Dechra®
Pharmaceuticals PLC

Half-Yearly Financial Report 2023

for the six months ended 31 December 2022 (the Period)

Monday, 27 February 2023

"I am pleased with our performance in the first half of our financial year. We have a strong history of delivering organic growth, a proven ability in well executed acquisitions and a stronger than ever product pipeline, which, together with the historical resilience of the animal healthcare market, leaves us well positioned to deliver sustained future growth."

Ian Page, Chief Executive Officer

Highlights

- Group revenue increased by 5.2% at Constant Exchange Rate (CER) (13.5% at Actual Exchange Rate (AER)), against a challenging comparator from the prior year.
  - European Pharmaceuticals (Eu Pharmaceuticals[1]) revenue growth was 0.4% at CER (1.3% at AER).
  - Total North American Pharmaceuticals (NA Pharmaceuticals) revenue growth was 16.2% at CER (34.5% at AER), including the benefit of four months revenue contribution from the Med-Pharmex acquisition in August 2022.
  - International Pharmaceuticals[2] revenue declined (9.0)% at CER ((1.6)% at AER), reflecting the impact of no revenue being generated in South Korea whilst we established our own sales and marketing business unit and the change of nutrition distribution partner in Japan.
- Group underlying operating profit (uEBIT) declined (11.2)% at CER ((3.8)% at AER) to £90.3 million.
  - Eu Pharmaceuticals uEBIT grew 4.3% on a CER basis (5.0% at AER) to £56.5 million, having delivered operating leverage on revenue growth in most major European markets.
  - NA Pharmaceuticals uEBIT increased 2.3% on a CER basis (19.3% at AER) to £52.0 million, reflecting investment in sales representatives and marketing activity to help drive future growth, plus the impact of Med-Pharmex.
  - International Pharmaceuticals uEBIT declined (20.8)% on a CER basis ((13.8)% at AER) to £13.7 million, largely due to the combined effect of no revenue and additional costs associated with establishing our own business unit in South Korea.
- Group underlying operating margin declined (430) bps at CER to 23.9%, with a 150 bps increase in gross margin offset by a (290) bps increase in R&D expenditure to 7.0% of revenue (2022: 4.1%) and strategic investments made within operating costs to underpin the Group's future growth.
- Reported operating profit declined (27.2)% at CER ((22.3)% at AER), reflecting the underlying operating profit result plus the impact of acquisition and integration costs and cloud computing arrangement costs.
- Adjusted Net Debt to underlying EBITDA leverage[5] is 2.2 times (2022: 0.9 times), driven by the acquisitions of Piedmont Animal Health and Med-Pharmex for a combined purchase price of £399.2 million together with ongoing investment in working capital.
- Underlying diluted EPS declined (20.4)% at CER ((13.4)% at AER) to 55.44 pence due to the decrease in uEBIT above and dilutive impact of the equity raise in July 2022. Interim dividend increased by 4.2% to 12.50 pence.

Financial Summary

	Six months ended 31.12.22 £m	Six months ended 31.12.21 £m	Growth at actual exchange rate	**Growth at constant exchange rate**
Revenue	**377.4**	332.4	13.5%	**5.2%**
Underlying				
Operating profit	**90.3**	93.9	(3.8)%	**(11.2)%**
Operating profit %	**23.9%**	28.2%	(430) bps	**(430) bps**
EBITDA[3]	**98.9**	101.3	(2.4)%	**(9.6)%**
Diluted EPS	**55.44p**	64.01p	(13.4)%	**(20.4)%**
Reported				
Operating profit	**44.6**	57.4	(22.3)%	**(27.2)%**
Diluted EPS	**19.86p**	37.38p	(46.9)%	**(51.3)%**
Cash generated from operating activities before interest and taxation	**65.8**	103.3	(36.3)%	

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.

1. European Pharmaceuticals includes revenue from third party contract manufacturing but excludes revenue from the International Pharmaceuticals division, which is now shown separately, and is therefore stated on a different basis to historical disclosures.

2. International Pharmaceuticals includes a number of global territories, in particular Brazil, Australia, New Zealand and South Korea where we sell directly through our own sales and marketing organisations, plus a number of other markets, such as Japan, where sales are currently made through local distribution partners.
3. Underlying EBITDA is defined as earnings before interest, tax, depreciation and amortisation excluding non-underlying items as set out in note 8.
4. Net debt is defined as cash and cash equivalents less borrowings and lease liabilities.
5. Adjusted Net Debt to underlying EBITDA leverage is calculated on a pre-IFRS 16 basis such that net debt excludes lease liabilities and underlying EBITDA is adjusted for the impact of acquisitions on a proforma basis.

Enquiries

Dechra Pharmaceuticals PLC
Ian Page, Chief Executive Officer
Paul Sandland, Chief Financial Officer
Jonny Armstrong, Head of Investor Relations
Office: +44 (0)1606 814730
Email: corporate.enquiries@dechra.com

TooleyStreet Communications Ltd
Fiona Tooley, Director
Mobile: +44 (0)7785 703 523
Email: fiona@tooleystreet.com

Analysts Briefing: Today at 10.30 am (UK time) via
https://stream.brrmedia.co.uk/broadcast/63c02c80ddbb3277238ea638

For assistance please contact Fiona Tooley

Notes: Foreign Exchange Rates

FY23 H1 Average	EUR 1.1593: GBP 1.00	USD 1.1750: GBP 1.00
FY23 H1 Closing	EUR 1.1275: GBP 1.00	USD 1.2026: GBP 1.00
FY22 H1 Average	EUR 1.1744: GBP 1.00	USD 1.3635: GBP 1.00
FY22 H1 Closing	EUR 1.1901: GBP 1.00	USD 1.3479: GBP 1.00
FY22 Average	EUR 1.1807: GBP 1.00	USD 1.3316: GBP 1.00
FY22 Closing	EUR 1.1652: GBP 1.00	USD 1.2103: GBP 1.00

Introduction

The Board is pleased to report revenue growth in the first half of our financial year against a very tough comparator period in the prior year. The global companion animal healthcare market has returned to more normalised levels of growth following the extraordinarily high rates seen during the COVID-19 pandemic, and against that context our performance has been robust.

Although Group underlying operating profit reduced year-on-year, this is largely due to the planned £13.0 million increase in R&D expenditure following the acquisition of Piedmont Animal Health in July 2022 and ongoing investment in our existing pipeline, which included £5.5 million relating to Akston. Excluding R&D expenditure, Group underlying operating profit increased 0.5% on a CER basis (8.8% at AER) to £116.8 million, reflecting growth in our core European and North American divisions offset by the decline in International Pharmaceuticals which is largely due to the impact of not trading in South Korea, as detailed below.

