Dechra Pharmaceuticals PLC
Half-Yearly Financial Report 2015
for the six months ended 31 December 2014

Monday, 23 February 2015

"The Group has made a solid start to the year with continued momentum in Europe and a strong performance in the US. Our focus on executing our strategy is delivering value to shareholders. Our core portfolio demonstrates growth, our product pipeline is delivering results and our global expansion is progressing well."

Ian Page, Chief Executive Officer

Highlights:

- Solid performance delivering underlying operating profit growth of 11.7% at constant exchange rate (CER) (3.6% at actual exchange rate (AER)).
- Group revenue increased by 11.4% at CER (5.2% at AER). This was against a soft comparator period in the prior year.
- Good momentum in Europe with sales growing at 5.7% at CER (decline of 0.6% at AER).
- Substantial sales growth of 60.6% at CER (55.6% at AER) in the US.
- A new differentiated generic food producing animal antibiotic aerosol was approved in Europe.
- *Osphos*®, our novel equine lameness product, was launched in the US and UK.
- A Canadian subsidiary was established during the period and commenced trading in January 2015.
- Underlying diluted EPS at 20.51 pence, a 30.6% growth at CER (21.1% at AER).
- Interim dividend increased to 5.12 pence per share, a 7.8% increase compared to the prior year.
- Net cash position of £3.0 million.

Financial Summary:

Continuing operations	**2015 £m**	2014 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
Revenue	**100.9**	95.9	5.2%	**11.4%**
Gross profit	**56.9**	54.2	5.0%	**11.3%**
Gross profit %	*56.4%*	*56.5%*		
Underlying operating profit	**23.1**	22.3	3.6%	**11.7%**
Underlying EBITDA	**24.8**	24.0	3.3%	**10.8%**
Underlying diluted EPS	**20.51p**	16.94p	21.1%	**30.6%**

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Analysts briefing: Today at 10.00am (UK time) — Dial in: +44 (0)20 3003 2666 (ref: Dechra Half Year Presentation)

Investec Bank plc, 2 Gresham Street, London, EC2V 7QP

Half-Yearly Financial Report 2015 for the six months ended 31 December 2014

Introduction

The Group has delivered strong revenue and profit growth at CER in the first six months of the financial year. This has been driven by the consistent execution of our strategy through:

- delivering our product pipeline, with the approval of one new product and the first months of trading for *Osphos;*
- optimising returns from our existing portfolio, with our Companion Animal Products (CAP) and Equine portfolio performing strongly, particularly in our dermatology and endocrinology therapeutic areas, offsetting the decline of Food producing Animal Products (FAP);
- expanding geographically, through our new subsidiaries in Italy and Canada; and
- acquisition, with the successful integration of PSPC Inc. assets and the ongoing review of a number of potential targets.

However, exchange rate headwinds adversely impacted our reported performance in the period as we have a significant portion of our operations overseas. Given the current economic and political climate in Europe this will remain an uncertainty for the rest of the financial year.

Financial Review

Revenue increased to £100.9 million, a 11.4% at CER (5.2% increase at AER), against a soft comparator in the same period last year. Our CAP and Equine portfolio performed well in all European countries and in the US. We are also pleased to report that *Vetoryl*'s® momentum has improved as expected. Our focus therapeutic areas of endocrinology and dermatology grew by 20% and 23% respectively. In contrast FAP sales were impacted by the continued decline of the use of antibiotics in the EU. Our third party contract manufacturing revenues remained robust whilst *Specific*® pet Diets sales were temporarily affected in December 2014 by the transfer of production to our new external supplier. The revenue growth we have delivered, despite known challenges, demonstrates the strength of our diverse and balanced portfolio.

Revenue by categories are shown below:

Revenue	**Six months ended 31 December 2014 £m**	Six months ended 31 December 2013 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
CAP	**56.8**	49.8	14.1%	**20.7%**
Equine	**7.0**	6.1	14.8%	**23.0%**
FAP	**14.5**	17.2	(15.7%)	**(9.9%)**
Sub-total pharmaceuticals	**78.3**	73.1	7.1%	**13.7%**
Diets	**13.2**	14.5	(9.0%)	**(2.8%)**
Third party manufacturing	**9.4**	8.3	13.3%	**15.7%**
Total	**100.9**	95.9	5.2%	**11.4%**

Reported gross margin remained flat at 56.4%. However, excluding last year's benefit of the one-off adjustment for deferred profit in stock following the divestment of the Services Segment (as reported in the first half of our 2014 financial year), our margin has improved by almost 1.0% due to product mix and savings that are being realised from the transfer of our Diets range to a new supplier.

We continue to invest in our infrastructure to support our strategic ambitions. Selling, general and administrative expenses increased from £36.7 million to £39.6 million as we support the launch of *Osphos* and establish an infrastructure in our new subsidiaries as well as strengthen corporate functions. R&D expenses remained in line with last year commensurate with the current status of our development programme.

Our organic growth drives an increase in earnings per share (EPS) that are also enhanced by the reduction in interest expenses since we repaid part of our debt in September 2013 and by the tax benefits realised through the review of our tax position. Underlying diluted EPS from continuing operations grew from 16.94 pence to 20.51 pence, a 30.6% increase at CER (21.1% at AER).

