Dechra®
Pharmaceuticals PLC

Half-Yearly Financial Report 2021

for the six months ended 31 December 2020 (the Period)

Monday, 22 February 2021

"Despite 2020 being one of the most challenging years in Dechra's history, it is pleasing to report that the calendar year ended strongly resulting in an excellent performance in the first half of our financial year."

Ian Page, Chief Executive Officer

Highlights

- Reported Group revenue for the Period increased by 21.8% at Constant Exchange Rate (CER) (20.6% at Actual Exchange Rate (AER)).
- European Pharmaceuticals (EU Pharmaceuticals) revenue growth was 21.7% at CER (22.6% at AER).
- North American Pharmaceuticals (NA Pharmaceuticals) revenue growth was 21.9% at CER (17.2% at AER).
- Underlying operating profit growth was 32.7% at CER (32.2% at AER) with operating margin improving by 240 bps to 27.0%.
- Reported operating profit increased by 74.2% at CER (73.0% at AER) driven by the strong trading performance.
- Strong cash conversion of 105.3%.
- Osurnia® and Mirataz® product acquisitions performing strongly and ahead of expectations.
- Good progress continues to be made with the supply chain which adversely affected trading in the comparator period.
- Underlying diluted EPS growth of 24.7% at CER (24.9% at AER) to 54.28 pence. Interim dividend increased by 8.0% to 11.11 pence.

Financial Summary

	Six months ended 31.12.20 £m	Six months ended 31.12.19 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
Revenue	**299.8**	248.5	20.6%	**21.8%**
Underlying				
Operating profit	**80.8**	61.1	32.2%	**32.7%**
Operating profit %	**27.0%**	24.6%	240 bps	**220 bps**
EBITDA	**88.2**	67.9	29.9%	**30.6%**
Diluted EPS	**54.28p**	43.46p	24.9%	**24.7%**
Reported				
Operating profit	**40.3**	23.3	73.0%	**74.2%**
Cash generated from operating activities before interest and taxation	**85.1**	60.9	39.7%	
Diluted EPS	**21.44p**	12.80p	67.5%	**66.7%**

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

Enquiries

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Analysts Briefing: Today at 9.00 am (UK time) via
https://webcasting.brrmedia.co.uk/broadcast/6000262f36bc5f2c49e167bd

For assistance please contact Fiona Tooley

If you would like to as a question please dial in: +44 (0)330 336 9125
Confirmation Code: 7999070
(ref: Half Year Results)

Notes: Foreign Exchange Rates

FY2021 H1 Average	EUR 1.1060: GBP 1.0	USD 1.3060: GBP 1.0
FY2021 H1 Closing	EUR 1.1123: GBP 1.0	USD 1.3649: GBP 1.0
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
FY2020 Average	EUR 1.1396: GBP 1.0	USD 1.2601: GBP 1.0
FY2020 Closing	EUR 1.0960: GBP 1.0	USD 1.2273: GBP 1.0

Half-Yearly Financial Report 2021
for the six months ended 31 December 2020

Introduction
Despite 2020 being one of the most challenging years in Dechra's history, it is pleasing to report that the calendar year ended strongly resulting in an excellent performance in the first half of our financial year. Revenue growth has been strong, especially within Companion Animal Products (CAP), as pet ownership and welfare has become more important to people as the COVID-19 pandemic has changed peoples' way of living. The Group also benefited from a significantly improved supply chain and a pre-Brexit inventory build. The strong revenue growth, good gross margin and lower than usual underlying Selling, General and Administrative (SGA) costs, due to COVID-19 restricting activity, has resulted in a stronger than expected operating profit performance.

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

Operational Review
European Pharmaceuticals
In the Period, our total European Pharmaceuticals Segment net revenue increased by 21.7%, including the acquisition of Osurnia® (acquired 27 July 2020) and the benefit of the pre-Brexit inventory build of £7.0 million.

Existing net revenues, excluding third party contract manufacturing (which Dechra is strategically exiting) increased by 18.6%.

All European countries, including the UK, performed strongly with good growth being delivered in all of our product categories; CAP, Food producing Animal Products (FAP), Equine and Nutrition. Our International business, which is reported in this Segment, also performed well through our businesses in Australia, New Zealand and Brazil, and also through our distribution partners.

North American Pharmaceuticals
In the Period, our total North American Segment net revenue increased by 21.9%, including the acquisitions of Ampharmco (acquired 28 August 2019), Mirataz® (acquired 16 April 2020) and *Osurnia*.

Excluding acquisitions existing net revenues increased by 14.8%.

Growth was almost entirely delivered by CAP performance as we have little presence in Nutrition or the FAP market in North America. The strong sales uplift must be considered against a soft comparator period in the prior year where supply issues detracted from the performance. The majority of our key products are now back in supply; however, the ophthalmic products, which have been out of stock for over a year, are still in the process of being transferred to a new contract manufacturer and are taking longer than expected to return.

Product Category Performance
CAP, which represents the majority of our business at 73.0% of Group turnover, grew at 27.3% over the corresponding period last year. This growth can be attributed to strong market dynamics, excellent virtual customer engagement, an improved supply chain and the continued benefit from the disintermediation of products from the Le Vet acquisition in February 2018.

FAP, 12.3% of Group turnover, reported growth of 10.6%. Our Solustab® range of water soluble powders continues to outperform with exceptional growth in Belgium and Spain.

Equine, 7.6% of Group turnover, delivered 16.8% growth which was ahead of our expectations. This growth can be attributed to an improved flavoured version of our leading brand, Equipalazone®, and the addition of the Le Vet range of equine products strengthening our overall portfolio.

Nutrition, which represents 5.3% of Group turnover, delivered growth of 10.7% in the Period. The growth in our Specific® branded range of pet diets has been driven by a new business unit that has given additional focus to the newly positioned products and also by the launch of a new range of organic diets.

Acquisitions
The product acquisitions of *Osurnia* and *Mirataz* are performing ahead of expectations.

We have successfully transferred *Osurnia* to Dechra following its acquisition from Elanco. We have delivered above expectations in the EU, despite the launch of a competitor product by Elanco and have exceeded sales expectations in Japan and Australia. In the US, we are gaining market share, where we have reduced the price to compete better with the market leading comparable product. Further registrations are being sought in new territories.

We have delivered good growth from *Mirataz* in the US market, the only territory in which it is currently sold. The product is approved in Europe with a launch targeted for early in the second half of the financial year; this is a slight delay as we were required to alter the external packaging to improve user safety.

Post the Period end, we were pleased to announce on 8 February 2021 the acquisition of the Australian and New Zealand marketing rights for Tri-Solfen® from Animal Ethics Pty Ltd, a related party. Tri-Solfen® has already been successfully introduced to the Australian market for pain relief in lambs since 2008 and was approved and launched for use in cattle in 2019, achieving cumulative annualised sales of AUD9.1 million (£5.1 million). This acquisition allows us to create a meaningful FAP presence in the Australian and New Zealand markets as we build a new sales infrastructure. Additionally, we have acquired a further 1.5% of the issued share capital, taking our holding in Animal Ethics Pty Ltd's parent company, Medical Ethics Pty Ltd, to 49.5%.