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

Strategic Review

European (Eu) Pharmaceuticals Segment

In the Period, Eu Pharmaceuticals revenue increased by 0.4%.

All major European countries, excluding the Netherlands, delivered growth with performance in Companion Animal Products (CAP) being the primary driver and Nutrition delivering small growth. Revenue from non-core third party contract manufacturing (which is reported within this segment) saw a decline. Excluding the impact of this revenue, Eu Pharmaceuticals revenue growth was 1.9%.

Operationally, the European team launched a successful marketing campaign to help raise awareness in dog owners of Cushing's disease to support the continued growth of our market leading product, Vetoryl®. We have strengthened the central sales capabilities with the appointment of a second key account manager to focus on driving growth through the major consolidating veterinary groups across Europe.

North American (NA) Pharmaceuticals Segment

Total North American revenue increased by 16.2% in the Period. Existing revenue growth, which excludes the impact of acquisitions made over the last twelve months, was 4.8%.

This result represented a solid performance given the exceptional growth delivered in the previous two years, when existing NA revenues increased by 14.8% and 25.0% (at CER) in the first half of financial years 2021 and 2022, respectively. We have continued to invest in sales representatives at a level commensurate with our future growth ambitions and to leverage our expanding portfolio of products.

The four month revenue contribution from Med-Pharmex was £13.4 million. We have commenced the planned quality improvements and associated capital investment, which impacted performance in the Period. The process of re-branding and migrating several of the acquired CAP and Food producing Animal Products (FAP) to our own in-house sales and marketing teams has already begun and we will begin to deliver synergies from the integration of this business in the second half of this financial year.

International Pharmaceuticals Segment

Having previously reported our International business within the European Pharmaceuticals Segment, we are now disclosing it separately in order to provide greater transparency between the global markets in which we operate and those included within Eu Pharmaceuticals. In the Period, International Pharmaceuticals revenue decreased by (9.0)% and represented 11.3% of Group revenue.

The revenue decline is due to the impact of strategic changes implemented in our international distribution business during the Period. In South Korea, we have established our own sales and marketing business unit to replace our previous distribution partner. Consequently, no revenue was recognised in South Korea during the Period compared to £2.2 million in the prior year. Post Period end, we have re-launched several products in Dechra livery, re-commenced sales through our own subsidiary and expect a strong revenue contribution in the second half. We also lost sales in Japan as we are in the process of changing the distribution partner for nutrition products in that territory.

There was a strong performance in our more established international markets, such as Brazil, Australia and New Zealand, which collectively represent approximately 70% of total International Pharmaceuticals revenue and grew by 6.3%.

Product Category Performance

CAP continues to represent the majority of our business at 74.6% of Group revenues and grew by 5.2% year-on-year. Growth was delivered in many key therapeutic areas, with a particularly strong performance in anaesthesia & analgesics and internal medicine.

FAP, representing 11.6% of Group turnover, delivered growth of 6.1% and reflected the positive impact from the FAP portfolio acquired through Med-Pharmex, giving us entry into this area of the NA market.

Equine, representing 8.5% of Group turnover, grew strongly at 23.9%. Performance was particularly strong in NA, supported by the product acquisitions made in the prior year and a small contribution from the new Med-Pharmex portfolio.

Nutrition, which represents 4.7% of Group turnover, declined slightly year-on-year. The majority of our Specific® branded diet sales are made in Europe where we again delivered growth, although this was offset by a decline in sales made to international markets due to the operational changes in South Korea and Japan as noted above.

Portfolio Focus

We regard our broad portfolio of products as a competitive strength and are focused on becoming the partner of choice for veterinarians worldwide in our chosen therapeutic areas. To support this approach, we were pleased to launch a new Dechra brand positioning in February 2023 called The Veterinary Perspective. By seeing things from the Veterinary Perspective, we strive to support veterinarians through science and education, especially around uncommon diseases and difficult to treat cases.

Following the US launch of Zenalpha®, a novel canine sedative injection, in June 2022, we also launched in Europe in November 2022. Global sales were £1.3 million in the Period. *Zenalpha* will become a major product in our anaesthetic & analgesia portfolio as we increase awareness of the technical benefits of the product to veterinarians across our major markets.

Acquisitions

We completed two significant business acquisitions early in the Period, both of which have a strong strategic fit and potential to deliver considerable value to the Group.

In July 2022, we acquired Piedmont Animal Health, Inc for $209.5 million (£175.6 million), a product development company with a successful track record of developing major international products for multinational animal health companies. Piedmont has eight novel products in various stages of development, all in the CAP market and all within Dechra's key therapeutic areas of competence. The business significantly strengthens our pipeline of novel products, with the two near term opportunities both expected to be top ten products and expected to be approved in financial years 2024 and 2025. The remaining six candidates are all at earlier stages of development, but if successful are likely to be top twenty products.

In August 2022, we also acquired Med-Pharmex Holdings, Inc for $264.5 million (£223.6 million). Med-Pharmex is an established business with manufacturing, product development and regulatory capabilities. It has a number of products already approved and established in the US market, which have historically been sold through third party partners. Post Period end we have started selling some of these products under the Dechra brand through our existing sales and marketing channels, and expect to migrate gradually selected products in-house as we disintermediate existing distributors. This provides material margin benefit and operational leverage in the near term, whilst in the longer term synergies will also be realised from integration and improved utilisation of the manufacturing facilities.

In addition to these business acquisitions, we continue to identify opportunities for smaller product acquisitions which complement existing markets and therapeutic sectors.

Product Development and Regulatory Affairs (PDRA)

Progress continues to be made on our pipeline, which is stronger and broader than any time in our history. In the Period, three product approvals have been achieved in key markets and several other registrations have been achieved in our international markets as we continue to expand the reach of our portfolio. The most material product approved during the Period was Zycosan® (pentosan polysulfate sodium injection), a novel treatment for equine lameness. Marketing approval for the US market was granted in December 2022 and we are targeting a commercial launch later in this financial year.

The development team who joined Dechra through the Piedmont acquisition has brought additional strength and expertise to our existing capabilities. The team is currently concentrating on bringing the first two near term candidates in the portfolio to market, with the acquired pipeline progressing to plan. Thereafter, we anticipate the team will merge with the existing global PDRA team to work holistically across the Group pipeline.

