Dechra®
Pharmaceuticals PLC

Half-Yearly Financial Report 2020

for the six months ended 31 December 2019 (the Period)

Monday, 24 February 2020

"Our strategy remains robust and we are creating more opportunities than at any time in our history. New development opportunities have been secured creating a pipeline with significant potential future value, acquisition opportunities continue to be assessed and delivered, our International business is increasing in materiality and we continue to get growth from our existing portfolio of products"

Ian Page, Chief Executive Officer

Highlights

- Reported Group revenue for the Period increased by 7.1% at Constant Exchange Rate (CER) (7.4% at Actual Exchange Rate (AER)).
- European Pharmaceuticals (EU Pharmaceuticals) revenue growth was 13.0% at CER (11.8% at AER).
- North American Pharmaceuticals (NA Pharmaceuticals) revenue declined by 2.5% at CER (growth of 0.3% at AER).
- Underlying operating profit growth was 0.2% at CER (0.5% at AER) with operating margin declining by 170 bps to 24.6%.
- Reported operating profit increased by 36.5% at CER (37.1% at AER) mainly due to a reduction in non-underlying items.
- Strong cash conversion of 99.7%.
- Laboratorios Vencofarma do Brasil Ltda (Venco) and Caledonian acquisitions performing well.
- Asset purchase agreement signed post Period end for the acquisition of a major otic product, Osurnia®.
- Underlying diluted EPS growth of 3.8% at CER (4.1% at AER) to 43.46 pence. Interim dividend increased by 8.3% to 10.29 pence.

Financial Summary

	Six months ended 31.12.19 £m	Six months ended 31.12.18 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
Revenue	**248.5**	231.4	7.4%	**7.1%**
Underlying				
Operating profit	**61.1**	60.8	0.5%	**0.2%**
Operating profit %	**24.6%**	26.3%	(170 bps)	**(170 bps)**
EBITDA	**67.9**	65.3	4.0%	**3.5%**
Diluted EPS	**43.46p**	41.76p	4.1%	**3.8%**
Reported				
Operating profit	**23.3**	17.0	37.1%	**36.5%**
Diluted EPS	**12.80p**	15.09p	(15.2%)	**(15.8%)**

The Group presents a number of non-GAAP Alternative Performance Measures (APMs). This allows investors to understand better the underlying performance of the Group, by excluding non-underlying items as set out in note 8. EBITDA is defined as underlying earnings before interest, tax, depreciation and amortisation.
IFRS 16 has been adopted in the period using the modified retrospective approach and accordingly comparatives have not been restated. The impact of adopting IFRS 16 is disclosed in note 15.

Enquiries

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Analysts Briefing: Today at 10.30am (UK time)
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(ref: Dechra Pharmaceuticals PLC-Half Year Results)

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Notes: Foreign Exchange Rates

FY2020 H1 Average	EUR 1.1352: GBP 1.0	USD 1.2593: GBP 1.0
FY2020 H1 Closing	EUR 1.1754: GBP 1.0	USD 1.3204: GBP 1.0
FY2019 H1 Average	EUR 1.1243: GBP 1.0	USD 1.2954: GBP 1.0
FY2019 H1 Closing	EUR 1.1179: GBP 1.0	USD 1.2800: GBP 1.0
FY2019 Average	EUR 1.1345: GBP 1.0	USD 1.2945: GBP 1.0
FY2019 Closing	EUR 1.1154: GBP 1.0	USD 1.2693: GBP 1.0

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for the six months ended 31 December 2019

Introduction
Demand for our products remains strong across all major markets, recent acquisitions are performing well, new opportunities have been secured, and the pipeline has been significantly strengthened. The Period (1 July to 31 December 2019), however, has also proved to be challenging with performance being temporarily impacted by issues in the supply chain; as a result, trading will be more second half weighted than is typical for Dechra. The Board remains confident in the strategy of the Group and the outlook for the future.

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

Operational Review
European Pharmaceuticals
In the Period our EU Pharmaceuticals Segment reported net revenue increased by 13.0% (AER 11.8%). This segment includes our International business, which has benefited from the acquisitions in 2018 of the trade and assets of Caledonian in Australia and New Zealand and Laboratorios Vencofarma do Brasil Ltda (Venco) in Brazil. It continues to be affected by the planned strategic decline in non-core business, such as third party contract manufacturing.

Net revenues, excluding third party contract manufacturing and including the like for like impact of recent acquisitions, increased by 9.2% at CER (8.1% AER). This good growth has been driven by a strong performance in a number of countries, including Germany, Poland, Iberia and France, and by the continued success of disintermediating distribution contracts from the 2018 Le Vet acquisition to capture additional revenues and margin by selling the products through our own sales and marketing organisations.

North American Pharmaceuticals
Our NA Pharmaceuticals Segment's net revenue declined by 2.5% at CER (AER growth of 0.3%). This decline was attributable to Companion Animal Products (CAP) supply issues and to a strong comparable period last year which benefited from exceptional sales of Zycortal® as a result of a competitor being out of stock. Since the return to market of this competitor we have retained some of that business with a slight increase in market share for *Zycortal*. The market is still normalising, as it appears there was excessive purchasing by veterinary practices to ensure continuity of supply for these clinically necessary products. The manufacturing and supply problems resulting in delays to deliveries will be partly reversed in the second half with the exception of two minor products and our sterile ophthalmic range which are not expected to be back in supply until the next financial year. Further details are provided later in this report.

Product Category Performance
CAP, which represents the majority of our business at 70.0% of Group turnover, grew at 4.4% over the corresponding Period. This was below our expectations as robust growth across all therapeutic sectors in our European Segment was offset by the issues outlined above in North America.

Food producing Animal Products (FAP), 13.7% of Group turnover, reported growth of 35.8% through a combination of the acquired Venco business, which is predominantly vaccines, and double digit organic growth from our European water soluble antibiotics.

Equine, 7.9% of Group turnover, delivered 20.1% growth which was ahead of our expectations. Our existing business performed strongly across both Segments. This strong performance was against a soft comparator for Osphos®, sales of which are recovering following the inappropriate off label use and the unjustified concerns regarding its safety which we reported in the prior financial year. The performance was also enhanced by a better than expected contribution from the Caledonian acquisition.

Nutrition, which represents 5.6% of Group turnover, delivered growth of 2.2% in the Period. Following the successful relaunch of the cat diets in the prior year, the dog diets were re-presented to the market in December 2019 with improved livery, in new pack sizes and, in some major markets, at a new lower price point. This modest return to growth over a six month period does not yet demonstrate a trend; however, we believe there are signs of our recovery in this highly competitive pet nutrition market.

Acquisitions
Venco, our Brazilian business, is performing well and the planned upgrade to processes and systems is progressing in line with our strategy. The equine products from the Caledonian acquisition have now been fully integrated into our Australian and New Zealand businesses with sales exceeding our expectations.

In July 2019, we acquired an additional 15.0% of the shares of Medical Ethics Pty Ltd, the parent company of Animal Ethics Pty Ltd, for a consideration of AUD13.5 million (£7.5 million). Following the acquisition of 33.0% for AUD18.0 million in 2017 this takes our total holding to 48.0%. Strong progress continues to be made on the global development of Tri-Solfen® for pigs, cattle and sheep. There are also ongoing trials for its application for debriding of venous leg ulcers in humans.