Pipeline Delivery

Good progress continues to be made on the pipeline and we expect that the final sections of a dossier for a new canine sedative for the US will be submitted within the next few months. It is also pleasing to report that we are still delivering favourable results on the dog and cat proof of concept studies for the diabetes drugs being developed in partnership with Akston. Following our right to evaluate the cat product we have subsequently signed a licensing and supply agreement on 4 February 2021. A number of minor new products have been approved in major territories and also into international markets, including our poultry vaccine range, Avishield®, in South Africa. Our Regulatory and Development teams have continued to be effective throughout the COVID-19 pandemic and all development laboratories remained operational, with our vaccine development laboratory in Zagreb receiving a Good Laboratory Practice (GLP) certification.

Enablers

People

The level of dedication and commitment from our people throughout the COVID-19 pandemic has remained exceptional and despite increased levels of absence, particularly in our manufacturing sites, we have managed to keep all key functions operational. We have conducted a full review of our global remuneration policies and from 1 January 2021 no individual within Dechra will work below their respective nationally recognised living wage. We have also benchmarked individuals within all levels of the Group, and will be implementing above inflationary salary increases to numerous employees, to continue to provide a competitive and fair level of remuneration throughout the whole organisation, in line with our commitment to the remuneration policies we adopted in 2019.

Manufacturing and Supply Chain

The investment made in the previous financial year into the supply chain infrastructure and management has proved successful with the majority of historic product shortages being resolved. We have implemented stronger, more robust relationships and improved supply agreements with many of our third party suppliers. We have also committed to an increase cost of £1.0 million per annum to cover additional personnel to strengthen the Group's quality systems as global regulatory standards continue to rise. We have recently commenced a €7.0 million capital investment into increasing the scale and capability of our Danish distribution centre, which will provide significant additional space and an underground cold store to enable a sustainable way to warehouse refrigerated stock, such as *Osurnia* and our vaccine range. The impact of Brexit has been limited and we have successfully managed to ship to and from the UK post-Brexit from all facilities.

Information Technology

The main focus has been to enhance our remote working capabilities and our digital communication with customers. To facilitate this we have improved the security of key servers, upgraded video conferencing systems, accelerated deployment of advanced home working solutions and added additional support to respond to home users' queries. Veterinarians and nurses use of the Dechra Academy has increased significantly during the COVID-19 lockdown, with over 27,000 courses being completed in the last 12 months. We now have over 70,000 registered Academy users worldwide. Communication has also strengthened in Europe with the go live of Salesforce, a CRM system, in eight countries; a system which has been used for several years by our US team. The system will be implemented in the remaining EU markets by the end of this calendar year.

Environmental, Social, Governance (ESG)

Following the launch in the previous financial year of our new strategy we have designated ESG as our fourth strategic enabler reflecting our view that it underpins everything we do. A committee, chaired by Paul Sandland and comprising representatives from across the Group, has focused on gathering data to establish targets which are specific to Dechra. We have formed two sub committees, one covering Health, Safety and Wellbeing and, the other Packaging and Waste. These sub committees will develop strategy, provide direction and monitor performance in these key areas. Carina Kjellberg commences her new role as Group Sustainability Director on 1 March 2021, and will focus on delivery of our strategy including the implementation of actions to enable us to achieve a reduction in our carbon emissions.

Our Donations Policy this year was focused entirely on food banks and mental health charities across the world to support people in communities where we operate who are suffering from the effects of the COVID-19 pandemic.

Half-Yearly Financial Report 2021 continued

Financial Review

Group revenue in the Period was £299.8 million, a growth of 21.8%.

- Revenue in EU Pharmaceuticals grew strongly by 21.7% to £195.6 million.
  - Existing revenue was £188.3 million, an increase of 17.3%. This revenue includes a planned reduction of 21.2% in non-core third party contract manufacturing business; excluding this, revenue increased by 18.6% to £184.2 million.
  - Acquisition revenue from *Osurnia* was £7.3 million, which is ahead of our expectations.
- Our NA Pharmaceuticals Segment revenue increased by 21.9% to £104.2 million.
  - Existing revenue was £98.2 million, an increase of 14.8%. This performance should be considered against a soft comparator period which was adversely impacted by supply issues as outlined above.
  - Acquisition revenue consists of £0.4 million from Ampharmco, £2.8 million from *Mirataz* and £2.8 million from *Osurnia*.

Revenue	**Six months ended 31.12.20 £m**	Six months ended 31.12.19 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
EU Pharmaceuticals – Core	**184.2**	154.4	19.3%	**18.6%**
EU Pharmaceuticals – Third Party Contract Manufacturing	**4.1**	5.2	(21.2%)	**(21.2%)**
EU Pharmaceuticals – Existing	**188.3**	159.6	18.0%	**17.3%**
NA Pharmaceuticals – Existing[1]	**98.2**	88.9	10.5%	**14.8%**
Group Total – Existing	**286.5**	248.5	15.3%	**16.4%**
EU Pharmaceuticals – Acquisitions[2]	**7.3**	–	–	**–**
NA Pharmaceuticals – Acquisitions[3]	**6.0**	–	–	**–**
Group Total – Acquisitions	**13.3**	–	–	**–**
EU Pharmaceuticals – Total	**195.6**	159.6	22.6%	**21.7%**
NA Pharmaceuticals – Total	**104.2**	88.9	17.2%	**21.9%**
Group Total	**299.8**	248.5	20.6%	**21.8%**

1. NA Pharmaceuticals – Existing including like-for-like Ampharmco.
2. EU Pharmaceuticals – Acquisition comprises *Osurnia*.
3. NA Pharmaceuticals – Acquisition comprises Ampharmco, *Mirataz* and *Osurnia*.

The pharmaceutical product categories of CAP, FAP and Equine all posted double digit growth in the Period. Nutrition also posted strong growth following our successful relaunch in the prior year, despite being more susceptible to discretionary spend than the rest of our range. Other revenue reduced as we continue our planned strategic exit from non-core business, including third party contract manufacturing.

Revenue	**Six months ended 31.12.20 £m**	Six months ended 31.12.19 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
CAP	**219.0**	173.7	26.1%	**27.3%**
FAP	**36.8**	34.1	7.9%	**10.6%**
Equine	**22.8**	19.7	15.7%	**16.8%**
Subtotal Pharmaceuticals	**278.6**	227.5	22.5%	**23.9%**
Nutrition	**15.9**	14.0	13.6%	**10.7%**
Other*	**5.3**	7.0	(24.3%)	**(22.9%)**
Total	**299.8**	248.5	20.6%	**21.8%**

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

Group underlying gross margin percentage in the Period reduced by 100 bps to 56.9% (2020: 57.9%), due to less favourable product sales mix and increased cost of goods. Group underlying Selling, General and Administration (SG&A) expenses increased to £74.8 million in the Period but reduced as a percentage of revenue to 24.9% (2020: 27.8%) due to COVID-19 related cost savings and deferral of the annual pay review from 1 September to 1 January.