Our partnership with Akston Biosciences to develop a breakthrough long acting insulin for dogs and cats remains on track for a 2026 approval of the dog product. Positive dose ranging data was generated last year and Akston Biosciences are currently scaling up production of the active pharmaceutical ingredient (API) for final drug product development work and our planned pivotal efficacy studies. Additional investments are being made to de-risk both projects where feasible.

In collaboration with our partner Animal Ethics Pty Ltd and a contract manufacturer, we have developed a cost-effective method to manufacture sterilised Tri-Solfen®. If the planned pivotal manufacturing batches are successful, we will have a clear path towards EU-wide approval. Although we remain optimistic that the marketing authorisation will subsequently be granted, this process is likely to take at least 18 months. In the meantime, product approval was achieved in Canada, sales will commence shortly in the UK following successful registration last year and we continue to deliver good growth in the originator market of Australia.

Strategic Enablers

People

Our people remain the cornerstone of our success. As a conscientious business, we remain committed to paying the Real Living Wage (or its equivalent) to all our employees on a global basis and we continue to support our people with the challenges they are facing as a result of the cost of living crisis. In line with our usual practice, salaries were reviewed with effect from 1 January 2023 and we have adopted a tiered approach with the lower paid members of the workforce receiving higher increases which were weighted taking into account country specific rates of inflation. The average increase across the Group was 6.6%. In the UK, all employees earning a base salary of less than £45,000 received a minimum increase of 7%. Furthermore, in July 2022, we increased the employers' contribution to the UK Company Pension Scheme to 8% of base pay and introduced flexibility to the minimum permitted level of employee contribution to help address cost of living pressures.

We were pleased to announce the appointment of Geeta Gopalan as a Non-Executive Director, with effect from 1 January 2023. Geeta is a member of the Group's Audit, Remuneration and Nomination Committees and will be appointed as Chair of the Remuneration Committee from 1 March 2023 as successor to Ishbel Macpherson, who will retire as a Non-Executive Director on 30 June 2023.

Manufacturing and Supply Chain

Migrating the manufacture of key products in-house rather than using third party Contract Manufacturing Organisations (CMOs) remains a strategic objective for the Group. Having completed a number of transfers into our Zagreb and Skipton facilities during the Period, the proportion of products currently manufactured across our eight sites has increased to approximately 48%. This process remains ongoing and over time will improve efficiency, control, consistency and reliability in our supply chain in addition to improving inventory level management.

We have already begun work to utilise better the manufacturing capacity and capability at the Med-Pharmex facility. The capital investment programme at our Skipton site, outlined in previous reports, will create additional space and improve work flows. It is progressing well and is expected to complete during the second half of the financial year.

In Australia, the recently enlarged warehouse is now fully functional and an extension to a secondary packaging line has been completed, helping to deliver operational efficiencies and greater flexibility.

Our supply chain remained resilient throughout the Period, allowing us to maintain high service levels across the Group.

Information Technology

Information technology continues to be a key strategic focus for the business. The rollout of our two major IT projects, Veeva and Oracle, has progressed well during the Period. Veeva is a new quality and document management system to support both the Manufacturing and PDRA teams by streamlining and enhancing existing processes. Our key manufacturing ERP systems are also being upgraded to one consolidated cloud-based Oracle platform. The estimated combined investment for these two projects over the next five years is £27 million.

Salesforce, a customer relationship management system, is now being utilised across almost all of the countries in which we operate and there is a focus on leveraging the insight provided by the platform to drive improved sales effectiveness.

Environmental, Social, Governance (ESG)

We continue to make good progress against our Making a Difference sustainability strategy and are pleased to be included in Sustainalytics' 2023 Industry Top-Rated ESG companies list. In particular, we have committed to a long term target to achieve Net Zero emissions by no later than 2050, backed by science based target across the entire value chain. During the prior year, we undertook an exercise to collect data and model our Scope 1, 2 and 3 emissions, the results of which showed that our carbon footprint is dominated by Scope 3 indirect emissions. Following this work, we submitted our short term targets aligned with limiting global temperature rise to 1.5°C for verification to the Science Based Targets initiative in December 2022.

After its success last year, we once again engaged all Dechra employees in a "Dechra Climate Race" using an application provided by Deedster. In October 2022, each Dechra region took part in a one week sprint to complete the most activities by answering quizzes and completing so called deeds, with 1,138 employees participating globally. In doing so, we built awareness of our Making a Difference strategy and further embedded sustainability into the DNA of Dechra.

Financial Review

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

Underlying	2022 Existing £m	2022 Acquisition £m	2022 Consolidated £m	2021 £m	Growth at AER Existing %	Growth at AER Consolidated %	Growth at CER Existing %	Growth at CER Consolidated %
Total revenue	**360.8**	**16.6**	**377.4**	332.4	8.5%	13.5%	**0.9%**	**5.2%**
Eu Pharmaceuticals	**164.9**	**–**	**164.9**	162.8	1.3%	1.3%	**0.4%**	**0.4%**
NA Pharmaceuticals	**153.3**	**16.6**	**169.9**	126.3	21.4%	34.5%	**4.8%**	**16.2%**
International Pharmaceuticals	**42.6**	**–**	**42.6**	43.3	(1.6)%	(1.6)%	**(9.0)%**	**(9.0)%**
Gross profit	**213.5**	**5.8**	**219.3**	189.2	13.6%	15.9%	**5.8%**	**7.8%**
Gross profit %	**59.2%**	**34.9%**	**58.1%**	56.9%	270 bps	120 bps	**280 bps**	**150 bps**
SG&A expenses	**(98.4)**	**(4.1)**	**(102.5)**	(81.8)	(22.0)%	(25.3)%	**(14.3)%**	**(17.1)%**
R&D expenses	**(22.8)**	**(3.7)**	**(26.5)**	(13.5)	(68.9)%	(96.3)%	**(57.8)%**	**(81.5)%**
Underlying operating profit	**92.3**	**(2.0)**	**90.3**	93.9	(1.7)%	(3.8)%	**(9.4)%**	**(11.2)%**
Eu Pharmaceuticals	**56.5**	**–**	**56.5**	53.8	5.0%	5.0%	**4.3%**	**4.3%**
NA Pharmaceuticals	**50.3**	**1.7**	**52.0**	43.6	15.4%	19.3%	**(1.1)%**	**2.3%**
International Pharmaceuticals	**13.7**	**–**	**13.7**	15.9	(13.8)%	(13.8)%	**(20.8)%**	**(20.8)%**
Pharmaceuticals R&D	**(22.8)**	**(3.7)**	**(26.5)**	(13.5)	(68.9)%	(96.3)%	**(57.8)%**	**(81.5)%**
Corporate & unallocated costs	**(5.4)**	**–**	**(5.4)**	(5.9)	8.5%	8.5%	**8.5%**	**8.5%**
Net finance costs	**(3.6)**	**(3.9)**	**(7.5)**	(4.0)	10.0%	(87.5)%	**2.5%**	**(82.5)%**
Share of associate (loss)/profit	**(0.5)**	**–**	**(0.5)**	0.6	–	–	**–**	**–**
Profit before tax	**88.2**	**(5.9)**	**82.3**	90.5	(2.5)%	(9.1)%	**(10.8)%**	**(16.5)%**

Revenue

Total Group revenue in the Period was £377.4 million, representing growth of 5.2% at CER against a period of particularly strong comparatives from the prior year.