Our estimated effective tax rate for the underlying continuing operations has reduced significantly from 25.6% for the six months ended 31 December 2013 to 20.2% for the six months ended 31 December 2014. This is driven by lower corporate tax rates in Denmark and in the UK, and the savings realised from our tax review as we utilise government-backed incentive schemes such as the patent box in the UK and the innovation box in the Netherlands.

We ended the period with a net cash position of £3.0 million and strong cash conversion at 110.2%, partly as a result of a low working capital position.

Dividend
The Board is pleased to declare an interim dividend of 5.12 pence per share, which represents a growth of 7.8% compared to the prior year.

The dividend will be payable on 7 April 2015 to shareholders on the Register at 13 March 2015. The ordinary shares will become ex-dividend on 12 March 2015.

Operational Review
European Pharmaceuticals
During the first half, our European Pharmaceuticals Segment continued to benefit from the positive momentum experienced at the end of the prior financial year with revenue growth of 5.7% at CER compared to the same period last year (a decline of 0.6% at AER).

This was driven by our CAP portfolio, with sales ahead of expectations and a strong performance across all our home markets. Equine products performed strongly, benefiting from the launch of *Osphos* in the UK. Our life stage and therapeutic Diets, branded *Specific*, declined slightly during the period as we changed manufacturer. This complex transfer is now close to completion and we do not anticipate further disruption to supply. Working with the new third party supplier we have improved palatability, quality and packaging and we are now planning a relaunch of the brand.

The overall European performance was partly offset by a decline in our FAP portfolio, which continued to be impacted by the ongoing pressure on veterinarians to reduce antibiotic prescribing. This decline has been most prominent in Germany and the Netherlands, two countries in which we have a strong presence and whose governments are pro-actively putting pressure on veterinarians and doctors to reduce the prescribing and dispensing of antibiotics. In the majority of other markets in which we trade we have low market share and therefore we do not expect this to have a major impact on our performance.

US Pharmaceuticals
The strong performance in the US has continued with revenue increasing by 60.6% at CER compared to the same period last year (55.6% at AER).

Our key therapeutic sectors of dermatology and endocrinology have both delivered organic period on period growth close to 30% as we continue to gain market share and increase market awareness and penetration of our leading products. *Osphos*, our major new equine lameness product was launched in the first quarter and two ophthalmic products have been relaunched following the resolution of long term supply issues. While it is too early to conclude on the performance of these products, early signs and feedback from the veterinarians are encouraging.

The US business has also benefited from the acquisition of the trade and assets of PSPC Inc. completed in May 2014. Sales of *Phycox*® have performed well in the period and we have also launched a new endocrine product, Levocrine™ Chewable Tablets, which was developed at the *Phycox* facility in Melbourne, Florida.

Based on the strength of the recent growth and new product launches we will accelerate our investment in the sales and marketing infrastructure in the US as we look to increase our presence in this key market further.

Geographical Expansion
Our Italian subsidiary launched in March 2014 is performing in line with expectations. Our Canadian subsidiary successfully started trading in January 2015 and further territories including Poland are being planned. The establishment of our own subsidiaries will deliver additional margin and should enhance future growth.

Product Development
As mentioned above *Osphos* has been launched in the US and UK during the period. Initial feedback from veterinarians has been positive.

In the second quarter of this financial year we successfully obtained approval in all our European territories for *TAF Spray*®, an antibiotic aerosol for a wide range of species including cattle. This is a differentiated generic antibiotic, used to treat superficial wound infections, which is novel in the majority of EU territories due to the fact that it contains an antibiotic that is not used in human health in most markets.

Progress has also been made on the next near term global novel product, which will be branded *Zycortal*®. We have already completed the Safety and Efficacy sections and the final part of the dossier, the CMC section, has been submitted to the FDA for US approval. The complete dossier has also been submitted in Europe where we are currently responding to the questions raised in their first round response. It is hoped that the product will be available for launch in the next financial year in at least one major territory.

Internal resources have been allocated to screen new opportunities. This has resulted in an increase in the number of current projects in pre-clinical development (i.e. formulation), which enhances the breadth and depth of our pipeline in the future and helps mitigate the impact of any potential delays in the existing pipeline. Several other opportunities in the exploratory phase are also being reviewed.

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 has ultimate responsibility for risk management and regularly assesses 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 2014 Annual Report and Accounts. An explanation of the risks and how the Group seeks to mitigate them can be found on pages 46 to 49 of the 2014 Annual Report, a copy of which is available at www.dechra.com.

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the current financial year and these are summarised below.

<u>Competitive Environment</u>

The environment within which the Group operates remains competitive. The launch of generic products in our key therapeutic sectors is a key risk. We continue to mitigate this risk by closely monitoring the market and investing in life cycle management projects. To date, generics of *Felimazole®,* as reported last year, and more recently *Comfortan®* have entered the market. Our defence strategy following the introduction of the *Felimazole* generic has proven successful and, as a result, we have maintained our market position in the majority of our territories.

<u>Currency Movements</u>

The Group has significant operations outside the UK and as such is exposed to movements in exchange rates. Given the uncertainty in Europe, we expect that currencies could be extremely volatile, which could significantly impact our results.