Group underlying operating profit in the Period increased by 32.7% (32.2% at AER) to £80.8 million, as revenue growth was leveraged strongly to increase underlying operating margin by 240 bps to 27.0% (on an AER basis).

- Underlying operating profit in EU Pharmaceuticals increased to £65.0 million, a growth of 31.9%.
  - Existing underlying operating profit in EU Pharmaceuticals was £60.7 million, an increase of 23.0%. Operating margin increased by 140 bps to 32.2%.
  - Underlying operating profit from the *Osurnia* acquisition added £4.3 million, representing an operating margin of 58.9%.
- NA Pharmaceuticals underlying operating profit was £36.3 million, an increase of 26.1%, with the operating margin increasing by 120 bps to 34.8%.
  - Existing underlying operating profit in NA Pharmaceuticals was £33.6 million, an increase of 16.7%. Operating margin increased by 60 bps to 34.2%.
  - Underlying operating profit from the Ampharmco, *Mirataz* and *Osurnia* acquisitions generated £2.7 million, representing an operating margin of 45.0%.
- Pharmaceuticals R&D underlying expenditure increased to £15.1 million, an increase of 12.5%, representing 5.0% of revenue (2020: 5.5% of revenue). This included £2.6 million of spend in relation to Akston and additional investment in new territory registrations and more novel product development opportunities.
- Corporate costs increased by 42.1% to £5.4 million (2020: £3.8 million), due to the remeasurement of performance conditions in relation to the Long Term Incentive Plan and reinstating Annual Bonus accruals following the low pay out last year.

Net underlying finance expense increased by 60.5% to £5.7 million (2020: £3.8 million), as lower debt service costs were more than offset by foreign exchange losses realised in the Period.

The Group underlying Effective Tax Rate (ETR) has increased slightly to 21.4% (2020: 21.1%), reflecting the regional mix of operating profits. The Group reported ETR is a charge of 34.2% (2020: 32.3%) and includes the tax effect impact of non-underlying profit before tax items and an exceptional deferred tax charge of £4.9 million (2020: £2.7 million), due to the Dutch corporate tax rate now remaining at 25%.

Non-underlying items of £39.7 million (2020: £37.3 million) relating to operating profit and profit before tax are fully set out in note 8.

Reported operating profit was £40.3 million (2020: £23.3 million) increasing by 74.2% (73.0% at AER) and reported profit before tax was £35.4 million (2020: £19.5 million) increasing by 80.5% (81.5% at AER). The increase in both primarily reflects the strong trading performance and impact of acquisitions during the current and prior period.

Underlying diluted EPS grew by 24.7% (24.9% at AER) to 54.28 pence (2020: 43.46 pence). Reported diluted EPS increased by 66.7% (67.5% at AER) to 21.44 pence (2020: 12.80 pence), reflecting the improvement in reported profit before tax.

Cash generated from operating activities before interest and taxation increased by 39.7% to £85.1 million resulting in a cash conversion rate of 105.3%. Net debt increased to £204.0 million (from £127.6 million at 30 June 2020) due to funding of the *Osurnia* acquisition in the first half, representing net debt to proforma EBITDA banking covenant leverage (on a pre IFRS16 basis) of 1.12 times.

Dividend

The Board is pleased to declare an interim dividend of 11.11 pence per share, which represents a growth of 8.0% on the prior period. The dividend will be payable on 7 April 2021 to shareholders on the Register at 5 March 2021. The ordinary shares will become ex-dividend on 4 March 2021.

Half-Yearly Financial Report 2021 continued

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 2020 Annual Report and Accounts. The Group's principal risks and their mitigation are described on pages 70 to 76 of the 2020 Annual Report, a copy of which is available at www.dechra.com. Of these risks, the following could have a material impact on the Group's performance over the remaining six months of the current financial year, and are summarised below:

- **Competitive Environment**

  The environment within which the Group operates remains competitive and the launch of alternative products in our key therapeutic sectors is a key risk. We continue to experience competition against a number of products, predominantly in the EU.

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

- **Customer and Marketplace Changes**

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

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

- **Supply Chain**

  Our manufacturing and supply chain network manages the supply of our diverse portfolio of products from our own sites, our contract manufacturing network, and third party suppliers. Our key product supply risks are the reliance on third party suppliers for several of our key raw materials and finished products, and the adherence to increasing regulatory standards on product quality. We mitigate the third party reliance risk by maintaining buffer stocks, dual sourcing arrangements for key products, and the ongoing performance monitoring of our key suppliers. We operate a global sales and operations planning process to manage supply chain performance and continue to refine and improve this process.

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

- **Currency Movements**

  We are an international business that trades in many currencies and are therefore exposed to volatility in exchange rates. The Euro and US Dollar are two of the major currencies in which we trade. Given the current global political and economic environment, we expect continued currency volatility and this could impact our results. In the first six months of the year we made a foreign exchange transactional gain of £0.2 million on trading activities (2020: a gain of £3.2 million).

- **COVID-19**

  We took immediate action in March 2020 to respond to government guidance on the COVID-19 pandemic by making a number of changes to working practices to enable our employees to continue to produce and supply medicines safely. Details of these actions are provided on page 76 of the 2020 Annual Report. We continue to monitor and support the wellbeing and health of our staff and the impact on their working and personal lives from the pandemic.

  Whilst the pandemic has not had an adverse impact on trading performance in the first half of this financial year, it could have an impact in the longer term should it lead to a global recession that could result in lower demand for our products, a temporary delay in production, or increased production and supply costs.

Outlook

Trading in the second half remains robust, although we are starting to see the pre-Brexit inventory build unwind and, therefore, we expect the balance of trading to be first half weighted. Overall the outlook for the full year remains positive and in line with our January trading update. We expect the strong favourable market conditions to remain, our recent acquisitions to perform well and our supply chain improvement to continue. We continue to demonstrate our ability to execute our strategy so despite the ongoing challenges of the COVID-19 pandemic we remain confident in our future prospects.

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 7 September 2020 are listed in its Annual Report and Accounts for the year ended 30 June 2020 on pages 82 and 85.

By Order of the Board

Ian Page
Chief Executive Officer
22 February 2021

Paul Sandland
Chief Financial Officer

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

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

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

Stock Code: Full Listing (Pharmaceuticals): DPH.