In August 2019, we announced the acquisition of Ampharmco LLC in Fort Worth, Texas, USA for a cash consideration of USD29.6 million (£24.3 million). Ampharmco, an FDA registered facility, was acquired to support our manufacturing strategy and to provide us with a US base to manufacture solid dose, liquids, creams and ointments for the American market. It also has two veterinary generic products, one of which, Gentamicin-Betamethasone Topical Spray, is already marketed by Dechra and the second product, Carprofen Chewable Tablets, is soon to be launched under the Dechra brand.

Post the Period end, on 6 January 2020, we announced we had reached an agreement with Elanco to acquire the assets of Osurnia® for USD135.0 million (£102.4 million), a major product for the treatment of otitis externa in dogs with a turnover USD31.2 million for the 12 month period to 31 December 2018. Completion of our acquisition of Osurnia® is conditional upon approval of Dechra as a suitable buyer by the European Commission and the Federal Trade Commission. The addition of Osurnia® will allow us to offer an extended range of solutions for veterinarians to manage otitis externa and offer the best treatment for the pet, taking into consideration the veterinarians' clinical preference and the owners' lifestyle. Dechra's expertise in this arena will add value to otitis externa management for veterinarians.

Pipeline Delivery

We consider that it is important to our market position, as an innovative company, that we retain a balance of both novel and generic products in our portfolio and are conscious that as a consequence of the acquisitions we have made over the last three years, the balance of our pipeline has a greater generic and generic plus weighting than we have had historically. We therefore increased resources and placed greater emphasis into screening opportunities, and have secured additional development agreements, for new technologies.

On 2 August 2019 we announced the signing of a licensing and supply agreement with Akston Biosciences to co-develop a long acting treatment for diabetes in dogs and we have subsequently exercised our rights, subject to a proof of concept study, for the long acting treatment for diabetes in cats. These opportunities, together with other licensed co-development agreements and our in-house innovative projects, have created a pipeline with substantial value and which has a good balance of products across therapeutic categories and species.

The pipeline also continues to deliver new products, the most significant of which was the registration in 22 EU countries of Cosacthen® Injection. *Cosacthen*, which contains Tetracosactide, is used to identify and monitor Cushing's Disease and Addison's disease, conditions which our leading endocrine products, Vetoryl® and *Zycortal* treat. Veterinarians were previously dependent upon using a human version of the product. Whilst the product will not be financially significant, it is an important addition to our endocrine portfolio, strengthening our market leading position in this product category.

A number of other minor registrations have been achieved in several EU countries, Mexico and New Zealand.

Manufacturing and Supply Chain

Our new management team has done a good job in finding remedies and solutions to the supply issues we reported on in the Preliminary Results announcement for our previous financial year in September 2019, with most having now been resolved.

The in-house problems were in our Skipton facility where a gap was identified between our quality control standards and current best practice in our testing laboratories as a result of the evolving regulatory standards. The time taken to make these changes resulted in delays in releasing batches of product which, as a result, affected the first half performance, especially in the first quarter of the current financial year. Although significant progress has been made in Skipton, a number of products will not return to full supply until later in the year. The problem was compounded as we also encountered a number of stock shortages from our contract manufacturing network, especially in the US, where there is greater enforcement of FDA regulations and an increasing focus on smaller manufacturers. This resulted in temporary shortages of a number of products, the loss of our sterile ophthalmic range and delays to two pipeline products. The US ophthalmics and a few other outsourced products will not be available until the next financial year due to the lengthy processes required to bring production in-house or to transfer to new contract manufacturing facilities.

Re-mediating these issues will result in a far stronger and more robust infrastructure that will better serve the Group and support future growth.

People

Dr Susan Longhofer, who has been with the Group for 15 years, has been promoted to a new position of Group Chief Scientific Officer. In her new role, Susan will oversee product development, regulatory affairs, pharmaceutical business development and will also provide help and advice to the Clinical Support Organisation. To support Susan, Trish Logie, who joined Dechra in September 2019, has been appointed as Group Regulatory Affairs Director.

Lisa Bright, who was appointed in February 2019 as a Non-Executive Director, has been working closely with our Group HR Director, Katy Clough, on the commencement of an employee engagement programme to enable the Board to better understand the views of our employees.

Financial Review

Group revenue in the Period was £248.5 million, a growth of 7.1%.

- Revenue in EU Pharmaceuticals grew strongly by 13.0% to £159.6 million.
  - Existing revenue was £150.3 million, an increase of 6.3%. This revenue includes a planned reduction of 39.5% in non-core third party contract manufacturing business; excluding this, revenue increased by 9.2% to £145.1 million.
  - Acquisition revenue from Caledonian and Venco added £9.3 million; both of which are performing ahead of our expectations.
- Our NA Pharmaceuticals Segment revenue declined by 2.5% to £88.9 million.
  - Existing revenue was £87.7 million, a decline of 3.8%. This decline was attributable to supply issues and a strong comparator period as outlined above.
  - Acquisition revenue from Ampharmco added £1.2 million.

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Revenue	Six months ended 31.12.19 £m	Six months ended 31.12.18 £m	Growth at actual exchange rate	Growth at constant exchange rate
EU Pharmaceuticals – Core	**145.1**	134.2	8.1%	**9.2%**
EU Pharmaceuticals – Third Party Contract Manufacturing	**5.2**	8.6	(39.5%)	**(39.5%)**
EU Pharmaceuticals – Existing (1)	**150.3**	142.8	5.3%	**6.3%**
NA Pharmaceuticals – Existing	**87.7**	88.6	(1.0%)	**(3.8%)**
Group Total – Existing	**238.0**	231.4	2.9%	**2.4%**
EU Pharmaceuticals – Acquisitions (2)	**9.3**	–	–	**–**
NA Pharmaceuticals – Acquisitions (3)	**1.2**	–	–	**–**
Group Total – Acquisitions	**10.5**	–	–	**–**
Group Total	**248.5**	231.4	7.4%	**7.1%**

(1) EU Pharmaceuticals - Existing including like-for-like Caledonian and third party contract manufacturing (strategic exit).
(2) EU Pharmaceuticals - Acquisition comprises Caledonian and Venco.
(3) NA Pharmaceuticals - Acquisition comprises Ampharmco.

The pharmaceutical product categories of CAP, Equine and FAP posted growth in the Period. Nutrition also posted modest growth following an increased focus and relaunch of the dog diet range. Other revenue reduced as we continue our planned strategic exit from non-core business, including third party contract manufacturing.

Revenue	Six months ended 31.12.19 £m	Six months ended 31.12.18 £m	Growth at actual exchange rate	Growth at constant exchange rate
CAP	**173.7**	165.1	5.2%	**4.4%**
Equine	**19.7**	16.4	20.1%	**20.1%**
FAP	**34.1**	25.4	34.3%	**35.8%**
Subtotal Pharmaceuticals	**227.5**	206.9	10.0%	**9.5%**
Nutrition	**14.0**	13.9	0.7%	**2.2%**
Other*	**7.0**	10.6	(34.0%)	**(34.0%)**
Total	**248.5**	231.4	7.4%	**7.1%**

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

Group underlying gross margin percentage in the Period reduced by 10 bps to 57.9% (2019: 58.0%), due to the less favourable sales mix as a result of the CAP supply issues in the Period and the dilutive impact of FAP acquisitions. Group underlying Selling, General and Administration (SG&A) expenses increased to £69.2 million, an increase as a percentage of revenue to 27.8% (2019: 26.5%) due to our investment to drive growth being adversely impacted by supply issues in the Period.