Revenue in Eu Pharmaceuticals increased by 0.4% to £164.9 million. This included £2.4 million of revenue related to third party contract manufacturing (2022: £4.7 million). Excluding this revenue, which is a non-core part of the Group, growth was 1.9%.

Our NA Pharmaceuticals Segment revenue increased by 16.2% to £169.9 million.

- Existing revenue was £153.3 million, an increase of 4.8%.
- Acquisition revenue consists of £13.4 million related to Med-Pharmex (acquired on 26 August 2022) and a further £3.2 million from various product rights acquired during the prior year.

Revenue from our International Pharmaceuticals Segment, disclosed for the first time in this report, was £42.6 million. This represented a year-on-year decline of (9.0)%, reflecting the impact of establishing our own sales and marketing business unit in South Korea, whereby no revenue was generated during the Period, and changing nutrition distribution partner in Japan. Adjusting for sales made to South Korea and Japan, the like-for-like revenue growth for International Pharmaceuticals would have been 3.4%.

Revenue	Six months ended 31.12.22 £m	Six months ended 31.12.21 £m	Growth at actual exchange rate	Growth at constant exchange rate
Eu Pharmaceuticals – Existing	**164.9**	162.8	1.3%	**0.4%**
NA Pharmaceuticals – Existing[1]	**153.3**	126.3	21.4%	**4.8%**
International Pharmaceuticals – Existing	**42.6**	43.3	(1.6)%	**(9.0)%**
Group Total – Existing	**360.8**	332.4	8.5%	**0.9%**
Eu Pharmaceuticals – Acquisitions	**–**	–	–	**–**
NA Pharmaceuticals – Acquisitions[2]	**16.6**	–	–	**–**
International Pharmaceuticals – Acquisitions	**–**	–	–	**–**
Group Total – Acquisitions	**16.6**	–	–	**–**
Eu Pharmaceuticals – Total	**164.9**	162.8	1.3%	**0.4%**
NA Pharmaceuticals – Total	**169.9**	126.3	34.5%	**16.2%**
International Pharmaceuticals – Total	**42.6**	43.3	(1.6)%	**(9.0)%**
Group Total	**377.4**	332.4	13.5%	**5.2%**

1. Includes like-for-like sales for US product rights acquisitions made in the Prior Period
2. Comprises Med-Pharmex and US product rights sales for which there is no comparative

The timing and extent of price increases varied throughout the Period both in terms of territory and individual products as we have sought to maintain our competitive pricing whilst at the same time looked to offset any input cost inflation. We continue to maintain an agile approach across our portfolio in what remains a dynamic competitive environment.

The pharmaceutical product categories of CAP, FAP and Equine all delivered growth in the Period with CAP continuing to be the largest proportion of the business. Nutrition saw sales impacted by changes within two of our International distribution markets as noted above. Other revenue decreased year-on-year and remains a small, non-core part of the business. The majority of this revenue is generated from one remaining third party contract manufacturing arrangement relating to a feed supplement at our Zagreb facility.

Revenue	Six months ended 31.12.22 £m	Six months ended 31.12.21 £m	Growth at actual exchange rate	Growth at constant exchange rate
CAP	**281.6**	245.5	14.7%	**5.2%**
FAP	**43.8**	39.2	11.7%	**6.1%**
Equine	**32.0**	24.1	32.8%	**23.9%**
Subtotal Pharmaceuticals	**357.4**	308.8	15.7%	**6.8%**
Nutrition	**17.6**	18.4	(4.3)%	**(4.9)%**
Other*	**2.4**	5.2	(53.8)%	**(54.1)%**
Total	**377.4**	332.4	13.5%	**5.2%**

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

Gross Profit

Group underlying gross margin increased by 150 bps to 58.1% (2022: 56.9%). This reflected a small mix benefit from higher margin CAP revenue increasing year-on-year and the effective pass-through of cost inflation.

Selling, General and Administrative (SG&A) Expenses

Group underlying SG&A expenses increased to £102.5 million in the Period, representing 27.2% of revenue (2022: 24.6%). This represents a normalised cost base consistent with the second half of last financial year, integration of Med-Pharmex and investment in sales representatives to underpin future growth of the business, particularly in South Korea and the key US market.

There has been a degree of inflation experienced across our cost base, albeit a limited impact from energy costs given our requirements are largely driven by our manufacturing footprint and are relatively small compared to other operating costs incurred by the Group.

Pharmaceuticals Research and Development (R&D)

Group R&D expenses grew to £26.5 million from £13.5 million in the Prior Period, representing 7.0% of revenue (2022: 4.1%). This increase was as planned, driven by both ongoing investment in our existing pipeline together with development of the eight candidates acquired from Piedmont Animal Health. In particular, spend in the Period included £5.5 million in relation to Akston (2022: £0.5 million), which remains on track for approval in 2026.

This represents a more even phasing of spend throughout the financial year compared to the prior year, when there was a relative under-spend during the first half which was mostly caught up during the second half. We continue to expect total investment for the current financial year as a whole to be between 7% and 8% of revenue.

Underlying Operating Profit (uEBIT)

Group underlying operating profit in the Period decreased by (11.2)% ((3.8)% at AER) to £90.3 million (2022: £93.9 million), with underlying operating margin decreasing by (430) bps on a CER basis to 23.9% (2022: 28.2%). The reduction in underlying operating margin was largely as a result of the (290) bps increase in R&D expenditure and strategic investments made within operating costs, both as noted above.

Eu Pharmaceuticals uEBIT was £56.5 million (2022: £53.8 million), an increase of 4.3% with the underlying operating margin increasing by 130 bps to 34.3% (2022: 33.0%).