Trademarks

Condensed Consolidated Income Statement
for the six months ended 31 December 2020

		Six months ended 31.12.20			Six months ended 31.12.19			Year ended 30.06.20		
	Note	**Underlying £m**	**Non-underlying items* (notes 3, 4 and 8) £m**	**Total £m**	Underlying £m	Non-underlying items* (notes 3, 4 and 8) £m	Total £m	Underlying £m	Non-underlying items* (notes 3, 4 and 8) £m	Total £m
Revenue	2	**299.8**	**–**	**299.8**	248.5	–	248.5	515.1	–	515.1
Cost of sales		**(129.1)**	**–**	**(129.1)**	(104.6)	–	(104.6)	(223.5)	–	(223.5)
Gross profit		**170.7**	**–**	**170.7**	143.9	–	143.9	291.6	–	291.6
Selling, general and administrative expenses		**(74.8)**	**(38.2)**	**(113.0)**	(69.2)	(34.9)	(104.1)	(134.9)	(70.4)	(205.3)
Research and development expenses		**(15.1)**	**(2.3)**	**(17.4)**	(13.6)	(2.9)	(16.5)	(28.4)	(5.7)	(34.1)
Operating profit	2	**80.8**	**(40.5)**	**40.3**	61.1	(37.8)	23.3	128.3	(76.1)	52.2
Share of (loss)/profit of investments accounted for using the equity method	11	**–**	**(0.4)**	**(0.4)**	(0.5)	(0.5)	(1.0)	0.3	(0.6)	(0.3)
Finance income	3	**–**	**1.4**	**1.4**	1.9	1.4	3.3	3.0	–	3.0
Finance expense	4	**(5.7)**	**(0.2)**	**(5.9)**	(5.7)	(0.4)	(6.1)	(11.5)	(2.5)	(14.0)
Profit before taxation	2	**75.1**	**(39.7)**	**35.4**	56.8	(37.3)	19.5	120.1	(79.2)	40.9
Income taxes	5	**(16.1)**	**4.0**	**(12.1)**	(12.0)	5.7	(6.3)	(24.7)	17.7	(7.0)
Profit for the period		**59.0**	**(35.7)**	**23.3**	44.8	(31.6)	13.2	95.4	(61.5)	33.9
Earnings per share										
Basic	7			**21.56p**			12.85p			32.87p
Diluted	7			**21.44p**			12.80p			32.76p
Dividend per share (interim and full)	6			**11.11p**			10.29p			34.29p

* 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 2020

	Six months ended		Year ended
	31.12.20	31.12.19	30.06.20
	£m	£m	£m
Profit for the period	**23.3**	13.2	33.9
Other comprehensive income/(expense):			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency cash flow hedge			
– fair value movements	**(1.7)**	–	0.1
Foreign currency translation differences for foreign operations	**(13.9)**	(24.1)	(7.1)
Income tax relating to components of other comprehensive income/(expense)	**0.4**	(0.1)	1.8
	(15.2)	(24.2)	(5.2)
Total comprehensive income/(expense) for the period	**8.1**	(11.0)	28.7

Condensed Consolidated Statement of Financial Position
as at 31 December 2020

ASSETS	Note	**As at 31.12.20 £m**	As at 31.12.19 £m	As at 30.06.20 £m
Non-current assets				
Intangible assets		**734.9**	639.0	692.2
Property, plant and equipment		**78.9**	70.7	76.4
Investments	11	**17.0**	16.7	17.4
Deferred tax assets		**4.3**	1.0	2.7
Total non-current assets		**835.1**	727.4	788.7
Current assets				
Inventories		**140.6**	108.8	120.8
Current tax receivables		**4.2**	5.7	6.8
Trade and other receivables		**87.0**	82.0	93.9
Cash and cash equivalents	9	**139.0**	64.4	227.4
Total current assets		**370.8**	260.9	448.9
Total assets		**1,205.9**	988.3	1,237.6
LIABILITIES				
Current liabilities				
Borrowings and lease liabilities	9	**(3.9)**	(173.2)	(4.6)
Trade and other payables		**(111.0)**	(81.5)	(98.2)
Contingent consideration	13	**(4.5)**	(2.6)	(8.9)
Current tax liabilities		**(13.7)**	(21.1)	(25.6)
Total current liabilities		**(133.1)**	(278.4)	(137.3)
Non-current liabilities				
Borrowings and lease liabilities	9	**(339.1)**	(132.0)	(350.4)
Contingent consideration	13	**(46.3)**	(32.1)	(47.3)
Provisions		**(2.4)**	(2.8)	(2.5)
Deferred tax liabilities		**(59.6)**	(66.1)	(62.6)
Total non-current liabilities		**(447.4)**	(233.0)	(462.8)
Total liabilities		**(580.5)**	(511.4)	(600.1)
Net assets		**625.4**	476.9	637.5
EQUITY				
Issued share capital		**1.1**	1.0	1.1
Share premium account		**410.6**	278.7	409.3
Hedging reserve		**–**	–	–
Foreign currency translation reserve		**2.8**	(2.6)	16.3
Merger reserve		**84.4**	84.4	84.4
Retained earnings		**126.5**	115.4	126.4
Total equity		**625.4**	476.9	637.5

Condensed Consolidated Statement of Changes in Shareholders' Equity
for the six months ended 31 December 2020

	Attributable to owners of the parent						
	Issued share capital £m	Share premium account £m	Hedging reserve £m	Foreign currency translation reserve £m	Merger reserve £m	Retained earnings £m	**Total equity £m**
Six months ended 31 December 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**
Year ended 30 June 2020							
At 1 July 2019	1.0	277.9	–	21.6	84.4	124.2	**509.1**
Profit for the period	–	–	–	–	–	33.9	**33.9**
Foreign currency cash flow hedge – fair value movements	–	–	0.1	–	–	–	**0.1**
Foreign currency translation differences for foreign operations	–	–	–	(7.1)	–	–	**(7.1)**
Income tax relating to components of other comprehensive expense	–	–	–	1.8	–	–	**1.8**
Total comprehensive income/(expense) for the period	–	–	0.1	(5.3)	–	33.9	**28.7**
Reclassified to cost of acquired intangibles	–	–	(0.1)	–	–	–	**(0.1)**
Transactions with owners							
Dividends paid	–	–	–	–	–	(33.3)	**(33.3)**
Share-based payments	–	–	–	–	–	1.6	**1.6**
Shares issued	0.1	131.4	–	–	–	–	**131.5**
Total contributions by and distribution to owners	0.1	131.4	–	–	–	(31.7)	**99.8**
At 30 June 2020	1.1	409.3	–	16.3	84.4	126.4	**637.5**
Six months ended 31 December 2020							
At 1 July 2020	**1.1**	**409.3**	**–**	**16.3**	**84.4**	**126.4**	**637.5**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**23.3**	**23.3**
Foreign currency cash flow hedge – fair value movements	**–**	**–**	**(1.7)**	**–**	**–**	**–**	**(1.7)**
Foreign currency translation differences for foreign operations	**–**	**–**	**–**	**(13.9)**	**–**	**–**	**(13.9)**
Income tax relating to components of other comprehensive expense	**–**	**–**	**–**	**0.4**	**–**	**–**	**0.4**
Total comprehensive (expense)/income for the period	**–**	**–**	**(1.7)**	**(13.5)**	**–**	**23.3**	**8.1**
Reclassified to cost of acquired intangibles	**–**	**–**	**1.7**	**–**	**–**	**–**	**1.7**
Transactions with owners							
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(25.9)**	**(25.9)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**2.7**	**2.7**
Shares issued	**–**	**1.3**	**–**	**–**	**–**	**–**	**1.3**
Total contributions by and distribution to owners	**–**	**1.3**	**–**	**–**	**–**	**(23.2)**	**(21.9)**
At 31 December 2020	**1.1**	**410.6**	**–**	**2.8**	**84.4**	**126.5**	**625.4**