Group underlying operating profit in the Period increased slightly to £61.1 million, as revenue growth was not enough to leverage our increased investment in the cost base.

- Underlying operating profit in EU Pharmaceuticals increased to £48.6 million, a growth of 7.0%.
  - Existing underlying operating profit in EU Pharmaceuticals was £47.3 million, an increase of 4.1%. Operating margin reduced by 70 bps to 31.5%. Excluding third party contract manufacturing, underlying operating profit increased by 14.8% to £48.5 million, with underlying operating margin of 33.4% (2019: 31.8%) up 160 bps.
  - Underlying operating profit from acquisitions added £1.3 million, representing an operating margin of 14.0%.
- NA Pharmaceuticals underlying operating profit was £29.9 million, a reduction of 7.9%, with the operating margin declining by 200 bps to 33.6% (2019: 35.7%) as a result of the supply issues impacting this Segment in the Period. The Ampharmco acquisition delivered an underlying operating loss of £0.1 million.
- Pharmaceuticals R&D underlying expenditure increased to £13.6 million, an increase of 11.7%, representing 5.5% of revenue (2019: 5.2% of revenue), through the addition of new territory registrations and further expansion of the product development pipeline including Akston.
- Corporate costs reduced by 17.4% to £3.8 million (2019: £4.6 million) partly due to the remeasurement of performance conditions in relation to the Long Term Incentive Plan.

Net underlying finance expense reduced by 41.5% to £3.8 million (2019: £6.5 million), reflecting the increased debt service costs from the new debt drawn to finance recent acquisitions being more than offset by favourable foreign exchange gains realised in the Period.

The Group underlying Effective Tax Rate (ETR) has increased slightly to 21.1% (2019: 20.8%), reflecting the regional mix of operating profits. The Group reported ETR is a charge of 32.3% (2019: credit of 72.2%) and includes the tax effect impact of non-underlying profit before tax items and an exceptional deferred tax charge of £2.7 million (2019: credit of £7.5 million) due to the change in the Dutch corporate tax rate from 20.5% to 21.7%.

Non-underlying items of £37.3 million (2019: £45.2 million) relating to operating profit and profit before tax are fully set out in note 8. Reported operating profit was £23.3 million (2019: £17.0 million) and reported profit before tax was £19.5 million (2019: £9.0 million). The increase in both reflects the reduction in non-underlying items including amortisation charges relating to intangible assets.

Underlying diluted EPS grew by 3.8% to 43.46 pence (2019: 41.76 pence). Reported diluted EPS fell by 15.8% to 12.80 pence (2019: 15.09 pence), reflecting the improvement in reported profit before tax being more than offset by the impact of the non-underlying tax effects (as set out above).

Net cash inflow from operating activities was £50.6 million, with a cash conversion rate of 99.7%. EBITDA increased by 3.5% to £67.9 million (excluding the impact of the adoption of IFRS 16, as detailed in note 15, EBITDA increased by 1.5%). Net debt increased to £240.8 million (from £227.8 million at 30 June 2019) due to funding of acquisitions in the first half and the lease liability impact following the adoption of IFRS 16 (£13.0 million), representing net debt to EBITDA banking covenant leverage of 1.66 times.

On 1 October 2019 the Accordion on the Revolving Credit Facility (RCF) was invoked increasing the committed facilities available to the Group until 25 July 2024 to £340.0 million. At 31 December 2019, £124.7 million was drawn against the RCF, and £170.2 million was drawn against the Term Loan Facility (maturing on 31 December 2020 and therefore classified as a current liability). In January 2020 the Group undertook a Private Placement raising EUR50.0 million and USD100.0 million (under seven year and ten year new senior secured notes respectively with a weighted average coupon rate of 2.8%) which, along with an additional drawing on the RCF, enabled the Term Loan Facility of EUR200.0 million to be repaid.

Dividend

The Board is pleased to declare an interim dividend of 10.29 pence per share, which represents a growth of 8.3% compared to the prior year. The dividend will be payable on 8 April 2020 to shareholders on the Register at 6 March 2020. The ordinary shares will become ex-dividend on 5 March 2020.

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 2019 Annual Report and Accounts. The Group's principal risks and their mitigation are described on pages 62 to 67 of the 2019 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 group.

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- **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.

  As outlined in our preliminary results announcement in September 2019 and our Trading Update in January 2020, trading was adversely affected by supply problems, predominantly in the first quarter. Significant progress has been made and the supply issues have been largely mitigated.

  The team is assessing the potential impact on the Group of the Covid-19 Virus, if any. We have no direct or indirect revenues in China and we have sufficient inventory of Chinese sourced materials to deal with near term supply, however a prolonged period of interruption would lead to out of stocks.

- **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 £1.8 million on trading activities (2018: a loss of £1.2 million), and a translational loss of £24.1 million on revaluing our balance sheet at the 31 December 2019 exchange rate.

- **Brexit**
  We have completed the implementation of our Brexit mitigation plans which are described on page 64 of the 2019 Annual Report. This will enable us to batch release UK manufactured products within the EU in the event that there will be no mutual recognition of quality standards.

Outlook

Overall the outlook for the full year remains in line with management expectations, although performance in North America will remain challenging until all supply issues are remedied. Our strategy remains robust and we are creating more opportunities than at any time in our history. New development opportunities have been secured creating a pipeline with significant potential future value, acquisition opportunities continue to be assessed and delivered, our International business is increasing in materiality and we continue to get growth from our existing portfolio of products. The Board therefore remain confident in our strategy and the future prospects for the Group.

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

The Directors confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;
- the interim management report (this comprises the Half-Yearly Financial Report) includes a fair review of the information required by:
  (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

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

The Directors of Dechra Pharmaceuticals PLC at 2 September 2019 are listed in its Annual Report and Accounts for the year ended 30 June 2019 on pages 72 to 75. Since that date Paul Sandland was appointed as an Executive Director on 30 October 2019.

By Order of the Board

Ian Page
Chief Executive Officer
24 February 2020

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, and sales and marketing of high quality products exclusively for veterinarians worldwide. The majority of Dechra's products are focused on key therapeutic categories where we have leading market positions, and many of our products are used to treat medical conditions for which there is no other effective solution or have a clinical or dosing advantage over competitive products.

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

Stock Code: Full Listing (Pharmaceuticals): DPH.