<u>Commercial Risk</u>

The prescribing pressure on veterinarians to reduce antibiotic use continues in a number of territories. We have seen focus on a reduction in the use of antibiotics by the German government during the last six months, a territory where our sales have decreased. The decline in the Netherlands has continued. Outside of these two territories we believe our risk is minimal as our market shares are low. We continue to focus on our strategy of extending sales into subsidiary territories and export markets where we currently have low market share.

<u>Third Party Relationships</u>

Relationships with third party suppliers remain a risk, however a number of supply issues have been resolved during the period. We seek to mitigate this risk by extending our internal manufacturing and approvals to become less dependent on third party suppliers and by managing pro-actively our supply chain.

Outlook

Despite the continued focus on reducing antibiotic prescribing in Europe and ongoing global financial uncertainty, the Group is meeting its CER earnings expectations through the execution of its strategy. Our core portfolio demonstrates growth, our product pipeline is delivering results and global expansion is progressing. Management remain confident that the Group will continue to deliver value to shareholders.

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. Dechra's business is unique as the majority of its products are used to treat medical conditions for which there is no other effective solution or have a clinical or dosing advantage over competitor products.

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

Stock Code: Full Listing (Pharmaceuticals): DPH.

Trademarks

Dechra and the Dechra "D" logo are registered trademarks of Dechra Pharmaceuticals PLC.

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

We 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.

By Order of the Board

Ian Page
Chief Executive Officer
23 February 2015

Anne-Francoise Nesmes
Chief Financial Officer

Condensed Consolidated Income Statement

for the six months ended 31 December 2014

		Six months ended		Year ended
		31.12.14	31.12.13	30.06.14
	Note	**£000**	£000	£000
Revenue	2	**100,894**	95,913	193,571
Cost of sales		**(43,994)**	(41,667)	(85,863)
Gross profit		**56,900**	54,246	107,708
Selling, general and administrative expenses		**(39,577)**	(36,695)	(74,464)
Research and development expenses		**(3,424)**	(3,639)	(8,248)
Operating profit	2	**13,899**	13,912	24,996
Underlying operating profit	8	**23,120**	22,282	42,168
Non-underlying items*	8	**(9,221)**	(8,370)	(17,172)
Operating profit		**13,899**	13,912	24,996
Finance income	3	**316**	133	302
Underlying finance expense	4	**(775)**	(2,411)	(2,609)
Non-underlying items*	4	**(876)**	(1,300)	(1,247)
Finance expense		**(1,651)**	(3,711)	(3,856)
Profit before taxation	2	**12,564**	10,334	21,442
Underlying profit before taxation	8	**22,661**	20,004	39,861
Non-underlying items*	8	**(10,097)**	(9,670)	(18,419)
Profit before taxation — continuing operations		**12,564**	10,334	21,442
Income tax expense	5	**(2,176)**	(2,646)	(2,026)
Profit for the period — continuing operations		**10,388**	7,688	19,416
Underlying profit after taxation		**18,083**	14,883	31,849
Non-underlying items*		**(7,695)**	(7,195)	(12,433)
Profit for the period — continuing operations		**10,388**	7,688	19,416
Profit for the period — discontinued operations	13	**–**	39,631	39,631
Profit for the period attributable to owners of the parent		**10,388**	47,319	59,047
Earnings per share				
Basic	7	**11.83p**	54.26p	67.57p
— continuing operations		**11.83p**	8.82p	22.22p
— discontinued operations		**–**	45.44p	45.35p
Diluted	7	**11.78p**	53.86p	67.33p
— continuing operations		**11.78p**	8.75p	22.14p
— discontinued operations		**–**	45.11p	45.19p
Dividend per share	6	**5.12p**	4.75p	15.40p

* Non-underlying items comprise amortisation of acquired intangibles, acquisition costs, rationalisation costs, loss on extinguishment of debt, the unwinding of discounts on deferred and contingent consideration, and profit and related expenses on the disposal of discontinued operations.

Condensed Consolidated Statement of Comprehensive Income

for the six months ended 31 December 2014

	Six months ended		Year ended
	31.12.14	31.12.13	30.06.14
	£000	£000	£000
Profit for the period - continuing operations	**10,388**	7,688	19,416
Profit for the period - discontinued operations	**–**	39,631	39,631
Total profit for the period	**10,388**	47,319	59,047
Other comprehensive income:			
Items that will not be subsequently recycled to the profit or loss:			
Remeasurement of defined benefit pension scheme	**(41)**	–	(136)
	(41)	–	(136)
Items that may be reclassified subsequently to the profit or loss:			
Effective portion of changes in fair value of cash flow hedges	**(48)**	(181)	(341)
Cash flow hedges recycled to income statement	**89**	101	180
Foreign currency translation differences for foreign operations	**(4,049)**	(10,079)	(18,128)
Income tax relating to components of other comprehensive income	**(4)**	17	29
	(4,012)	(10,142)	(18,260)
Total comprehensive income for the period attributable to owners of the parent	**6,335**	37,177	40,651