Condensed Consolidated Statement of Cash Flows

for the six months ended 31 December 2020

	Note	Six months ended 31.12.20 £m	Six months ended 31.12.19 £m	Year ended 30.06.20 £m
Cash flows from operating activities				
Operating profit		**40.3**	23.3	52.2
Non-underlying items		**40.5**	37.8	76.1
Underlying operating profit		**80.8**	61.1	128.3
Adjustments for:				
Depreciation		**5.3**	4.7	9.9
Amortisation		**2.1**	2.1	4.3
Release of government grant		**(0.3)**	(0.3)	(0.5)
Loss/(profit) on disposal of tangible assets		**0.5**	(0.1)	–
Equity settled share-based payment expense		**2.7**	0.7	1.5
Underlying operating cash flow before changes in working capital		**91.1**	68.2	143.5
Increase in inventories		**(23.6)**	(9.0)	(15.7)
Decrease in trade and other receivables		**3.3**	14.9	6.9
Increase/(decrease) in trade and other payables		**16.5**	(9.2)	0.1
Cash generated from operating activities before interest, taxation and non-underlying items		**87.3**	64.9	134.8
Cash outflows in respect of non-underlying items		**(2.2)**	(4.0)	(7.3)
Cash generated from operating activities before interest and taxation		**85.1**	60.9	127.5
Interest paid		**(4.0)**	(4.9)	(7.8)
Interest on lease liabilities		**(0.2)**	(0.2)	(0.4)
Income taxes paid		**(22.8)**	(5.2)	(12.9)
Net cash inflow from operating activities		**58.1**	50.6	106.4
Cash flows from investing activities				
Proceeds from disposal of tangible assets		**0.3**	0.2	0.2
Interest received		**–**	–	0.3
Acquisition of subsidiaries (net of cash acquired)		**(0.4)**	(24.8)	(25.2)
Acquisition of investment in associates		**–**	(7.5)	(7.6)
Purchase of property, plant and equipment		**(6.6)**	(4.1)	(7.8)
Capitalised development expenditure		**(0.1)**	(0.7)	(1.3)
Purchase of other intangible non-current assets	10	**(109.4)**	(3.0)	(40.1)
Net cash outflow from investing activities		**(116.2)**	(39.9)	(81.5)
Cash flows from financing activities				
Proceeds from the issue of share capital		**1.3**	0.8	131.5
New borrowings		**–**	–	297.3
Expenses of raising borrowing facilities		**–**	(1.0)	(1.7)
Repayment of borrowings		**(0.6)**	(0.7)	(271.7)
Principal elements of lease payments		**(1.9)**	(1.3)	(3.2)
Dividends paid		**(25.9)**	(22.7)	(33.3)
Net cash (outflow)/inflow from financing activities		**(27.1)**	(24.9)	118.9
Net (decrease)/increase in cash and cash equivalents		**(85.2)**	(14.2)	143.8
Cash and cash equivalents at start of period		**227.4**	80.3	80.3
Exchange differences on cash and cash equivalents		**(3.2)**	(1.7)	3.3
Cash and cash equivalents at end of period		**139.0**	64.4	227.4
Reconciliation of net cash flow to movement in net borrowings				
Net (decrease)/increase in cash and cash equivalents		**(85.2)**	(14.2)	143.8
Repayment of borrowings and lease liabilities		**2.7**	2.2	275.3
Expenses of raising borrowing facilities		**–**	1.0	1.7
New borrowings and lease liabilities		**(3.0)**	(0.4)	(302.8)
Acquisition of subsidiary borrowings and lease liabilities		**–**	(0.1)	(0.1)
Changes in accounting policy for leases		**–**	(12.6)	(12.7)
Exchange differences on cash and cash equivalents		**(3.2)**	(1.7)	3.3
Retranslation of foreign borrowings		**12.8**	13.6	(6.3)
Other non-cash changes		**(0.5)**	(0.8)	(2.0)
Movement in net borrowings in the period		**(76.4)**	(13.0)	100.2
Net borrowings at start of period		**(127.6)**	(227.8)	(227.8)
Net borrowings at end of period	9	**(204.0)**	(240.8)	(127.6)

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 2020

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 2020 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 2020 is set out in the Independent Review Report. The Group financial statements as at, and for, the year ended 30 June 2020 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 2020 and the unaudited financial information in the Half-Yearly Financial Report for the six months ended 31 December 2019. The comparative figures for the financial year ended 30 June 2020 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's external auditor PricewaterhouseCoopers LLP, and delivered to the Registrar of Companies. The report of the external auditor (i) was unqualified, (ii) did not include a reference to any matters to which the external auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The condensed set of financial statements for the six months ended 31 December 2020 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 2020.

This condensed set of financial statements was approved by the Board of Directors on 22 February 2021.

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 2020 as described in pages 158 to 166 of the Annual Report.

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.

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

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

Notes to the Financial Statements continued
for the six months ended 31 December 2020

1 Basis of Preparation and Principal Accounting Policies continued

Going Concern

The Group meets its day-to-day working capital requirements through cash generation and its banking facilities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, including the impact of COVID-19, show that the Group should be able to operate within the level of its facilities secured. The assessment of the impact of COVID-19 remains consistent with that disclosed in the Annual Report and Accounts for the year ended 30 June 2020. 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 and Food producing Animal Products in those territories. The Segment also includes our manufacturing units based in Melbourne, Florida and Fort Worth, Texas.