NA Pharmaceuticals uEBIT was £52.0 million (2022: £43.6 million), an increase of 2.3% with the underlying operating margin reducing by (410) bps to 30.6% (2022: 34.5%).

- Existing underlying operating profit in NA Pharmaceuticals was £50.3 million (2022: £43.6 million), representing a decrease of (1.1)% at CER but growth of 15.4% at AER. Operating margin reduced by (190) bps to 32.8% (2022: 34.5%) due to investment in sales and marketing teams to support future growth.
- Underlying operating profit of £1.2 million was contributed by the various product acquisitions made in the prior year and a further £0.5 million was delivered from Med-Pharmex for the four month period post acquisition, reflecting the one-off impact from initial investment to improve operational performance now that the business is under our ownership.

International Pharmaceuticals uEBIT was £13.7 million (2022: £15.9 million), a decrease of (20.8)% with the underlying operating margin decreasing by (470) bps to 32.2% (2022: 36.7%) due to the costs associated with registering and importing our own products and recruiting employees in South Korea prior to commencing sales in the second half of this financial year, plus the impact from changing nutrition distribution partner in Japan.

Corporate and Unallocated Costs

Corporate costs decreased slightly to £5.4 million (2022: £5.9 million), with central functions remaining well invested to support the continued expansion of the Group.

Finance Expense and Taxation

Net underlying finance expense increased to £7.5 million (2022: £4.0 million). In July 2022, the Group successfully completed a Private Placement raising €50.0 million and €100.0 million (under seven and ten year new senior secured notes respectively) with a corresponding reduction in the Revolving Credit Facility (RCF). The blended interest rate across all senior secured notes is approximately 3.2%.

The increase in finance expense is largely due to this new debt and the impact of higher interest rates on the RCF. In addition, the £340.0 million RCF was drawn down to the extent of £237.2 million at the Period end, including £216.2 million relating to the Med-Pharmex acquisition. The RCF carries a variable interest charge and has therefore incurred a higher interest charge compared to the prior year due to the rise in interest rates.

The Group underlying Effective Tax Rate (ETR) has increased to 23.3% (2022: 23.0%), reflecting the regional mix of operating profits and the loss of a proportion of the UK Patent Box benefit, as previously announced. The Group's Reported ETR is 23.9% (2022: 23.8%) and includes the tax impact of non-underlying profit before tax items.

Non-underlying Items

Non-underlying items of £52.6 million (2022: £37.1 million) relating to profit before tax are fully set out in note 8, and principally relate to the amortisation of intangible assets, cloud computing arrangement costs, expenses relating to acquisitions and subsequent integration activities and the unwind of the discount associated with contingent consideration liabilities.

Reported Profit

Reported operating profit was £44.6 million (2022: £57.4 million) and reported profit before tax was £29.7 million (2022: £53.4 million). The decrease in both metrics primarily reflects the underlying operating result described above, cloud computing arrangement costs, expenses relating to acquisitions and subsequent integration activities and higher finance expenses including the unwind of the discount associated with contingent consideration liabilities.

Earnings Per Share (EPS)

Underlying diluted EPS declined by (20.4)% ((13.4)% at AER) to 55.44 pence (2022: 64.01 pence) and reported diluted EPS decreased by (51.3)% ((46.9)% at AER) to 19.86 pence (2022: 37.38 pence). This was due to the lower year-on-year profit together with a 5.0% increase in the issued share capital following the placing of new ordinary shares in July 2022.

Statement of Financial Position

The key movement on the Statement of Financial Position relates to intangible assets which increased to £1,111.2 million (from £730.5 million at 30 June 2022). The increase was a result of the Med-Pharmex and Piedmont acquisitions completed during the Period (see note 10), offset by the amortisation of acquired intangibles and the remeasurement of contingent consideration liabilities against the intangible assets held relating to certain product rights acquisitions and licensing arrangements (see note 13).

Other significant movements include:

- an increase in property, plant and equipment to £155.3 million (from £100.3 million at 30 June 2022) mainly attributable to the acquisition of Med-Pharmex;
- an increase in deferred tax liabilities to £124.8 million (from £35.8 million at 30 June 2022), principally due to the additional intangible assets recognised on the acquisitions; and
- an increase in share premium to £594.7 million (from £413.9 million at 30 June 2022) as a result of the equity raised through the share placing on 21 July 2022.

Cashflow and Leverage

Cash generated from operating activities before interest and taxation decreased by (36.3)% to £65.8 million (2022: £103.3 million), representing an underlying cash conversion rate of 73% (2022: 110%). This was largely due to increased working capital as a result of manufacturing more products in-house and maintaining levels of supply along with the increase in cash flows from non-underlying items relating to cloud computing arrangement costs and acquisition and integration expenses.

Net debt increased to £423.3 million (from £208.2 million at 30 June 2022). The Adjusted Net Debt to underlying EBITDA (adjusted for the impact of acquisitions) banking covenant leverage (on a pre IFRS 16 basis) is 2.2 times (2022: 0.9 times). This reflects the increase in RCF borrowings and the ongoing investment in working capital allowing us to maximise the sales potential to our veterinary and distribution customers.

The Group remains comfortably within its leverage banking covenant of 3.0 times and expects to generate cash and reduce debt during the second half of the financial year.

Dividend

The Board is pleased to declare an interim dividend of 12.50 pence per share, which represents growth of 4.2% on the prior period (2022: 12.00 pence). The dividend will be payable on 13 April 2023 to shareholders on the Register at 10 March 2023. The ordinary shares will become ex-dividend on 9 March 2023.

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 2022 Annual Report and Accounts. The Group's principal risks and their mitigation are described on pages 78 to 80 of the 2022 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 our products globally.

  We continue to mitigate these risks by closely monitoring the market, investing in lifecycle management strategies for our key products, investing in Dechra's pipeline of novel 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 £0.7 million on trading activities (2022: gain of £0.1 million).

Outlook

Trading patterns at the start of 2023 have been unpredictable in the US, where wholesalers have been reducing inventory levels. In the second half, we have re-commenced sales in South Korea, we expect an improving contribution from Med-Pharmex and will see the benefit of two recent new product launches, *Zenalpha* and *Zycosan*. Based on the recent US de-stocking and current exchange rates, the Board now expects full year underlying operating profit to be at the lower end of analyst expectations.