Condensed Consolidated Statement of Financial Position

as at 31 December 2014

ASSETS	Note	**As at 31.12.14 £000**	As at 31.12.13 £000	As at 30.06.14 £000
Non-current assets				
Intangible assets		**186,695**	204,208	196,182
Property, plant and equipment		**17,749**	16,485	18,258
Total non-current assets		**204,444**	220,693	214,440
Current assets				
Inventories		**29,370**	30,932	29,673
Trade and other receivables		**29,220**	26,138	29,888
Cash and cash equivalents	9	**36,266**	22,506	26,773
Total current assets		**94,856**	79,576	86,334
Total assets		**299,300**	300,269	300,774
LIABILITIES				
Current liabilities				
Borrowings		**(95)**	(319)	(103)
Trade and other payables		**(26,430)**	(23,987)	(27,365)
Deferred and contingent consideration		**(1,367)**	(896)	(1,784)
Current tax liabilities		**(8,353)**	(6,984)	(6,463)
Total current liabilities		**(36,245)**	(32,186)	(35,715)
Non-current liabilities				
Borrowings		**(33,160)**	(32,666)	(31,660)
Deferred and contingent consideration		**(6,625)**	(4,654)	(6,025)
Employee benefit obligations		**(1,128)**	(1,131)	(1,070)
Deferred tax liabilities		**(19,242)**	(25,629)	(21,498)
Total non-current liabilities		**(60,155)**	(64,080)	(60,253)
Total liabilities	2	**(96,400)**	(96,266)	(95,968)
Net assets		**202,900**	204,003	204,806
EQUITY				
Issued share capital		**879**	872	877
Share premium account		**124,692**	123,944	124,429
Own shares		**(303)**	(606)	(606)
Hedging reserve		**(95)**	(63)	(132)
Foreign currency translation reserve		**(13,071)**	(973)	(9,022)
Merger reserve		**1,770**	1,770	1,770
Retained earnings		**89,028**	79,059	87,490
Total equity attributable to equity holders of the parent		**202,900**	204,003	204,806

Condensed Consolidated Statement of Changes in Shareholders' Equity

for the six months ended 31 December 2014

	Attributable to owners of the parent							
	Issued share capital £000	Share premium account £000	Own shares £000	Hedging reserve £000	Foreign currency translation reserve £000	Merger reserve £000	Retained earnings £000	Total £000
Six months ended 31 December 2013								
At 1 July 2013	872	123,485	–	–	9,106	1,770	39,383	174,616
Profit for the period	–	–	–	–	–	–	47,319	47,319
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	(143)	–	–	–	(143)
Foreign currency translation differences for foreign operations	–	–	–	–	(10,079)	–	–	(10,079)
Cash flow hedges recycled to income statement, net of tax	–	–	–	80	–	–	–	80
Total comprehensive income for the period	–	–	–	(63)	(10,079)	–	47,319	37,177
Transactions with owners								
Dividends paid	–	–	–	–	–	–	(8,420)	(8,420)
Share-based payments	–	–	–	–	–	–	777	777
Shares issued	–	459	–	–	–	–	–	459
Own shares purchased	–	–	(606)	–	–	–	–	(606)
Total contributions by and distribution to owners	–	459	(606)	–	–	–	(7,643)	(7,790)
At 31 December 2013	872	123,944	(606)	(63)	(973)	1,770	79,059	204,003
Year ended 30 June 2014								
At 1 July 2013	872	123,485	–	–	9,106	1,770	39,383	174,616
Profit for the period	–	–	–	–	–	–	59,047	59,047
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	(312)	–	–	–	(312)
Foreign currency translation differences for foreign operations	–	–	–	–	(18,128)	–	–	(18,128)
Remeasurement of defined benefit pension scheme	–	–	–	–	–	–	(136)	(136)
Cash flow hedges recycled to income statement, net of tax	–	–	–	180	–	–	–	180
Total comprehensive income for the period	–	–	–	(132)	(18,128)	–	58,911	40,651
Transactions with owners								
Dividends paid	–	–	–	–	–	–	(12,579)	(12,579)
Share-based payments	–	–	–	–	–	–	1,775	1,775
Shares issued	5	944	–	–	–	–	–	949
Own shares purchased	–	–	(606)	–	–	–	–	(606)
Total contributions by and distribution to owners	5	944	(606)	–	–	–	(10,804)	(10,461)
At 30 June 2014	877	124,429	(606)	(132)	(9,022)	1,770	87,490	204,806
Six months ended 31 December 2014								
At 1 July 2014	**877**	**124,429**	**(606)**	**(132)**	**(9,022)**	**1,770**	**87,490**	**204,806**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**10,388**	**10,388**
Effective portion of changes in fair value of cash flow hedges, net of tax	**–**	**–**	**–**	**(52)**	**–**	**–**	**–**	**(52)**
Foreign currency translation differences for foreign operations	**–**	**–**	**–**	**–**	**(4,049)**	**–**	**–**	**(4,049)**
Remeasurement of defined benefit	**–**	**–**	**–**	**–**	**–**	**–**	**(41)**	**(41)**

pension scheme								
Cash flow hedges recycled to income statement, net of tax	–	–	–	89	–	–	–	89
Total comprehensive income for the period	–	–	–	37	(4,049)	–	10,347	6,335
Transactions with owners								
Dividends paid	–	–	–	–	–	–	(9,355)	(9,355)
Share-based payments	–	–	–	–	–	–	849	849
Shares issued	2	263	–	–	–	–	–	265
Own shares reserve recycled to retained earnings	–	–	303	–	–	–	(303)	–
Total contributions by and distribution to owners	2	263	303	–	–	–	(8,809)	(8,241)
At 31 December 2014	**879**	**124,692**	**(303)**	**(95)**	**(13,071)**	**1,770**	**89,028**	**202,900**