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

	Six months ended		Year ended
	31.12.20 £m	31.12.19 £m	30.06.20 £m
Revenue by segment			
European Pharmaceuticals	**195.6**	159.6	323.5
North America Pharmaceuticals	**104.2**	88.9	191.6
	299.8	248.5	515.1
Operating profit/(loss) by segment			
European Pharmaceuticals	**65.0**	48.6	100.0
North America Pharmaceuticals	**36.3**	29.9	63.7
Pharmaceuticals Research and Development	**(15.1)**	(13.6)	(28.4)
Segment operating profit	**86.2**	64.9	135.3
Corporate and other unallocated costs	**(5.4)**	(3.8)	(7.0)
Underlying operating profit	**80.8**	61.1	128.3
Amortisation of acquired intangibles	**(38.3)**	(34.5)	(69.6)
Rationalisation of manufacturing organisation	**(0.9)**	(1.1)	(2.2)
Expenses relating to acquisitions and subsequent integration activities	**(1.3)**	(2.2)	(4.3)
Operating profit	**40.3**	23.3	52.2
Share of losses in investment accounted for using the equity method	**(0.4)**	(1.0)	(0.3)
Finance income	**1.4**	3.3	3.0
Finance expense	**(5.9)**	(6.1)	(14.0)
Profit before taxation	**35.4**	19.5	40.9

2 Operating Segments continued

Revenue by product category	Six months ended 31.12.20 £m	Six months ended 31.12.19 £m	Year ended 30.06.20 £m
CAP	**219.0**	173.7	361.6
Equine	**22.8**	19.7	36.4
FAP	**36.8**	34.1	74.8
Nutrition	**15.9**	14.0	28.6
Other	**5.3**	7.0	13.7
	299.8	248.5	515.1

3 Finance Income

Underlying	Six months ended 31.12.20 £m	Six months ended 31.12.19 £m	Year ended 30.06.20 £m
Finance income arising from:			
— Cash and cash equivalents	**–**	0.1	0.1
— Foreign exchange gains	**–**	1.8	2.9
Underlying finance income	**–**	1.9	3.0

Non-underlying	Six months ended 31.12.20 £m	Six months ended 31.12.19 £m	Year ended 30.06.20 £m
Finance income arising from:			
— Foreign exchange gains on contingent consideration	**1.4**	1.4	–
Non-underlying finance income	**1.4**	1.4	–
Total finance income	**1.4**	3.3	3.0

4 Finance Expense

Underlying	Six months ended 31.12.20 £m	Six months ended 31.12.19 £m	Year ended 30.06.20 £m
Finance expense arising from:			
— Financial liabilities at amortised costs	**4.3**	5.5	11.1
— Lease liability interest	**0.2**	0.2	0.4
— Foreign exchange losses	**1.2**	–	–
Underlying finance expense	**5.7**	5.7	11.5

Non-underlying	Six months ended 31.12.20 £m	Six months ended 31.12.19 £m	Year ended 30.06.20 £m
Finance expense arising from:			
— Loss on extinguishment of debt	**–**	–	1.0
— Foreign exchange losses on contingent consideration	**–**	–	0.9
— Unwind of discount associated with contingent consideration	**0.2**	0.4	0.6
Non-underlying finance expense	**0.2**	0.4	2.5
Total finance expense	**5.9**	6.1	14.0

Notes to the Financial Statements continued

for the six months ended 31 December 2020

5 Income Tax Expense

The tax charge for the six months ended 31 December 2020 has been calculated based on (i) the estimated effective rate for the year ending 30 June 2021, plus (ii) the inclusion of an exceptional deferred tax charge of £4.9 million which has been recognised in full at 31 December 2020. 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 remain at 25.0% (previously this was to reduce to 21.7% over the period to 2022). The total reported effective tax rate is 34.2% (six months ended 31 December 2019: 32.3%; year ended 30 June 2020: 17.1%). This includes the tax effect of non-underlying items as set out in note 8. The underlying effective tax rate is 21.4% (six months ended 31 December 2019: 21.1%).

The income taxes paid cash outflow in the Period of £22.8 million includes an amount of £8.9 million relating to the partial settlement of a Mutual Agreement Procedure (MAP) across three countries. We expect to recover this amount when the MAP is concluded with the respective Competent Authorities in the next 12 months.

6 Dividends

The final dividend for the year ended 30 June 2020 of 24.00 pence per share, costing £25.9 million, has been paid in the Period.

The Directors have declared an interim dividend of 11.11 pence per share (six months ended 31 December 2019: 10.29 pence) costing £12.0 million (six months ended 31 December 2019: £10.6 million). It is payable on 7 April 2021 to shareholders whose names are on the Register of Members at close of business on 5 March 2021. The ordinary shares will become ex-dividend on 4 March 2021. 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 2021.

7 Earnings per Share

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

	Six months ended		Year ended
	31.12.20 Pence	31.12.19 Pence	30.06.20 Pence
Basic earnings per share			
— Underlying*	**54.60**	43.60	92.50
— Basic	**21.56**	12.85	32.87
Diluted earnings per share			
— Underlying*	**54.28**	43.46	92.19
— Diluted	**21.44**	12.80	32.76

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	**59.0**	44.8	95.4
Earnings for basic and diluted earnings per share	**23.3**	13.2	33.9

	Number	Number	Number
Weighted average number of ordinary shares for basic earnings per share	**108,062,314**	102,748,580	103,133,142
Impact of share options	**635,503**	345,287	348,393
Weighted average number of ordinary shares for diluted earnings per share	**108,697,817**	103,093,867	103,481,535

* 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 **31.12.20 £m**	31.12.19 £m	Year ended 30.06.20 £m
Operating profit				
Underlying operating profit is calculated as follows:				
Operating profit		**40.3**	23.3	52.2
Amortisation of acquired intangibles		**38.3**	34.5	69.6
Rationalisation of manufacturing organisation		**0.9**	1.1	2.2
Expenses relating to acquisitions and subsequent integration activities		**1.3**	2.2	4.3
Underlying operating profit		**80.8**	61.1	128.3
Depreciation		**5.3**	4.7	9.9
Amortisation		**2.1**	2.1	4.3
Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)		**88.2**	67.9	142.5
Profit before taxation				
Underlying profit before taxation is calculated as follows:				
Profit before taxation		**35.4**	19.5	40.9
Amortisation of acquired intangibles		**38.7**	35.0	70.2
Rationalisation of manufacturing organisation		**0.9**	1.1	2.2
Expenses relating to acquisitions and subsequent integration activities		**1.3**	2.2	4.3
Loss on extinguishment of debt		**–**	–	1.0
Foreign exchange (gains)/losses on contingent consideration		**(1.4)**	(1.4)	0.9
Unwind of discount associated with contingent consideration		**0.2**	0.4	0.6
Underlying profit before tax		**75.1**	56.8	120.1
Impact of non-underlying items on income tax				
Tax on non-underlying profit before tax items	5	**8.9**	8.4	18.0
Revaluation of deferred tax balances following the change in Dutch tax rates	5	**(4.9)**	(2.7)	(0.3)
Total impact of non-underlying items on income tax		**4.0**	5.7	17.7

During the prior year, a fire occurred at one of the Group's third party logistics provider locations in the Netherlands that resulted in inventory to the value of £6.4 million being destroyed and written off. The inventory write off was included within underlying operating profit net of credits from insurance proceeds of £5.3 million and a receivable of £1.1 million with no impact on the income statement for the year to 30 June 2020. During the six months ending 31 December 2020 the matter has been settled with the insurers, with no material impact on underlying operating profit in the Period as a result of the final settlement.