Condensed Consolidated Income Statement
for the six months ended 31 December 2019

		Six months ended 31.12.19			Six months ended 31.12.18			Year ended 30.06.19		
	Note	**Underlying £m**	**Non-underlying items* (notes 3, 4 & 8) £m**	**Total £m**	Underlying £m	Non-underlying items* (notes 3, 4 & 8) £m	Total £m	Underlying £m	Non-underlying items* (notes 3, 4 & 8) £m	Total £m
Revenue	2	**248.5**	**–**	**248.5**	231.4	–	231.4	481.8	–	481.8
Cost of sales		**(104.6)**	**–**	**(104.6)**	(97.2)	(2.8)	(100.0)	(203.6)	(5.1)	(208.7)
Gross profit		**143.9**	**–**	**143.9**	134.2	(2.8)	131.4	278.2	(5.1)	273.1
Selling, general and administrative expenses		**(69.2)**	**(34.9)**	**(104.1)**	(61.4)	(37.6)	(99.0)	(125.7)	(76.5)	(202.2)
Research and development expenses		**(13.6)**	**(2.9)**	**(16.5)**	(12.0)	(3.4)	(15.4)	(25.1)	(6.8)	(31.9)
Operating profit	2	**61.1**	**(37.8)**	**23.3**	60.8	(43.8)	17.0	127.4	(88.4)	39.0
Share of loss of investments accounted for using the equity method		**(0.5)**	**(0.5)**	**(1.0)**	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.4)
Finance income	3	**1.9**	**1.4**	**3.3**	–	–	–	0.7	–	0.7
Finance expense	4	**(5.7)**	**(0.4)**	**(6.1)**	(6.5)	(1.3)	(7.8)	(10.5)	(1.0)	(11.5)
Profit before taxation	2	**56.8**	**(37.3)**	**19.5**	54.2	(45.2)	9.0	117.4	(89.6)	27.8
Income taxes	5	**(12.0)**	**5.7**	**(6.3)**	(11.3)	17.8	6.5	(24.9)	28.0	3.1
Profit for the period		**44.8**	**(31.6)**	**13.2**	42.9	(27.4)	15.5	92.5	(61.6)	30.9
Earnings per share										
Basic	7			**12.85p**			15.14p			30.15p
Diluted	7			**12.80p**			15.09p			30.07p
Dividend per share (interim and full)	6			**10.29p**			9.50p			31.60p

* 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 2019

	Six months ended		Year ended
	31.12.19	31.12.18	30.06.19
	£m	£m	£m
Profit for the period	**13.2**	15.5	30.9
Other comprehensive (expense)/income:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension scheme	**–**	0.1	–
	–	0.1	–
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations	**(24.1)**	5.3	3.8
Income tax relating to components of other comprehensive expense	**(0.1)**	–	–
	(24.2)	5.3	3.8
Total comprehensive (expense)/income for the period	**(11.0)**	20.9	34.7

Condensed Consolidated Statement of Financial Position

as at 31 December 2019

ASSETS	Note	As at 31.12.19 £m	Restated* As at 31.12.18 £m	Restated* As at 30.06.19 £m
Non-current assets				
Intangible assets		**639.0**	711.0	680.8
Property, plant and equipment		**70.7**	55.5	58.2
Investments	11	**16.7**	10.5	10.1
Deferred tax assets		**1.0**	3.9	0.9
Total non-current assets		**727.4**	780.9	750.0
Current assets				
Inventories		**108.8**	95.3	103.5
Current tax receivables		**5.7**	–	7.9
Trade and other receivables		**82.0**	77.8	99.8
Cash and cash equivalents	9	**64.4**	86.3	80.3
Total current assets		**260.9**	259.4	291.5
Total assets		**988.3**	1,040.3	1,041.5
LIABILITIES				
Current liabilities				
Borrowings	9	**(173.2)**	(1.1)	(1.2)
Trade and other payables		**(81.5)**	(85.5)	(95.5)
Deferred and contingent consideration		**(2.6)**	(5.8)	(5.1)
Current tax liabilities		**(21.1)**	(13.9)	(16.3)
Total current liabilities		**(278.4)**	(106.3)	(118.1)
Non-current liabilities				
Borrowings	9	**(132.0)**	(314.7)	(306.9)
Deferred income		**–**	(0.1)	–
Deferred and contingent consideration		**(32.1)**	(29.0)	(30.9)
Employee benefit obligations		**–**	(3.2)	–
Provisions		**(2.8)**	(2.6)	(2.0)
Deferred tax liabilities		**(66.1)**	(80.3)	(74.5)
Total non-current liabilities		**(233.0)**	(429.9)	(414.3)
Total liabilities		**(511.4)**	(536.2)	(532.4)
Net assets		**476.9**	504.1	509.1
EQUITY				
Issued share capital		**1.0**	1.0	1.0
Share premium account		**278.7**	277.2	277.9
Own shares		**–**	(0.4)	–
Foreign currency translation reserve		**(2.6)**	23.1	21.6
Merger reserve		**84.4**	84.4	84.4
Retained earnings		**115.4**	118.8	124.2
Total equity		**476.9**	504.1	509.1

* Restated as detailed in note 10.

Condensed Consolidated Statement of Changes in Shareholders' Equity
for the six months ended 31 December 2019

	Attributable to owners of the parent						
	Issued share capital £m	Share premium account £m	Own shares £m	Foreign currency translation reserve £m	Merger reserve £m	Retained earnings £m	**Total equity £m**
Six months ended 31 December 2018							
At 1 July 2018	1.0	276.7	(0.4)	17.8	84.4	125.5	**505.0**
Change in accounting policy	–	–	–	–	–	(5.1)	**(5.1)**
At 1 July 2018	1.0	276.7	(0.4)	17.8	84.4	120.4	**499.9**
Profit for the period	–	–	–	–	–	15.5	**15.5**
Foreign currency translation differences for foreign operations	–	–	–	5.3	–	–	**5.3**
Remeasurement of defined benefit pension scheme, net of tax	–	–	–	–	–	0.1	**0.1**
Total comprehensive income for the period	–	–	–	5.3	–	15.6	**20.9**
Transactions with owners							
Dividends paid	–	–	–	–	–	(18.6)	**(18.6)**
Share-based payments	–	–	–	–	–	1.4	**1.4**
Shares issued	–	0.5	–	–	–	–	**0.5**
Total contributions by and distribution to owners	–	0.5	–	–	–	(17.2)	**(16.7)**
At 31 December 2018	1.0	277.2	(0.4)	23.1	84.4	118.8	**504.1**
Year ended 30 June 2019							
At 1 July 2018	1.0	276.7	(0.4)	17.8	84.4	125.5	**505.0**
Change in accounting policy	–	–	–	–	–	(4.9)	**(4.9)**
At 1 July 2018	1.0	276.7	(0.4)	17.8	84.4	120.6	**500.1**
Profit for the period	–	–	–	–	–	30.9	**30.9**
Foreign currency translation differences for foreign operations, net of tax	–	–	–	3.8	–	–	**3.8**
Total comprehensive income	–	–	–	3.8	–	30.9	**34.7**
Transactions with owners							
Dividends paid	–	–	–	–	–	(28.4)	**(28.4)**
Share-based payments	–	–	–	–	–	1.5	**1.5**
Shares issued	–	1.2	–	–	–	–	**1.2**
Recycle of own shares to retained earnings	–	–	0.4	–	–	(0.4)	–
Total contributions by and distribution to owners	–	1.2	0.4	–	–	(27.3)	**(25.7)**
At 30 June 2019	1.0	277.9	–	21.6	84.4	124.2	**509.1**
Six months ended 31 December 2019							
At 1 July 2019	**1.0**	**277.9**	**–**	**21.6**	**84.4**	**124.2**	**509.1**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**13.2**	**13.2**
Foreign currency translation differences for foreign operations	**–**	**–**	**–**	**(24.1)**	**–**	**–**	**(24.1)**
Income tax relating to components of other comprehensive expense	**–**	**–**	**–**	**(0.1)**	**–**	**–**	**(0.1)**
Total comprehensive (expense)/income for the period	**–**	**–**	**–**	**(24.2)**	**–**	**13.2**	**(11.0)**
Transactions with owners							
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(22.7)**	**(22.7)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**0.7**	**0.7**
Shares issued	**–**	**0.8**	**–**	**–**	**–**	**–**	**0.8**
Total contributions by and distribution to owners	**–**	**0.8**	**–**	**–**	**–**	**(22.0)**	**(21.2)**
At 31 December 2019	**1.0**	**278.7**	**–**	**(2.6)**	**84.4**	**115.4**	**476.9**