Condensed Consolidated Statement of Cash Flows

for the six months ended 31 December 2014

	Note	Six months ended **31.12.14** **£000**	31.12.13 £000	Year ended 30.06.14 £000
Cash flows from operating activities				
Profit for the period - continuing operations		**10,388**	7,688	19,416
Profit for the period - discontinued operations	13	**–**	39,631	39,631
Total profit for the period		**10,388**	47,319	59,047
Adjustments for:				
Depreciation		**1,174**	1,101	2,197
Amortisation		**9,580**	9,018	18,340
Loss on disposal of intangible assets		**–**	2	–
Loss on sale of property, plant and equipment		**129**	20	–
Profit on disposal and related expenses of discontinued operations, net of tax	13	**–**	(38,611)	(38,611)
Finance income	3	**(316)**	(133)	(302)
Finance expense	4	**1,651**	3,711	3,856
Equity-settled share-based payments expense		**837**	865	1,616
Income tax expense		**2,176**	2,942	2,322
Operating cash flow before changes in working capital		**25,619**	26,234	48,465
Increase in inventories		**(11)**	(3,537)	(2,811)
Decrease/(increase) in trade and other receivables		**440**	(17,156)	(21,100)
Decrease in trade and other payables		**(693)**	(5,145)	(1,159)
Cash generated from operating activities before interest and taxation		**25,355**	396	23,395
Interest paid		**(903)**	(1,707)	(2,444)
Income taxes paid		**(2,267)**	(7,030)	(9,479)
Net cash inflow/(outflow) from operating activities		**22,185**	(8,341)	11,472
Cash flows from investing activities				
Interest received		**20**	221	260
Acquisition of subsidiaries and payment of deferred and contingent consideration	10	**(613)**	–	(5,938)
Proceeds from disposal of discontinued operations	13	**–**	91,202	91,202
Expenses related to the disposal of discontinued operations		**–**	(1,576)	(1,576)
Purchase of property, plant and equipment		**(865)**	(1,828)	(4,927)
Capitalised development expenditure		**(377)**	(451)	(1,065)
Purchase of other intangible non-current assets		**(185)**	(635)	(1,381)
Net cash (outflow)/inflow from investing activities		**(2,020)**	86,933	76,575
Cash flows from financing activities				
Proceeds from the issue of share capital		**265**	459	949
Own shares purchased		**–**	(606)	(606)
Repayment of borrowings		**(8)**	(81,116)	(81,470)
Expenses of refinancing		**(1,235)**	–	–
Resetting of foreign currency borrowings		**–**	1,557	1,558
Dividends paid		**(9,355)**	(8,420)	(12,579)
Net cash outflow from financing activities		**(10,333)**	(88,126)	(92,148)
Net increase/(decrease) in cash and cash equivalents		**9,832**	(9,534)	(4,101)
Cash and cash equivalents at start of period		**26,773**	32,791	32,791
Exchange differences on cash and cash equivalents		**(339)**	(751)	(1,917)
Cash and cash equivalents at end of period		**36,266**	22,506	26,773
Reconciliation of net cash flow to movement in net cash/(borrowings)				
Net increase/(decrease) in cash and cash equivalents		**9,832**	(9,534)	(4,101)
Repayment of borrowings		**8**	81,116	81,470
Expenses of raising new borrowings		**1,235**	–	–
Exchange differences on cash and cash equivalents		**(339)**	(751)	(1,917)
Retranslation of foreign borrowings		**(2,231)**	983	1,935
Other non-cash changes		**(504)**	(1,494)	(1,578)
Movement in net cash/(borrowings) in the period		**8,001**	70,320	75,809
Net borrowings at start of period		**(4,990)**	(80,799)	(80,799)
Net cash/(borrowings) at end of period	9	**3,011**	(10,479)	(4,990)

Notes to the Financial Statements

for the six months ended 31 December 2014

1 Basis of Preparation and Principal Accounting Policies

Dechra Pharmaceuticals PLC (Dechra or the Company) is a Company domiciled in the United Kingdom. The condensed set of financial statements as at, and for, the six months ended 31 December 2014 comprises the Company and its subsidiaries (together referred to as the Group).

The Group financial statements as at, and for, the year ended 30 June 2014 prepared in accordance with IFRSs 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 2014 and the unaudited financial information in the Half-Yearly Financial Report for the six months ended 31 December 2013. The comparative figures for the financial year ended 30 June 2014 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's Auditor and delivered to the Registrar of Companies. The report of the Auditor (i) was unqualified, (ii) did not include a reference to any matters to which the 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 Directors consider that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these Interim Financial Statements.