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

The Board monitors the performance of the business by focusing on underlying profit measures and incentivises management on this basis. The following are excluded in determining underlying operating profit:

- Amortisation of acquired intangibles reflects the amortisation of the fair values of future cash flows recognised on acquisition in relation to the identifiable intangible assets acquired.
- Rationalisation of the manufacturing organisation relates to the income statement cost associated with this strategic programme. Cost since the inception of this programme have been £8.0 million. The total planned spend on this project is £9.0 million and will conclude in the current financial year.
- Expenses relating to acquisition and subsequent integration activities represent costs incurred during the acquisition and integration of *Osurnia* (£1.2 million), and other prospective projects (£0.1 million).
- The loss on extinguishment of debt relates to the acceleration of the amortisation of arrangement fees relating to the Term Loan on termination in the year ended 30 June 2020.
- Fair value and other movements on contingent consideration relating to the unwind of discounting and foreign exchange adjustments of such balances.

Notes to the Financial Statements continued
for the six months ended 31 December 2020

9 Analysis of Net Borrowings

	As at 31.12.20 £m	As at 31.12.19 £m	As at 30.06.20 £m
Analysis of net debt			
Cash and cash equivalents	**139.0**	64.4	227.4
Lease liabilities	**(15.8)**	(11.6)	(15.0)
Bank loans	**(327.2)**	(293.6)	(340.0)
	(204.0)	(240.8)	(127.6)

	At 1.07.20 £m	Cash flows £m	New lease liabilities £m	Foreign exchange movements £m	Other non-cash movements £m	**At 31.12.20 £m**
Cash and cash equivalents	227.4	(85.2)	–	(3.2)	–	**139.0**
Lease liabilities within one year	(3.2)	2.1	(0.1)	–	(1.9)	**(3.1)**
Bank loans within one year	(1.4)	0.6	–	–	–	**(0.8)**
Lease liabilities after one year	(11.8)	–	(2.9)	0.3	1.7	**(12.7)**
Bank loans and senior loan notes after one year	(338.6)	–	–	12.5	(0.3)	**(326.4)**
Net debt	(127.6)	(82.5)	(3.0)	9.6	(0.5)	**(204.0)**

10 Acquisitions

Acquisition of Osurnia

On 27 July 2020, the Group completed the acquisition of the worldwide rights of the *Osurnia* product portfolio from Elanco Animal Health Incorporated for a total consideration of USD135.0 million (£106.5 million). The Group has adopted the amendments to *IFRS 3 'Business Combinations'* and applied the optional concentration test for this transaction. Accordingly, it has been concluded that substantially all the value arising from the transaction relates to the product rights which are recognised as an intangible asset. The total intangible asset recognised in relation to this acquisition is £106.5 million. A payment of £4.7 million was also made for inventory.

Prior Year Acquisitions

Following the acquisition of 100% of the share capital of Ampharmco LLC and its associated companies Dragon Fire Holdings LLC and Black Griffin Holdings LLC (collectively Ampharmco), together with its manufacturing site based in Fort Worth, Texas in August 2019, 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 2020.

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 (£7.6 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.

The Group undertook a provisional fair value exercise at the date of acquisition to allocate the cost of the investment to the individual assets, liabilities and contingent liabilities at their acquisition date fair values. The fair values attributed at the acquisition date are now final and have been included in the financial statements for the year ended 30 June 2020.

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

	31.12.20 £m	31.12.19 £m	30.06.20 £m
Opening interest	**5.8**	1.5	1.5
Fair value of associate interest acquired	**–**	7.6	4.6
Share of underlying (loss)/profit after tax	**–**	(0.5)	0.3
Amortisation of notional intangible asset recognised on acquisition	**(0.4)**	(0.5)	(0.6)
Interest in associate	**5.4**	8.1	5.8
Goodwill	**11.6**	8.6	11.6
Carrying value of investment in associate	**17.0**	16.7	17.4

On 5 February 2021, the Group entered into a licensing agreement with Animal Ethics Pty Ltd for the marketing authorisations of Tri-Solfen® in Australia and New Zealand, and acquired a further 1.5% of the issued share capital of Medical Ethics Pty Ltd. For further information refer to the subsequent events disclosure in note 16.

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	
	31.12.20	31.12.19	**31.12.20**	31.12.19
Australian Dollar	**1.8064**	1.8400	**1.7681**	1.8800
Brazilian Real	**7.0341**	5.0918	**7.0893**	5.3076
Danish Krone	**8.2332**	8.4764	**8.2766**	8.7817
Euro	**1.1060**	1.1352	**1.1123**	1.1754
US Dollar	**1.3060**	1.2593	**1.3649**	1.3204

13 Contingent Consideration Liabilities

	As at 31.12.20 £m	As at 31.12.19 £m	As at 30.06.20 £m
Contingent consideration – less than one year	**4.5**	2.6	8.9
Contingent consideration – more than one year	**46.3**	32.1	47.3
	50.8	34.7	56.2

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

	Tri-Solfen® £m	StrixNB® & DispersinB® £m	Injectable Solution 1 £m	Injectable Solution 2 £m	*Mirataz* £m	*Phycox*® £m	Other £m	Total £m
As at 1 July 2019	22.0	0.7	4.4	5.2	–	2.2	1.5	36.0
Additions	–	–	–	–	–	–	0.2	0.2
Remeasurement through intangibles	1.6	–	0.2	(0.1)	–	0.1	–	1.8
Cash payments: investing activities	–	–	(0.8)	(0.9)	–	(0.5)	(0.1)	(2.3)
Finance expense	0.2	–	0.1	0.1	–	–	–	0.4
Foreign exchange adjustments	(0.8)	–	(0.2)	(0.3)	–	–	(0.1)	(1.4)
At 31 December 2019	23.0	0.7	3.7	4.0	–	1.8	1.5	34.7
As at 1 July 2019	22.0	0.7	4.4	5.2	–	2.2	1.5	36.0
Additions	–	0.2	–	–	10.9	–	0.2	11.3
Remeasurement through intangibles	9.9	–	0.2	–	–	0.8	–	10.9
Cash payments: investing activities	–	(0.1)	(1.5)	(0.9)	–	(0.8)	(0.2)	(3.5)
Finance expense	0.4	–	0.1	0.1	–	–	–	0.6
Foreign exchange adjustments	0.7	–	0.1	–	–	0.1	–	0.9
At 30 June 2020	33.0	0.8	3.3	4.4	10.9	2.3	1.5	56.2
As at 1 July 2020	33.0	0.8	3.3	4.4	10.9	2.3	1.5	56.2
Additions	–	–	–	–	–	–	2.0	2.0
Remeasurement through intangibles	(1.5)	–	(0.6)	(2.4)	0.2	(0.2)	–	(4.5)
Cash payments: investing activities	–	(0.1)	(0.8)	(0.1)	(0.3)	(0.4)	–	(1.7)
Finance expense	0.1	–	–	–	0.1	–	–	0.2
Foreign exchange adjustments	0.4	–	(0.3)	(0.1)	(1.1)	(0.2)	(0.1)	(1.4)
At 31 December 2020	**32.0**	**0.7**	**1.6**	**1.8**	**9.8**	**1.5**	**3.4**	**50.8**