Condensed Consolidated Statement of Cash Flows

for the six months ended 31 December 2019

	Note	Six months ended 31.12.19 £m	Restated* 31.12.18 £m	Year ended 30.06.19 £m
Cash flows from operating activities				
Operating profit		**23.3**	17.0	39.0
Non-underlying items		**37.8**	43.8	88.4
Underlying operating profit		**61.1**	60.8	127.4
Adjustments for:				
Depreciation		**4.7**	2.5	5.7
Amortisation		**2.1**	2.0	4.1
Release of government grant		**(0.3)**	–	(0.5)
Profit on disposal of tangible assets		**(0.1)**	–	(0.3)
Gain on curtailment of pension scheme		**–**	–	(3.5)
Equity settled share-based payment expense		**0.7**	1.4	2.3
Underlying operating cash flow before changes in working capital		**68.2**	66.7	135.2
Increase in inventories		**(9.0)**	(4.3)	(14.1)
Decrease/(increase) in trade and other receivables		**14.9**	9.7	(11.7)
(Decrease)/increase in trade and other payables		**(9.2)**	(1.7)	6.3
Cash generated from operating activities before interest, taxation and non-underlying items		**64.9**	70.4	115.7
Cash outflows in respect of non-underlying items		**(4.0)**	(3.5)	(7.4)
Cash generated from operating activities before interest and taxation		**60.9**	66.9	108.3
Interest paid		**(4.9)**	(4.8)	(9.2)
Interest on lease liabilities		**(0.2)**	–	–
Income taxes paid		**(5.2)**	(5.9)	(17.3)
Net cash inflow from operating activities		**50.6**	56.2	81.8
Cash flows from investing activities				
Proceeds from disposal of tangible assets		**0.2**	–	0.3
Acquisition of subsidiaries (net of cash acquired)	10	**(24.8)**	(37.8)	(39.7)
Acquisition of investment in associates		**(7.5)**	–	–
Purchase of property, plant and equipment		**(4.1)**	(6.7)	(12.0)
Capitalised development expenditure		**(0.7)**	(0.5)	(1.0)
Purchase of other intangible non-current assets		**(3.0)**	(4.0)	(9.5)
Net cash outflow from investing activities		**(39.9)**	(49.0)	(61.9)
Cash flows from financing activities				
Proceeds from the issue of share capital		**0.8**	0.5	1.2
New borrowings		**–**	44.5	44.1
Expenses of raising borrowing facilities		**(1.0)**	(0.2)	(0.2)
Repayment of borrowings		**(0.7)**	(27.7)	(36.8)
Principal elements of lease payments		**(1.3)**	–	–
Dividends paid		**(22.7)**	(18.6)	(28.4)
Net cash outflow from financing activities		**(24.9)**	(1.5)	(20.1)
Net (decrease)/increase in cash and cash equivalents		**(14.2)**	5.7	(0.2)
Cash and cash equivalents at start of period		**80.3**	79.7	79.7
Exchange differences on cash and cash equivalents		**(1.7)**	0.9	0.8
Cash and cash equivalents at end of period		**64.4**	86.3	80.3
Reconciliation of net cash flow to movement in net borrowings				
Net (decrease)/increase in cash and cash equivalents		**(14.2)**	5.7	(0.2)
Repayment of borrowings and lease liabilities		**2.2**	27.7	36.8
Expenses of raising borrowing facilities		**1.0**	0.2	0.2
New borrowings and lease liabilities		**(0.4)**	(44.5)	(44.1)
Acquisition of subsidiary borrowings and lease liabilities		**(0.1)**	(2.9)	(2.8)
Changes in accounting policy for leases	15	**(12.6)**	–	–
Exchange differences on cash and cash equivalents		**(1.7)**	0.9	0.8
Retranslation of foreign borrowings		**13.6**	(4.8)	(6.2)
Other non-cash changes		**(0.8)**	(0.4)	(0.9)
Movement in net borrowings in the period		**(13.0)**	(18.1)	(16.4)
Net borrowings at start of period		**(227.8)**	(211.4)	(211.4)
Net borrowings at end of period	9	**(240.8)**	(229.5)	(227.8)

* Restated as detailed in note 10.

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 2019

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 2019 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 2019 is set out in the Independent Review Report. The Group financial statements as at, and for, the year ended 30 June 2019 prepared in accordance with IFRS as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under EU adopted IFRS are available upon request from the Company's registered office at 24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA.

The prior year comparatives are derived from audited financial information for Dechra Pharmaceuticals PLC as set out in the Annual Report for the year ended 30 June 2019 and the unaudited financial information in the Half-Yearly Financial Report for the six months ended 31 December 2018. The comparative figures for the financial year ended 30 June 2019 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's external auditor PricewaterhouseCoopers LLP, and delivered to the Registrar of Companies. The report of the external auditor (i) was unqualified, (ii) did not include a reference to any matters to which the external auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

In preparation of the financial statements, comparative amounts for 30 June 2019 and 31 December 2018 have been restated to reflect the hindsight adjustments made on the provisional Venco acquisition accounting adjustments. Hindsight adjustments have been made to intangible and tangible assets, inventory, trade receivables, cash, payables, and current and deferred tax liabilities (note 10).

The condensed set of financial statements for the six months ended 31 December 2019 is unaudited but has been reviewed by the external auditor.

Statement of Compliance

The condensed set of financial statements included in this Half-Yearly Financial Report has been prepared in accordance with IAS 34 '*Interim Financial Reporting*' as adopted by the EU. The condensed set of financial statements does not include all of the information required for the full annual financial statements, and should be read in conjunction with the Group financial statements for the year ended 30 June 2019.

This condensed set of financial statements was approved by the Board of Directors on 24 February 2020.

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 2019 as described in pages 128 to 136 of the Annual Report, except where new or revised accounting standards have been applied as described below.

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

- IFRS 16 'Leases'
- IFRIC 23 'Uncertainty over income tax treatments'

The impact of the adoption of these standards and the new accounting policies are disclosed in note 15 below.

A number of amendments to IFRSs became effective for the financial year beginning on 1 July 2019. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Estimates and Judgements

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

New and Revised Standards

The IASB has issued a number of new standards which are not yet effective. They do not have any effect on the financial information contained within this report and will be more fully discussed in our Annual Report for the year ended 30 June 2020.