The condensed set of financial statements for the six months ended 31 December 2014 are unaudited but have been reviewed by the Auditor. The Independent Review Report is set out at the end of this announcement.

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 full annual financial statements, and should be read in conjunction with the Group financial statements as at, and for, the year ended 30 June 2014.

This condensed set of financial statements was approved by the Board of Directors on 23 February 2015.

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 2014, except where new or revised accounting standards have been applied.

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. Actual results may differ from these estimates.

New and Revised Standards

The following standards/revisions to standards and interpretations are applicable to the Group and have been adopted as they are mandatory for the year ending 30 June 2015:

- IFRS 10 '*Consolidated Financial Statements*'
- IFRS 11 '*Joint Arrangements*'
- IFRS 12 '*Disclosure of Interests in Other Entities*'
- IAS 27 '*Separate Financial Statements*'
- IAS 28 '*Investments in Associates and Joint Ventures*'

The adoption of these amendments has not had a material impact on the Group's financial statements.

2 Operating Segments

The Group has three reportable segments (four including the divested Services Segment), 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.

On 16 August 2013, the Group completed the disposal of the Services Segment. This Segment comprised National Veterinary Services, Dechra Laboratory Services and Dechra Specialist Laboratories. The Segment serviced UK veterinary practices in both the companion animal and livestock sectors. This Segment was a discontinued operation in the prior year. Refer to note 13 for further details and segmental analysis in relation to the Services Segment.

The European Pharmaceuticals Segment comprises Dechra Veterinary Products EU and Dechra Pharmaceuticals Manufacturing. This Segment operates internationally and manufactures and markets Companion Animal, Equine and Food producing Animal Products. This Segment also includes third party manufacturing sales.

The US Pharmaceuticals Segment consists of Dechra Veterinary Products US which sells companion animal pharmaceuticals into that territory. The Segment expanded during the financial year ended 30 June 2014 with the acquisition of PSPC Inc.'s manufacturing unit based in Melbourne, Florida.

The Pharmaceuticals Research and Development Segment includes all of the Group's Pharmaceutical Research and Development activities. From a Board perspective, this Segment has no revenue income.

		Six months ended		Year ended
		31.12.14	31.12.13	30.06.14
		£000	£000	£000
Revenue by segment				
European Pharmaceuticals	— total	**85,510**	85,974	172,449
	— intersegment	**–**	–	(35)
US Pharmaceuticals	— total	**15,384**	9,939	21,215
	— intersegment	**–**	–	(58)
		100,894	95,913	193,571
Operating profit/(loss) by segment				
European Pharmaceuticals		**24,060**	25,219	49,016
US Pharmaceuticals		**5,381**	3,279	5,980
Pharmaceuticals Research and Development		**(3,424)**	(3,639)	(8,248)
Segment operating profit		**26,017**	24,859	46,748
Corporate and other unallocated costs		**(2,897)**	(2,577)	(4,580)
Underlying operating profit		**23,120**	22,282	42,168
Amortisation of acquired intangibles		**(9,106)**	(8,370)	(16,543)
Rationalisation costs		**–**	–	(479)
Acquisition costs		**(115)**	–	(150)
Total operating profit		**13,899**	13,912	24,996
Finance income		**316**	133	302
Finance expense		**(1,651)**	(3,711)	(3,856)
Profit before taxation — continuing operations		**12,564**	10,334	21,442
Total liabilities by segment				
European Pharmaceuticals		**(21,982)**	(21,663)	(23,615)
US Pharmaceuticals		**(10,329)**	(6,413)	(8,884)
Pharmaceuticals Research and Development		**(773)**	(359)	(633)
Segment liabilities		**(33,084)**	(28,435)	(33,132)
Corporate loans and revolving credit facility		**(33,255)**	(32,985)	(31,653)
Corporate accruals and other payables		**(2,466)**	(2,233)	(3,222)
Current and deferred tax liabilities		**(27,595)**	(32,613)	(27,961)
		(96,400)	(96,266)	(95,968)
Revenue by product category				
CAP		**56,763**	49,769	98,747
Equine		**7,020**	6,101	12,585
FAP		**14,483**	17,271	35,865
Diets		**13,201**	14,458	28,372
Third party manufacturing		**9,427**	8,314	18,002
		100,894	95,913	193,571

3 Finance Income

	Six months ended		Year ended
	31.12.14	31.12.13	30.06.14
	£000	£000	£000
Finance income arising from:			
— Cash and cash equivalents	**8**	98	80
— Loans and receivables	**20**	35	61
— Foreign exchange gains	**288**	–	161
	316	133	302

4 Finance Expense

	Six months ended		Year ended
	31.12.14	31.12.13	30.06.14
Underlying	**£000**	£000	£000
Finance expense arising from:			
— Financial liabilities at amortised cost	**755**	1,801	2,561
— Net interest on net defined benefit obligations	**20**	25	48
— Foreign exchange losses	**–**	585	–
Underlying finance expense	**775**	2,411	2,609

	Six months ended		Year ended
	31.12.14	31.12.13	30.06.14
Non-Underlying	**£000**	£000	£000
Loss on extinguishment of debt	**372**	1,213	1,213
Foreign exchange losses on non-underlying items	**229**	–	–
Unwinding of discounts on deferred and contingent consideration	**275**	87	34
Non-underlying finance expense	**876**	1,300	1,247
Total finance expense	**1,651**	3,711	3,856

5 Income Tax Expense

The tax charge for the six months ended 31 December 2014 has been based on the estimated effective rate for the year ending 30 June 2015 of 17.3% (six months ended 31 December 2013: 25.6%, year ended 30 June 2014: 9.4%). This includes non-underlying items as defined in the Condensed Consolidated Income Statement.