Notes to the Financial Statements continued
for the six months ended 31 December 2020

13 Contingent Consideration Liabilities continued

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

	Tri-Solfen® £m	StrixNB® & DispersinB® £m	Injectable Solution 1 £m	Injectable Solution 2 £m	*Mirataz* £m	*Phycox*® £m	Other £m
Increase/(decrease) in financial liability							
10% increase in royalty forecasts £m	2.5	0.1	N/A	N/A	1.0	0.2	0.1
10% decrease in royalty forecast £m	(2.5)	(0.1)	N/A	N/A	(1.0)	(0.2)	(0.1)
1% increase in discount rates £m	(1.7)	–	–	–	(0.5)	–	(0.1)
1% decrease in discount rates £m	1.7	–	–	–	0.5	–	0.1
5% appreciation in currency £m	(1.5)	–	(0.1)	(0.1)	(0.5)	(0.1)	(0.2)
5% depreciation in currency £m	1.5	–	0.1	0.1	0.5	0.1	0.2
Discount rate range in six months ended 31.12.20	1.3%-15.9%	10.1%-13.1%	9.2%	9.2%	7.5%-10.2%	10.1%	9.4%-10.1%
Discount rate range in six months ended 31.12.19	12.0%	9.0%	8.5%	8.5%	–	9.5%	9.5%
Discount rate range in 2020 financial year	2.5%-16.6%	10.1%-13.1%	9.2%	9.2%	6.8%-10.2%	10.1%	9.4%
Aggregate cash outflow in relation to royalties (remaining terms of royalty agreement)							
31.12.20 £m (years)	41.6 (10.0)	1.0 (6.5)	N/A	N/A	15.7 (10.0)	1.7 (2.0)	1.8 (10.0)
31.12.19 £m (years)	36.6 (10.0)	1.1 (7.5)	N/A	N/A	–	2.3 (4.0)	–
31.06.20 £m (years)	50.6 (10.0)	1.1 (7.0)	N/A	N/A	17.6 (10.0)	2.8 (3.5)	–

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

The consideration for two separate licensing agreements for injectable solutions both relate to development milestones, and have been remeasured in the Period to reflect management's best estimate of the milestones that will be achieved. *Phycox* relates to sales performance and arose as part of the acquisition of the trade and assets of PSPC Inc. in 2014.

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

14 Financial Risk Management and Financial Instruments

Financial Risk Factors

The Group's activities expose it to a variety of financial risks including foreign currency risk, fair value interest rate risk, credit risk and liquidity risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 30 June 2020. There have been no changes in any risk management policies since the year end.

Fair Values

The fair value of the Group's financial assets and liabilities are equal to the carrying value with the exception of senior loan notes. Senior loan notes are carried at amortised cost. The fair value of senior loan notes is estimated by discounting contractual future cash flows (Level 2 as defined by IFRS 13). Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. At 31 December 2020, the fair value of senior loan notes was materially consistent to the carrying value.

Fair Value Hierarchy

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

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

Contingent consideration is recorded at fair value based on risk-adjusted future cash flows discounted using appropriate interest rates, which are reviewed periodically. This constitutes a level 3 valuation method. The inputs relating to future cash flows will include cash flows relating to the relevant contractual arrangements. Quantified information about significant unobservable inputs is disclosed within note 13. Refer to the foreign exchange adjustments and unwind of discount on the contingent consideration balances in note 8 for amounts recognised in the Condensed Consolidated Income Statement in the year end.

15 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.

The Group holds a 48.0% stake in Medical Ethics Pty Ltd, which is the holding company of Animal Ethics Pty Ltd. In 2017 the Group entered into a licensing agreement with Animal Ethics Pty Ltd for Tri-Solfen® for which the fair value of associated contingent consideration is disclosed in note 13. There have been no transactions with the Medical Ethics Group during the Period.

On 5 February 2021, the Group entered into a licensing agreement with Animal Ethics Pty Ltd for the marketing authorisations of Tri-Solfen® in Australia and New Zealand, and acquired a further 1.5% of the issued share capital of Medical Ethics Pty Ltd. For further information refer to the subsequent events disclosure in note 16.

16 Subsequent Events

On 4 February 2021, the Group exercised the option with Akston Biosciences Corporation for the development and licensing of a product to treat diabetes in cats. Following the initial upfront payment of USD2.0 million (£1.5 million) there are subsequent milestone payments totalling USD7.5 million (£5.5 million) due on the achievement of major milestones in the development process.

On 5 February 2021, the Group entered into a licensing agreement with Animal Ethics Pty Ltd for the marketing authorisations of Tri-Solfen® in Australia and New Zealand for a total consideration of AUD31.0 million (£17.2 million). An upfront payment of AUD5.0 million (£2.7 million) was payable on signing, with the balance of the payment due on the first commercial sale by Dechra into the Australian market expected in July 2021. A royalty will also be paid on net sales. The Group also acquired a further 1.5% of the issued share capital of Medical Ethics Pty Ltd, the parent company of Animal Ethics, for a total consideration of AUD1.5 million (£0.8 million) from the current shareholders. Following this acquisition the Group will hold 49.5% of the issued share capital of Medical Ethics Pty Ltd, and this has not resulted in a change of control or accounting treatment of the entity.

17 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 had financing arrangements in line with the UK legislation which was in place up until 31 December 2018. We have calculated the maximum potential State Aid claimed as £4.0 million excluding penalties and interest. Since the balance sheet date a charging notice has been received from HMRC for £1.7 million and this has now been settled on 19 February 2021 with an appeal being simultaneously lodged with HMRC on the same basis as the UK Government's annulment appeal. Given the current position, no provision has been recognised in the financial statements at 31 December 2020.

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

Independent Review Report of Dechra Pharmaceuticals PLC

Report on the Consolidated Interim Financial Statements

Our Conclusion

We have reviewed Dechra Pharmaceuticals PLC's consolidated interim financial statements (the "Interim Financial Statements") in the Half-Yearly Financial Report 2021 of Dechra Pharmaceuticals PLC for the six month period ended 31 December 2020 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Statements are not prepared, in all material respects, in accordance with 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 2020;
- 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 2021 of Dechra Pharmaceuticals PLC 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 2021, 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 2021 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 2021 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 2021 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Interim Financial Statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham
22 February 2021

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