Notes to the Financial Statements continued
for the six months ended 31 December 2019

1 Basis of Preparation and Principal Accounting Policies continued

Going Concern

During the Period the Term Loan liability of £170.2 million (EUR200.0 million), which was due to mature on 31 December 2020, became a current liability resulting in the Group having net current liabilities at 31 December 2019. In January 2020 the Group undertook a Private Placement raising EUR50.0 million and USD100.0 million (under seven year and ten year new senior secured notes respectively) and the Term Loan Facility of EUR200.0 million was repaid. In addition to the Private Placement funding, the Group also has committed facilities available on the Revolving Credit Facility of £340.0 million following invocation of the Accordion on 1 October 2019.

The Group meets its day-to-day working capital requirements through its banking facilities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its facilities secured. 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.

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 environment.

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 non-core activities sales.

The North American Pharmaceuticals Segment consists of Dechra Veterinary Products US, Putney, Dechra Veterinary Products Canada, and Dechra-Brovel, which sells Companion Animal, Equine Products and Food producing Animal Products in those territories. The Segment also includes our manufacturing unit based in Melbourne, Florida and expanded during the period with the acquisition of Ampharmco (see note 10).

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
	31.12.19 £m	31.12.18 £m	30.06.19 £m
Revenue by segment			
European Pharmaceuticals	**159.6**	142.8	304.0
North America Pharmaceuticals	**88.9**	88.6	177.8
	248.5	231.4	481.8
Operating profit/(loss) by segment			
European Pharmaceuticals	**48.6**	45.8	100.3
North America Pharmaceuticals	**29.9**	31.6	59.2
Pharmaceuticals Research and Development	**(13.6)**	(12.0)	(25.1)
Segment operating profit	**64.9**	65.4	134.4
Corporate and other unallocated costs	**(3.8)**	(4.6)	(7.0)
Underlying operating profit	**61.1**	60.8	127.4
Amortisation of acquired intangibles	**(34.5)**	(38.1)	(76.8)
Remeasurement of contingent consideration	**–**	–	0.1
Expenses relating to Brexit	**–**	(0.2)	(0.9)
Fair value uplift of inventory acquired through business combinations	**–**	(2.8)	(5.1)
Rationalisation of manufacturing organisation	**(1.1)**	(0.9)	(2.0)
Expenses relating to acquisitions and subsequent integration activities	**(2.2)**	(1.8)	(3.7)
Operating profit	**23.3**	17.0	39.0
Share of losses in investment accounted for using the equity method	**(1.0)**	(0.2)	(0.4)
Finance income	**3.3**	–	0.7
Finance expense	**(6.1)**	(7.8)	(11.5)
Profit before taxation	**19.5**	9.0	27.8

2 Operating Segments continued

Revenue by product category	Six months ended 31.12.19 £m	Six months ended 31.12.18 £m	Year ended 30.06.19 £m
CAP	**173.7**	165.1	340.2
Equine	**19.7**	16.4	34.4
FAP	**34.1**	25.4	57.3
Nutrition	**14.0**	13.9	29.1
Other	**7.0**	10.6	20.8
	248.5	231.4	481.8

3 Finance Income

Underlying	Six months ended 31.12.19 £m	Six months ended 31.12.18 £m	Year ended 30.06.19 £m
Finance income arising from:			
— Cash and cash equivalents	**0.1**	–	–
— Foreign exchange gains	**1.8**	–	0.7
Underlying finance income	**1.9**	–	0.7

Non-underlying	Six months ended 31.12.19 £m	Six months ended 31.12.18 £m	Year ended 30.06.19 £m
Finance income arising from:			
— Fair value and other movements on deferred and contingent consideration	**1.4**	–	–
Non-underlying finance income	**1.4**	–	–
Total finance income	**3.3**	–	0.7

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

4 Finance Expense

Underlying	Six months ended 31.12.19 £m	Six months ended 31.12.18 £m	Year ended 30.06.19 £m
Finance expense arising from:			
— Financial liabilities at amortised costs	**5.5**	5.1	10.5
— Net interest on net defined benefit obligations	**–**	0.2	–
— Lease liability interest	**0.2**	–	–
— Foreign exchange losses	**–**	1.2	–
Underlying finance expense	**5.7**	6.5	10.5

Non-underlying	Six months ended 31.12.19 £m	Six months ended 31.12.18 £m	Year ended 30.06.19 £m
Finance expense arising from:			
— Fair value and other movements on deferred and contingent consideration	**0.4**	1.3	1.0
Non-underlying finance expense	**0.4**	1.3	1.0
Total finance expense	**6.1**	7.8	11.5

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

Notes to the Financial Statements continued
for the six months ended 31 December 2019

5 Income Tax Expense

The tax charge for the six months ended 31 December 2019 has been calculated based on (i) the estimated effective rate for the year ending 30 June 2020, plus (ii) the inclusion of an exceptional deferred tax charge of £2.7 million which has been recognised in full at 31 December 2019. This exceptional deferred tax charge arises as a consequence of the increase in the Dutch corporation tax rate from that previously enacted in the prior year. The Dutch corporation tax rate has been substantively enacted to decrease from 25.0% to 21.7% over the period to 2022 (previously this was to reduce to 20.5% over the period to 2022). The total reported effective tax rate is a charge of 32.3% (six months ended 31 December 2018: a credit of 72.2%; year ended 30 June 2019: a credit of 11.2%). This includes the tax effect of non-underlying items as set out in note 8. The underlying effective tax rate is 21.1% (six months ended 31 December 2018: 20.8%).

6 Dividends

The final dividend for the year ended 30 June 2019 of 22.10 pence per share costing £22.7 million has been paid in the period.

The Directors have declared an interim dividend of 10.29 pence per share (six months ended 31 December 2018: 9.5 pence) costing £10.6 million (six months ended 31 December 2018: £9.8 million). It is payable on 8 April 2020 to shareholders whose names are on the Register of Members at close of business on 6 March 2020. The ordinary shares will become ex-dividend on 5 March 2020. 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 2020.

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
	31.12.19 Pence	31.12.18 Pence	30.06.19 Pence
Basic earnings per share			
— Underlying*	**43.60**	41.89	90.24
— Basic	**12.85**	15.14	30.15
Diluted earnings per share			
— Underlying*	**43.46**	41.76	90.01
— Diluted	**12.80**	15.09	30.07

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	**44.8**	42.9	92.5
Earnings for basic and diluted earnings per share	**13.2**	15.5	30.9

	Number	Number	Number
Weighted average number of ordinary shares for basic earnings per share	**102,748,580**	102,402,292	102,504,510
Impact of share options	**345,287**	319,294	257,838
Weighted average number of ordinary shares for diluted earnings per share	**103,093,867**	102,721,586	102,762,348