The estimated effective tax rate for underlying continuing operations for the year ending 30 June 2015 is 20.2% (six months ended 31 December 2013: 25.6%, year ended 30 June 2014: 20.1%).

6 Dividends

The final dividend for the year ended 30 June 2014 of 10.65 pence per share costing £9,355,000 has been paid in the period.

The Directors have declared an interim dividend of 5.12 pence per share (2013: 4.75 pence) costing £4,503,000 (2013: £4,159,000). It is payable on 7 April 2015 to shareholders whose names are on the Register of Members at close of business on 13 March 2015. The ordinary shares will become ex-dividend on 12 March 2015.

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 2015.

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
	31.12.14	31.12.13	30.06.14
	Pence	Pence	Pence
Basic earnings per share			
— Underlying*	**20.59**	18.24	37.61
— continuing operations	**20.59**	17.07	36.45
— discontinued operations	**–**	1.17	1.16
— Basic	**11.83**	54.26	67.57
— continuing operations	**11.83**	8.82	22.22
— discontinued operations	**–**	45.44	45.35
Diluted earnings per share			
— Underlying*	**20.51**	18.10	37.48
— continuing operations	**20.51**	16.94	36.32
— discontinued operations	**–**	1.16	1.16
— Diluted	**11.78**	53.86	67.33
— continuing operations	**11.78**	8.75	22.14
— discontinued operations	**–**	45.11	45.19

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

	£000	£000	£000
Earnings for underlying basic and underlying diluted earnings per share	**18,083**	15,903	32,869
— continuing operations	**18,083**	14,883	31,849
— discontinued operations	**–**	1,020	1,020
Earnings for basic and diluted earnings per share	**10,388**	47,319	59,047
— continuing operations	**10,388**	7,688	19,416
— discontinued operations	**–**	39,631	39,631

	No.	No.	No.
Weighted average number of ordinary shares for basic earnings per share	**87,822,629**	87,206,785	87,385,689
Impact of share options	**321,926**	646,885	312,771
Weighted average number of ordinary shares for diluted earnings per share	**88,144,555**	87,853,670	87,698,460

* Underlying measures exclude non-underlying items as defined on the Condensed Consolidated Income Statement.

8 Underlying Operating Profit and Profit before Taxation

	Six months ended		Year ended
	31.12.14	31.12.13	30.06.14
	£000	£000	£000
Operating profit			
Underlying operating profit is calculated as follows:			
Operating profit	**13,899**	13,912	24,996
Amortisation of intangible assets acquired as a result of business combinations	**9,106**	8,370	16,543
Rationalisation costs	**–**	–	479
Acquisition costs	**115**	–	150
	23,120	22,282	42,168
Profit before taxation			
Underlying profit before taxation is calculated as follows:			
Profit before taxation	**12,564**	10,334	21,442
Amortisation of intangible assets acquired as a result of business combinations	**9,106**	8,370	16,543
Rationalisation costs	**–**	–	479
Acquisition costs	**115**	–	150
Unwinding of discounts on deferred and contingent consideration	**275**	87	34
Foreign exchange losses on non-underlying items	**229**	–	–
Loss on extinguishment of debt	**372**	1,213	1,213
	22,661	20,004	39,861

9 Analysis of Net Cash/(Borrowings)

	As at 31.12.14 £000	As at 31.12.13 £000	As at 30.06.14 £000
Bank loans and overdraft	**(33,153)**	(32,524)	(31,653)
Finance leases and hire purchase contracts	**(102)**	(461)	(110)
Cash and cash equivalents	**36,266**	22,506	26,773
	3,011	(10,479)	(4,990)

10 Acquisitions

Acquisition of Phycox

On 20 May 2014, the Group acquired certain trade and assets of PSPC Inc., for a maximum total consideration of US$14.2 million. PSPC's principal product is *Phycox*, a patented nutraceutical which competes in the US veterinary joint health supplement market. The acquisition enhances our US product portfolio and adds further critical mass to our US business. US$8.5 million of the consideration was payable on completion, US$1.5 million was contingent upon the successful registration of Levocrine, which occurred in June 2014, and US$4.2 million is contingent on future sales. US$0.2 million of the US$4.2 million has been paid in the six months to 31 December 2014.

