
	3.0

In the period to 31 December 2021, the business contributed £0.4 million to net revenue (2021: £0.7 million), and in the year to 30 June 2021 contributed £5.1 million, this reflecting the seasonality of revenue. The Group have concluded that this disposal does not represent a discontinued operation.

On 10 January 2022, the Group acquired the global product rights to Verdinexor, a novel treatment for all forms and stages of canine lymphoma in dogs, including a first right of refusal for other species along with the trademark (Laverdia®). Following the initial payment of USD19.0 million (£14.0 million) there are subsequent milestone payments totalling USD45.5 million (£33.5 million) due on the achievement of various approval and sales milestones for the product in the USA, UK, EU, Brazil, Australia, Japan and Canada. Royalties are also payable as part of this transaction.

17 Contingent Liabilities

The Group continues to monitor developments in relation to EU State Aid investigations. On 25 April 2019, the EU Commission's final decision regarding its investigation into the UK's Controlled Foreign Company (CFC) regime was published. It concluded that the legislation up until December 2018 does partially represent State Aid. The Group considers that the potential amount of additional tax payable remains between £nil and £4.0 million depending on the basis of calculation and the outcome of HMRC's appeal to the EU Commission. Based on current advice, the Group does not consider any provision is required in relation to this investigation. This judgement is based on current interpretation of legislation and professional advice.

In the Prior Year, the Group received charging notices from HMRC under The Taxation (Post Transition Period) Bill for part of the exposure (£2.75 million) and has paid this to HMRC. As the Group considers that the appeal will be successful, the charging notices have been settled in full and a current tax receivable has been recorded in respect of the payment on the basis that the amount will be repaid in due course.

At 31 December 2021, contingent liabilities arising in the normal course of business amounted to £13.0 million (31 December 2020: £8.1 million) relating to licence and distribution agreements. The stage of development of the projects underpinning the agreements dictates that a commercially stable product is yet to be achieved, and accordingly an intangible asset and contingent consideration liability have not been recognised.

Independent Review to Dechra Pharmaceuticals PLC

Report on the Condensed Consolidated Interim Financial Statements

Our Conclusion

We have reviewed Dechra Pharmaceuticals PLC's condensed consolidated interim financial statements (the "Interim Financial Statements") in the Half-Yearly Financial Report 2022 of Dechra Pharmaceuticals PLC for the six month period ended 31 December 2021 (the "period").

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 UK adopted International Accounting Standard 34, '*Interim Financial Reporting*' 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 2021;
- the Condensed Consolidated Income Statement and the 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 2022 of Dechra Pharmaceuticals PLC have been prepared in accordance with UK adopted International Accounting Standard 34, '*Interim Financial Reporting*' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Responsibilities for the Interim Financial Statements and the Review

Our Responsibilities and those of the Directors

The Half-Yearly Financial Report 2022, 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 2022 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 2022 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 2022 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Interim Financial Statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham
21 February 2022

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