The nature of the Dechra product portfolio, with a weighting towards CAP and non-discretionary prescription only medicines, means that we remain well positioned to outperform the markets in which we operate. Furthermore, the increased investment being made in R&D will underpin operating margin expansion over the medium term as delivery of our pipeline, which is stronger than ever, adds further scale and breadth to our portfolio.

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

The Directors confirm that to the best of our knowledge:

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

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

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

The Directors of Dechra Pharmaceuticals PLC at 27 February 2023 are listed in its Annual Report and Accounts for the year ended 30 June 2022 on pages 88 and 89, with the exception of Geeta Gopalan who was appointed as a Non-Executive Director on 1 January 2023 and Julian Heslop who retired on 5 September 2022.

By Order of the Board

Ian Page
Chief Executive Officer
27 February 2023

Paul Sandland
Chief Financial Officer

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

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

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

Stock Code: Full Listing (Pharmaceuticals): DPH.

Condensed Consolidated Income Statement

for the six months ended 31 December 2022

		Six months ended 31.12.22			Six months ended 31.12.21			Year ended 30.06.22		
	Note	**Underlying £m**	**Non-underlying items* (notes 4,5,8,11) £m**	**Total £m**	Underlying £m	Non-underlying items* (notes 4,5,8,11) £m	Total £m	Underlying £m	Non-underlying items* (notes 4,5,8,11) £m	Total £m
Revenue	2	**377.4**	**–**	**377.4**	332.4	–	332.4	681.8	–	681.8
Cost of sales		**(158.1)**	**(3.1)**	**(161.2)**	(143.2)	(0.5)	(143.7)	(296.5)	(0.5)	(297.0)
Gross profit		**219.3**	**(3.1)**	**216.2**	189.2	(0.5)	188.7	385.3	(0.5)	384.8
Selling, general and administrative expenses		**(102.5)**	**(40.9)**	**(143.4)**	(81.8)	(34.2)	(116.0)	(178.6)	(74.6)	(253.2)
Research and development expenses		**(26.5)**	**(1.7)**	**(28.2)**	(13.5)	(1.8)	(15.3)	(32.4)	(3.7)	(36.1)
Operating profit	2	**90.3**	**(45.7)**	**44.6**	93.9	(36.5)	57.4	174.3	(78.8)	95.5
Share of (loss)/profit of investments accounted for using the equity method	11	**(0.5)**	**0.1**	**(0.4)**	0.6	–	0.6	(1.2)	(0.1)	(1.3)
Finance income	3	**1.8**	**–**	**1.8**	0.3	–	0.3	5.7	–	5.7
Finance expense	4	**(9.3)**	**(7.0)**	**(16.3)**	(4.3)	(0.6)	(4.9)	(8.8)	(13.5)	(22.3)
Profit before taxation	2	**82.3**	**(52.6)**	**29.7**	90.5	(37.1)	53.4	170.0	(92.4)	77.6
Income taxes	5	**(19.2)**	**12.1**	**(7.1)**	(20.8)	8.1	(12.7)	(38.3)	18.9	(19.4)
Profit for the period		**63.1**	**(40.5)**	**22.6**	69.7	(29.0)	40.7	131.7	(73.5)	58.2
Earnings per share										
Basic	7			**19.98p**			37.59p			53.72p
Diluted	7			**19.86p**			37.38p			53.40p
Dividend per share (interim and full)	6			**12.50p**			12.00p			44.89p

* 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 2022

	Six months ended		Year ended
	31.12.22 £m	31.12.21 £m	30.06.22 £m
Profit for the period	**22.6**	40.7	58.2
Other comprehensive income/(expense):			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency cash flow hedge			
– fair value movements	**(2.0)**	–	–
Foreign currency translation differences for foreign operations	**6.9**	(6.0)	15.7
Income tax relating to components of other comprehensive income/(expense)	**0.2**	0.3	(0.4)
	5.1	(5.7)	15.3
Total comprehensive income for the period	**27.7**	35.0	73.5

Condensed Consolidated Statement of Financial Position

as at 31 December 2022

	Note	**As at 31.12.22 £m**	As at 31.12.21 £m	As at 30.06.22 £m
ASSETS				
Non-current assets				
Intangible assets		**1,111.2**	689.4	730.5
Property, plant and equipment		**155.3**	92.3	100.3
Investments	11	**15.4**	17.7	15.8
Deferred tax assets		**3.1**	2.3	2.3
Total non-current assets		**1,285.0**	801.7	848.9
Current assets				
Inventories		**223.8**	149.4	175.7
Corporation tax receivable		**21.7**	14.3	11.0
Trade and other receivables		**125.9**	85.6	136.8
Cash and cash equivalents	9	**87.9**	123.7	120.9
Assets classified as held for sale		**–**	3.0	–
Total current assets		**459.3**	376.0	444.4
Total assets		**1,744.3**	1,177.7	1,293.3
LIABILITIES				
Current liabilities				
Borrowings and lease liabilities	9	**(3.2)**	(3.1)	(3.3)
Trade and other payables		**(139.3)**	(99.9)	(136.8)
Contingent consideration	13	**(3.9)**	(7.0)	(6.4)
Corporation tax payable		**(22.0)**	(19.2)	(12.2)
Total current liabilities		**(168.4)**	(129.2)	(158.7)
Non-current liabilities				
Borrowings and lease liabilities	9	**(508.0)**	(313.7)	(325.8)
Contingent consideration	13	**(99.2)**	(50.1)	(104.0)
Provisions		**(2.2)**	(2.2)	(2.2)
Deferred tax liabilities		**(124.8)**	(43.4)	(35.8)
Total non-current liabilities		**(734.2)**	(409.4)	(467.8)
Total liabilities		**(902.6)**	(538.6)	(626.5)
Net assets		**841.7**	639.1	666.8
EQUITY				
Issued share capital		**1.1**	1.1	1.1
Share premium account		**594.7**	413.3	413.9
Hedging reserve		**–**	–	–
Foreign currency translation reserve		**10.5**	(17.6)	3.4
Merger reserve		**84.4**	84.4	84.4
Retained earnings		**151.0**	157.9	164.0
Total equity		**841.7**	639.1	666.8