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

8 Underlying Operating Profit and Profit before Taxation

	Notes	Six months ended 31.12.19 £m	Six months ended 31.12.18 £m	Year ended 30.06.19 £m
Operating profit				
Underlying operating profit is calculated as follows:				
Operating profit		**23.3**	17.0	39.0
Amortisation of acquired intangibles		**34.5**	38.1	76.8
Remeasurement of contingent consideration		**–**	–	(0.1)
Fair value uplift of inventory acquired through business combinations		**–**	2.8	5.1
Expenses relating to Brexit		**–**	0.2	0.9
Rationalisation of manufacturing organisation		**1.1**	0.9	2.0
Expenses relating to acquisitions and subsequent integration activities		**2.2**	1.8	3.7
Underlying operating profit		**61.1**	60.8	127.4
Depreciation		**4.7**	2.5	5.7
Amortisation		**2.1**	2.0	4.1
Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)		**67.9**	65.3	137.2
Profit before taxation				
Underlying profit before taxation is calculated as follows:				
Profit before taxation		**19.5**	9.0	27.8
Amortisation of acquired intangibles		**35.0**	38.2	77.0
Remeasurement of contingent consideration		**–**	–	(0.1)
Fair value uplift of inventory acquired through business combinations		**–**	2.8	5.1
Rationalisation of manufacturing organisation		**1.1**	0.9	2.0
Expenses relating to acquisitions and subsequent integration activities		**2.2**	1.8	3.7
Expenses relating to Brexit		**–**	0.2	0.9
Fair value and other movements on deferred and contingent consideration		**(1.0)**	1.3	1.0
Underlying profit before tax		**56.8**	54.2	117.4
Impact of non-underlying items on income tax				
Tax on non-underlying profit before tax items	5	**8.4**	10.3	20.0
Revaluation of deferred tax balances following the change in Dutch tax rates		**(2.7)**	7.5	8.0
Total impact of non-underlying items on income tax		**5.7**	17.8	28.0

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

The Board monitors the performance of the business by 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 remeasurement of contingent consideration balance relates to the net credit to the income statement on the reassessment of future milestones and royalty payments on a licensing agreement.
- The fair value uplift of inventory acquired through the business combinations is recognised in accordance with IFRS 3 'Business Combinations' to record the inventory acquired at fair value and its subsequent release into the income statement.
- Expenses relating to Brexit represents regulatory and technology transfer costs incurred in advance of Brexit that are not expected to be recurring.
- Rationalisation costs relate to the reorganisation of the manufacturing organisation associated with this strategic programme.
- Expenses relating to acquisition and subsequent integration activities include legal and professional fees incurred in respect of acquisitions. In the period to 31 December 2019 these costs principally relate to the acquisition of Ampharmco LLC and its associated holding companies (see note 10) and Laboratorios Vencofarma do Brasil Ltda.
- Fair value and other movements on deferred and contingent consideration.

Notes to the Financial Statements continued
for the six months ended 31 December 2019

9 Analysis of Net Borrowings

	As at 31.12.19 £m	Restated* As at 31.12.18 £m	As at 30.06.19 £m
Analysis of net debt			
Cash and cash equivalents	**64.4**	86.3	80.3
Lease liabilities	**(11.6)**	–	–
Bank loans	**(293.6)**	(315.8)	(308.1)
	(240.8)	(229.5)	(227.8)

* Restated as detailed in note 10.

	At 1.07.19 £m	Cash flows £m	Acquisitions £m	Changes in accounting policy £m	Foreign exchange movements £m	Other non-cash movements £m	**At 31.12.19 £m**
Cash and cash equivalents	80.3	(14.2)	–	–	(1.7)	–	**64.4**
Lease liabilities within one year	–	1.5	–	(2.7)	–	(1.3)	**(2.5)**
Bank loans within one year	(1.2)	0.7	–	–	6.1	(176.3)	**(170.7)**
Lease liabilities after one year	–	–	(0.1)	(9.9)	0.2	0.7	**(9.1)**
Bank loans after one year	(306.9)	1.0	–	–	7.3	175.7	**(122.9)**
Net Debt	(227.8)	(11.0)	(0.1)	(12.6)	11.9	(1.2)	**(240.8)**

On 1 October 2019 the Accordion on the Revolving Credit Facility ('RCF') was invoked increasing the committed facilities available to the Group until 25 July 2024 to £340.0 million. At 31 December 2019, £124.7 million was drawn against the RCF, and £170.2 million was drawn against the Term Loan Facility (maturing on 31 December 2020 and therefore classified as a current liability). In January 2020 the Group undertook a Private Placement raising EUR50.0 million and USD100.0 million (under seven year and ten year new senior secured notes respectively with a weighted average coupon rate of 2.8%) which, along with an additional drawing on the RCF, enabled the Term Loan Facility of EUR200.0 million to be repaid.

10 Acquisitions

Acquisition of Ampharmco

On 28 August 2019, Dechra acquired 100% of the share capital of Ampharmco LLC and its associated holding companies Dragon Fire Holdings LLC and Black Griffin Holdings LLC (collectively Ampharmco), together with its manufacturing site based in Fort Worth, Texas. The Group paid £24.3 million (USD29.6 million) consideration in cash.

	Provisional fair value £m
Recognised amounts of identifiable assets acquired	
Property, plant and equipment	**3.4**
Inventory	**1.2**
Trade and other receivables	**0.4**
Trade and other payables	**(0.7)**
Cash	**–**
Lease liabilities	**(0.1)**
Intangible assets	**14.9**
Current tax liabilities	**(1.5)**
Net identifiable assets	**17.6**
Goodwill	**6.7**
Total consideration	**24.3**
Satisfied by:	
Cash	**24.3**
Total consideration transferred and net cash outflow arising on acquisition	**24.3**

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

10 Acquisitions continued

Acquisition of Ampharmco continued

The goodwill of £6.7 million arising from the acquisition predominantly relates to the future benefits of an FDA registered facility to manufacture solid doses, liquids, creams and ointments, which will significantly strengthen the manufacturing capability for the North American market. No deferred tax arises on acquisition because the tax elections available in the US enable a tax base to be recognised for certain assets identified at that point in time.

Acquisition related costs (included in non-underlying operating expenses) amounted to £0.9 million. Ampharmco's results are reported within the NA Pharmaceuticals Segment.

Ampharmco contributed £1.2 million revenue and £0.1 million loss to the Group's underlying operating profit for the period between the date of acquisition and the balance sheet date. If the acquisition had been completed on the first date of the financial year, the contribution to Group revenues for the period would have been £2.1 million and the contribution to the Group's underlying operating profit would have been £0.4 million. The reported operating loss after taking into account non-underlying items for the amortisation of intangible assets would have been £0.2 million.

Prior Year Acquisitions

Following the acquisition of Laboratorios Vencofarma do Brasil Ltda (Venco) in December 2018, the fair value of the assets and liabilities acquired have been reconsidered since the Annual Report as at 30 June 2019 as part of the measurement period.

In relation to the 30 June 2019 balance sheet, hindsight adjustments have been made in relation to intangibles (£6.2 million), tangible fixed assets (£0.2 million), inventory (£0.5 million), trade receivables (£0.1 million) and deferred tax (£7.0 million). During the measurement period the deferred tax position in respect of the acquisition has been concluded, taking into account elections available and contemplated at the acquisition date which enable a tax base to be established in Brazil for certain assets identified on acquisition. While enacted during the measurement period, this is based on information and facts that existed at the acquisition date.