	Book value £000	Fair value £000
Recognised amounts of identifiable assets acquired and liabilities assumed		
Identifiable assets		
Property, plant and equipment	701	319
Trade and other receivables	86	86
Inventory	617	436
Identifiable intangible assets	–	7,483
Net identifiable assets	**1,404**	**8,324**
Goodwill		**84**
Total consideration		**8,408**
Satisfied by:		
Cash		5,047
Contingent consideration arrangement — paid on 20 June 2014		891
Contingent consideration		2,470
Total consideration transferred		**8,408**
Net cash outflow arising on acquisition		
Cash consideration		5,047
Contingent consideration arrangement — paid on 20 June 2014		891
		5,938

The fair value adjustments mostly relate to harmonisation with the Group IFRS accounting policies, including the application of fair values on acquisition, principally the recognition of product rights in accordance with IFRS 3. No deferred tax has been recognised on the identifiable intangible assets as no temporary differences arise between the carrying amounts of the assets for financial purposes and the amounts used for taxation purposes (the tax base).

The book value of receivables in the table above represents the gross contractual amounts receivable.

The goodwill of £84,000 arising from the acquisition consists of the assembled workforce and technical expertise. None of the goodwill is expected to be deductible for income tax purposes.

Acquisition related costs (included in operating expenses) amounted to £150,000. *Phycox's* results are reported within the US Pharmaceuticals Segment.

Contingent consideration of US$1.5 million was paid on 20 June 2014 following the successful registration of the new product. The remaining contingent consideration of US$4.2 million (£2.5 million) represents royalties payable of 10% of future global net sales (with a further 2.5% payable on sales over US$7.5 million, and a further 2.5% payable on sales over US$12.5 million).

Acquisition of Dermapet, Inc.

On 22 October 2010, the Group acquired 100% of the share capital of *DermaPet* ®, Inc., a Florida based business which develops and markets a range of dermatological preparations, including shampoos, conditioners and ear products, for the US and overseas companion animal markets. These veterinary products are marketed and distributed through the same channels as Dechra's current US product portfolio.

In the six months to 31 December 2014, the Group paid a further US$1.0 million (£0.6 million) in respect of the acquisition of *DermaPet*, which related to deferred consideration which was paid on the fourth anniversary of the completion date.

The maximum further consideration payable is US$5.0 million which is contingent upon revenue exceeding US$20.0 million in any rolling 12 month period commencing on the first anniversary of completion and ending on the sixth anniversary of completion.

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
	31.12.14	31.12.13	31.12.14
Danish Krone	9.3873	8.7954	9.5129
US Dollar	1.6319	1.5839	1.5562
Euro	1.2602	1.1794	1.2787

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 Discontinued Operations

The divestment of the Services Segment was completed on 16 August 2013 for sale proceeds of £91.2 million. The costs to sell were £1.6 million, with an associated tax deduction of £0.1 million.

The Services businesses constitute a reporting segment in accordance with IFRS 8.

The results of the discontinued operations included in the profit for the prior period are set out below.

	Six months ended		Year ended
	31.12.14	31.12.13	30.06.14
Profit for the period from discontinued operations	**£000**	£000	£000
Revenue	**–**	48,259	48,259
Cost of sales	**–**	(44,519)	(44,519)
Gross profit	**–**	3,740	3,740
Distribution costs	**–**	(1,669)	(1,669)
Administrative expenses	**–**	(755)	(755)
Non-underlying expenses*	**–**	–	–
Operating profit	**–**	1,316	1,316
Net finance income	**–**	–	–
Profit before taxation from operating activities	**–**	1,316	1,316
Income tax expense	**–**	(296)	(296)
Profit for the year	**–**	1,020	1,020
Profit on disposal and related expenses	**–**	38,711	(38,711)
Tax on profit on disposal and related expenses	**–**	(100)	(100)
Total profit for the year from discontinued operations attributable to owners of the parent	**–**	39,631	39,631

* Non-underlying expenses comprise amortisation on acquired intangibles.

See note 7 for the earnings per share split between continuing and discontinued operations.

	Six months ended		Year ended
	31.12.14	31.12.13	30.06.14
Cash flows from discontinued operations	**£000**	£000	£000
Net cash outflows from operating activities	**–**	(14,210)	(14,210)
Net cash inflows from investing activities	**–**	89,626	89,626
Net cash outflows from financing activities (including repayment of intercompany funding)	**–**	–	–

Effect of the disposal on the financial position of the Group

	31.12.13
Net assets and liabilities	£000
Goodwill	(2,621)
Intangible assets	(1,049)
Property, plant and equipment	(1,677)
Inventories	(29,274)
Trade and other receivables	(73,330)
Trade and other payables	55,569
Net assets and liabilities	(52,382)
Consideration received	87,500
Working capital adjustment	3,702
Expenses related to disposal (including those accrued in the prior period)	(1,576)
Net cash inflow	89,626

Independent Review Report to Dechra Pharmaceuticals PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the Half-Yearly Financial Report for the six months ended 31 December 2014 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Shareholders' Equity, the Condensed Consolidated Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the Half-Yearly Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules (the DTR) of the UK's Financial Conduct Authority (the UK FCA). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' Responsibilities

The Half-Yearly Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-Yearly Financial Report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. 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.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Half-Yearly Financial Report based on our review.

Scope of Review

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 UK. 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 Ireland) 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Half-Yearly Financial Report for the six months ended 31 December 2014 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Graham Neale
for and on behalf of KPMG LLP
Chartered Accountants

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Snow Hill Queensway
Birmingham
B4 6GH

23 February 2015