Condensed Consolidated Statement of Changes in Shareholders' Equity

for the six months ended 31 December 2022

	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**
	Attributable to owners of the parent						
Six months ended 31 December 2021							
At 1 July 2021	1.1	411.6	–	(11.9)	84.4	147.7	**632.9**
Profit for the period	–	–	–	–	–	40.7	**40.7**
Foreign currency translation differences for foreign operations	–	–	–	(6.0)	–	–	**(6.0)**
Income tax relating to components of other comprehensive expense	–	–	–	0.3	–	–	**0.3**
Total comprehensive (expense)/income for the period	–	–	–	(5.7)	–	40.7	**35.0**
Transactions with owners:							
Dividends paid	–	–	–	–	–	(31.8)	**(31.8)**
Share-based payments	–	–	–	–	–	1.3	**1.3**
Shares issued	–	1.7	–	–	–	–	**1.7**
Total contributions by and distribution to owners	–	1.7	–	–	–	(30.5)	**(28.8)**
At 31 December 2021	1.1	413.3	–	(17.6)	84.4	157.9	**639.1**
Year ended 30 June 2022							
At 1 July 2021	1.1	411.6	–	(11.9)	84.4	147.7	**632.9**
Profit for the period	–	–	–	–	–	58.2	**58.2**
Foreign currency translation differences for foreign operations	–	–	–	15.7	–	–	**15.7**
Income tax relating to components of other comprehensive income	–	–	–	(0.4)	–	–	**(0.4)**
Total comprehensive income for the period	–	–	–	15.3	–	58.2	**73.5**
Transactions with owners:							
Dividends paid	–	–	–	–	–	(44.8)	**(44.8)**
Share-based payments	–	–	–	–	–	2.9	**2.9**
Shares issued	–	2.3	–	–	–	–	**2.3**
Total contributions by and distributions to owners	–	2.3	–	–	–	(41.9)	**(39.6)**
At 30 June 2022	1.1	413.9	–	3.4	84.4	164.0	**666.8**
Six months ended 31 December 2022							
At 1 July 2022	**1.1**	**413.9**	**–**	**3.4**	**84.4**	**164.0**	**666.8**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**22.6**	**22.6**
Foreign currency cash flow hedge – fair value movements	**–**	**–**	**(2.0)**	**–**	**–**	**–**	**(2.0)**
Foreign currency translation differences for foreign operations	**–**	**–**	**–**	**6.9**	**–**	**–**	**6.9**
Income tax relating to components of other comprehensive income	**–**	**–**	**–**	**0.2**	**–**	**–**	**0.2**
Total comprehensive (expense)/income for the period	**–**	**–**	**(2.0)**	**7.1**	**–**	**22.6**	**27.7**
Reclassified to cost of acquired intangibles	**–**	**–**	**2.0**	**–**	**–**	**–**	**2.0**
Transactions with owners:							
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(37.4)**	**(37.4)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**1.8**	**1.8**
Shares issued	**–**	**180.8**	**–**	**–**	**–**	**–**	**180.8**
Total contributions by and distribution to owners	**–**	**180.8**	**–**	**–**	**–**	**(35.6)**	**145.2**
At 31 December 2022	**1.1**	**594.7**	**–**	**10.5**	**84.4**	**151.0**	**841.7**

Condensed Consolidated Statement of Cash Flows

for the six months ended 31 December 2022

	Note	Six months ended 31.12.22 £m	Six months ended 31.12.21 £m	Year ended 30.06.22 £m
Cash flows from operating activities				
Operating profit		**44.6**	57.4	95.5
Non-underlying items		**45.7**	36.5	78.8
Underlying operating profit		**90.3**	93.9	174.3
Adjustments for:				
Depreciation		**6.2**	5.2	11.1
Amortisation and impairment		**2.4**	2.2	5.2
Release of government grant		**–**	(0.7)	(0.7)
(Profit)/loss on disposal of leased assets		**–**	(0.3)	0.7
Equity settled share-based payment expense		**1.8**	1.3	3.3
Underlying operating cash flow before changes in working capital		**100.7**	101.6	193.9
Increase in inventories		**(29.4)**	(2.9)	(19.3)
Decrease/(increase) in trade and other receivables		**20.6**	19.1	(23.4)
(Decrease)/increase in trade and other payables		**(20.0)**	(14.5)	14.9
Cash generated from operating activities before interest, taxation and non-underlying items		**71.9**	103.3	166.1
Cash outflows in respect of non-underlying items		**(6.1)**	–	(2.8)
Cash generated from operating activities before interest and taxation		**65.8**	103.3	163.3
Interest paid		**(3.1)**	(3.4)	(7.0)
Expenses of raising borrowing facilities		**(0.6)**	–	–
Interest on lease liabilities		**(0.2)**	(0.2)	(0.5)
Income taxes paid		**(10.4)**	(11.6)	(32.9)
Net cash inflow from operating activities		**51.5**	88.1	122.9
Cash flows from investing activities				
Proceeds from disposal of property, plant and equipment		**0.1**	0.1	–
Interest received		**0.4**	–	0.1
Acquisition of subsidiaries (net of cash acquired)	10	**(395.1)**	(0.4)	(0.8)
Purchase of property, plant and equipment		**(10.5)**	(11.2)	(20.3)
Capitalised development expenditure		**(0.8)**	(0.3)	(1.2)
Purchase of acquired intangible non-current assets		**(0.9)**	(36.4)	(54.4)
Purchase of other intangible non-current assets		**(1.4)**	(1.6)	(1.7)
Net cash outflow from investing activities		**(408.2)**	(49.8)	(78.3)
Cash flows from financing activities				
Proceeds from the issue of share capital		**180.8**	1.7	2.3
New borrowings	9	**346.6**	–	–
Repayment of borrowings	9	**(166.8)**	–	–
Principal elements of lease payments		**(1.8)**	(1.9)	(3.6)
Dividends paid		**(37.4)**	(31.8)	(44.8)
Net cash inflow/ (outflow) from financing activities		**321.4**	(32.0)	(46.1)
Net (decrease)/increase in cash and cash equivalents		**(35.3)**	6.3	(1.5)
Cash and cash equivalents at start of period		**120.9**	118.4	118.4
Exchange differences on cash and cash equivalents		**2.3**	(1.0)	4.0
Cash and cash equivalents at end of period		**87.9**	123.7	120.9
Reconciliation of net cash flow to movement in net borrowings				
Net (decrease)/increase in cash and cash equivalents		**(35.3)**	6.3	(1.5)
New borrowings and lease liabilities		**(348.4)**	(2.5)	(3.8)
Expenses of raising borrowing facilities		**0.6**	–	–
Repayment of borrowings and lease liabilities		**168.8**	2.1	4.1
Exchange differences on cash and cash equivalents		**2.3**	(1.0)	4.0
Retranslation of foreign borrowings		**(2.8)**	1.5	(11.2)
Other non-cash changes		**(0.3)**	0.7	0.4
Movement in net borrowings in the period		**(215.1)**	7.1	(8.0)
Net borrowings at start of period		**(208.2)**	(200.2)	(200.2)
Net borrowings at end of period	9	**(423.3)**	(193.1)	(208.2)

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

Notes to the Financial Statements
for the six months ended 31 December 2022

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 2022 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 2022 is set out in the Independent Review Report. The Group financial statements as at, and for the year ended, 30 June 2022 prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 as it applies to companies reporting under those standards are available upon request from the Company's registered office at 24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA.