In relation to the 31 December 2018 balance sheet, hindsight adjustments have been made in relation to consideration for the completion payment (£1.6 million), cash (£0.6 million), inventory (£2.1 million), intangibles (£3.5 million), tangible assets (£0.2 million), receivables (£0.1 million), payables (£1.5 million), borrowings (£0.7 million), current tax liabilities (£0.5 million) and deferred tax (£7.2 million) predominantly due to fair value adjustments and the tax elections noted above.

Following the acquisition of Caledonian Holdings Ltd in October 2018, the disclosure of final fair values of the assets and liabilities acquired has been included in the financial statements for the year ended 30 June 2019.

11 Interest in Associate

On 5 July 2019 the Group acquired a further 15.0% of the issued share capital of Medical Ethics Pty Ltd for a total consideration of AUD13.5 million (£7.5 million). Following the acquisition, the Group holds 48.0% 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.

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

	As at 31.12.19 £m	As at 31.12.18 £m	As at 30.06.19 £m
Opening interest	**1.5**	1.9	1.9
Fair value of associate interest acquired	**7.6**	–	–
Share of underlying loss after tax	**(0.5)**	(0.1)	(0.2)
Amortisation of notional intangible asset recognised on acquisition	**(0.5)**	(0.1)	(0.2)
Interest in associate	**8.1**	1.7	1.5
Goodwill	**8.6**	8.8	8.6
Carrying value of investment in associate	**16.7**	10.5	10.1

The Group has undertaken a provisional notional 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 are provisional as the Directors have not yet reached final determination of all aspects of the fair value exercise. The Directors will finalise the fair values within 12 months of the acquisition date.

Notes to the Financial Statements continued
for the six months ended 31 December 2019

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	
	31.12.19	31.12.18	**31.12.19**	31.12.18
Australian Dollar	**1.8400**	1.7879	**1.8800**	1.8132
Danish Krone	**8.4764**	8.3856	**8.7817**	8.3477
Euro	**1.1352**	1.1243	**1.1754**	1.1179
US Dollar	**1.2593**	1.2954	**1.3204**	1.2800

13 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.

14 Subsequent Events

On 18 December 2019, Dechra entered into a private placement of EUR50.0 million seven year and USD100.0 million ten year new senior unsecured notes (the Notes), that were issued on 22 January 2020. The Notes have similar covenants to the Group's existing facilities, and the weighted average coupon of the fixed rate notes will equate to 2.8%. All proceeds from the issuance were used to repay the existing term loan facility. Arrangement fees of £0.5 million will be capitalised in the six month period to 30 June 2020 and amortised over the life of the Notes. Arrangement fees of £1.0 million in relation to the existing facilities will be accelerated to the income statement in the six month period to 30 June 2020, following the repayment of the Term Loan.

On 6 January 2020 Dechra announced an agreement to acquire the assets of Osurnia, a major product for the treatment of otitis externa in dogs, from Elanco Animal Health Incorporated for a total consideration of USD135.0 million (£102.4 million). Completion is conditional upon approval of Dechra as a suitable buyer by the European Commission and the Federal Trade Commission.

15 Changes in Accounting Policies

IFRS 16 'Leases'

The Group has adopted IFRS 16 retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. The new accounting policies are disclosed below.

(a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.9%.

	2019 £m
Operating lease commitments disclosed as at 30 June 2019	**16.4**
Impact of discounting using the incremental borrowing rate (IBR) on transition	**(2.0)**
(Less): short term leases recognised on a straight-line basis as expense	**(0.8)**
(Less): contracts reassessed as service agreements	**(1.0)**
Lease liability recognised as at 1 July 2019	**12.6**
Of which are:	
Current lease liabilities	**2.7**
Non-current lease liabilities	**9.9**
	12.6

The recognised right of use assets relate to the following types of assets:

	31.12.19 £m	1.07.19 £m
Properties	**8.5**	9.2
Equipment	**0.4**	0.4
Motor vehicles	**2.6**	3.0
Total right of use assets	**11.5**	12.6

15 Changes in Accounting Policies continued

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- right of use assets (reflected in property, plant and equipment) – increase £12.6 million
- lease liability (reflected in borrowings) – increase £12.6 million

The net impact on retained earnings on 1 July 2019 was £Nil. The adoption of IFRS 16 has resulted in EBITDA being £1.3 million higher and EBIT being £0.1 million higher in the current period compared to IAS 17.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate for a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 14 'Determining whether an arrangement contains a lease'.

(b) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses, equipment and vehicles. Rental contracts are typically made for fixed periods of three to five years, but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2020 financial year, leases of property, plant and equipment were classified as operating leases. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The lease liability is not materially sensitive to a reasonable change in discount rate and therefore will not represent a critical accounting estimate presented within the Annual Report.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Notes to the Financial Statements continued
for the six months ended 31 December 2019

15 Changes in Accounting Policies continued

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable by both the Group and the respective lessor.

IFRIC 23 'Uncertainty over Income Tax Treatments'

From 1 July 2019, the Group has adopted IFRIC 23 which clarifies the application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. Upon adoption of IFRIC 23, there have been no material adjustments to the uncertain tax positions held on the balance sheet as at 30 June 2019. The Group have also reviewed the most appropriate methodology for the uncertain tax positions held at the balance sheet date. Based on the current facts and circumstances in each case, the Group has used both the most likely outcome method and the expected value method in calculating the value of the provision required. This methodology will be reviewed in each case upon the receipt of any new information.

16 Contingent Liabilities

In October 2017 the European Commission (the Commission) opened a State Aid investigation into the Group Financing Exemption in the UK Controlled Foreign Company (CFC) rules. On 25 April 2019 the Commission issued its decision on the CFC Group Financing Exemption concluding that part of the UK measures were unlawful and incompatible instructing the UK Government to recover the State Aid. The UK Government filed an annulment appeal on 12 June 2019. In common with other UK-based international companies Dechra have financing arrangements in line with the current UK legislation. We have calculated the maximum potential State Aid claimed as £4.0 million excluding penalties and interest. Given the current position no provision has been recognised in the financial statements.

At 31 December 2019, contingent liabilities arising in the normal course of business amounted to £25.0 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 liability have not been recognised.

Independent Review Report to Dechra Pharmaceuticals PLC

Report on the Condensed Consolidated Half-Yearly Financial Statements

Our Conclusion

We have reviewed Dechra Pharmaceuticals PLC's Condensed Consolidated Half-Yearly Financial Statements (the Interim Financial Statements) in the Half-Yearly Financial Report 2020 of Dechra Pharmaceuticals PLC for the six month period ended 31 December 2019. Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, '*Interim Financial Reporting*', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What We Have Reviewed

The Interim Financial Statements comprise:

- the Condensed Consolidated Statement of Financial Position as at 31 December 2019;
- the Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income for the period then ended;
- the Condensed Consolidated Statement of Cash Flows for the period then ended;
- the Condensed Consolidated Statement of Changes in Shareholders' Equity for the period then ended; and
- the explanatory notes to the Interim Financial Statements.

The Interim Financial Statements included in the Half-Yearly Financial Report 2020 have been prepared in accordance with International Accounting Standard 34, '*Interim Financial Reporting*', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

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

Responsibilities for the Interim Financial Statements and the Review

Our Responsibilities and those of the Directors

The Half-Yearly Financial Report 2020, 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 2020 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 2020 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 2020 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Interim Financial Statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham
24 February 2020

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