The prior year comparatives are derived from audited financial information for Dechra Pharmaceuticals PLC as set out in the Annual Report and Accounts for the year ended 30 June 2022 and the unaudited financial information in the Half-Yearly Financial Report for the six months ended 31 December 2021. The comparative figures for the financial year ended 30 June 2022 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.

Statement of Compliance

The condensed set of financial statements included in this Half-Yearly Financial Report has been prepared in accordance with UK adopted IAS 34 '*Interim Financial Reporting*'. The condensed set of financial statements does not include all of the information required for the full annual financial statements, and should be read in conjunction with the Group financial statements for the year ended 30 June 2022. This condensed set of financial statements was approved by the Board of Directors on 27 February 2023.

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 2022 as described in pages 170 to 179 of the Annual Report, except for the estimation of the interim income tax charge.

Critical Judgements in Applying the Group's Accounting Policies and Key Sources of Estimate Uncertainty

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 value. The determination of the fair value of assets and liabilities including goodwill are based, to a considerable extent, on management's estimations. The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset where no active market for the asset exists. The use of different assumptions for the expectations of future cash flows and the discount rate would change the valuation of the intangible asset. Details concerning business combinations are outlined in note 10.

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.

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, 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 four 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. In previous periods the International Pharmaceuticals operating segment has been aggregated into the European Pharmaceuticals segment on the basis of similar products, production processes, customers and overall regulatory environments. Given the significance of this operating segment to the Group, International Pharmaceuticals is disclosed as a separate reporting segment in the Period.

The European Pharmaceuticals Segment comprises Dechra Veterinary Products EU and includes our manufacturing units based in Bladel (The Netherlands), Skipton (UK) and Zagreb (Croatia). This Segment operates in Europe and manufactures and markets Companion Animal Products (CAP), Equine, Food producing Animal Products (FAP) and Nutrition. This Segment also includes third party manufacturing and other revenues from non-core activities.

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

The International Pharmaceuticals Segment consists of Dechra Veterinary Products (DVP) ANZ, DVP Brazil, DVP Korea, and DVP Export. This Segment operates internationally and manufactures and markets CAP, Equine, FAP and Nutrition.

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

Reconciliation of reportable segment revenues and profit or loss:

	Six months ended		Year ended
	31.12.22 £m	31.12.21 £m	30.06.22 £m
Revenue by segment			
European Pharmaceuticals	**164.9**	162.8	323.2
North American Pharmaceuticals	**169.9**	126.3	275.1
International Pharmaceuticals	**42.6**	43.3	83.5
	377.4	332.4	681.8
Underlying operating profit/(loss) by segment			
European Pharmaceuticals	**56.5**	53.8	103.4
North American Pharmaceuticals	**52.0**	43.6	87.7
International Pharmaceuticals	**13.7**	15.9	28.1
Pharmaceuticals Research and Development	**(26.5)**	(13.5)	(32.4)
Underlying segment operating profit	**95.7**	99.8	186.8
Corporate and other unallocated costs	**(5.4)**	(5.9)	(12.5)
Underlying operating profit	**90.3**	93.9	174.3
Amortisation of acquired intangibles	**(36.9)**	(35.4)	(72.8)
Cloud computing arrangement costs	**(3.8)**	–	(2.8)
Impairment of assets	**–**	(1.1)	(2.9)
Remeasurement of contingent consideration	**0.4**	–	–
Unwind of fair value uplift of inventory on acquisitions	**(3.1)**	–	–
Expenses relating to acquisitions and subsequent integration activities	**(2.3)**	–	(0.3)
Total operating profit	**44.6**	57.4	95.5
Share of (loss)/profit in investments accounted for using the equity method	**(0.4)**	0.6	(1.3)
Finance income	**1.8**	0.3	5.7
Finance expense	**(16.3)**	(4.9)	(22.3)
Profit before taxation	**29.7**	53.4	77.6

	Six months ended		Year ended
	31.12.22 £m	31.12.21 £m	30.06.22 £m
Revenue by product category			
CAP	**281.6**	245.5	508.4
Equine	**32.0**	24.1	49.5
FAP	**43.8**	39.2	78.8
Nutrition	**17.6**	18.4	35.0
Other	**2.4**	5.2	10.1
	377.4	332.4	681.8

3 Finance Income

Underlying	Six months ended 31.12.22 £m	Six months ended 31.12.21 £m	Year ended 30.06.22 £m
Finance income arising from:			
— Cash and cash equivalents	**0.4**	0.1	0.1
— Foreign exchange gains	**1.4**	0.2	5.6
Underlying finance income	**1.8**	0.3	5.7
Total finance income	**1.8**	0.3	5.7

4 Finance Expense

Underlying	Six months ended 31.12.22 £m	Six months ended 31.12.21 £m	Year ended 30.06.22 £m
Finance expense arising from:			
— Financial liabilities at amortised costs	**9.1**	4.1	8.3
— Lease liability interest	**0.2**	0.2	0.5
Underlying finance expense	**9.3**	4.3	8.8
Non-underlying			
Finance expense arising from:			
— Foreign exchange losses on contingent consideration	**0.7**	0.1	10.1
— Unwind of discount associated with contingent consideration	**6.3**	0.5	3.4
Non-underlying finance expense	**7.0**	0.6	13.5
Total finance expense	**16.3**	4.9	22.3

5 Income Taxes

The tax charge for the six months ended 31 December 2022 has been calculated based on the estimated effective tax rate for the year ending 30 June 2023. The total reported effective tax rate is 23.9% (six months ended 31 December 2021: 23.8%, year ended 30 June 2022: 25.0%). This includes the tax effect of non-underlying items as set out in note 8. The underlying effective tax rate is 23.3% (six months ended 31 December 2021: 23.0%, year ended 30 June 2022: 22.5%).

At 31 December 2022, the Group held a current provision of £5.8 million (30 June 2022: £5.9 million) in respect of uncertain tax provisions, comprising a current liability provision of £14.5 million and a current asset provision of £8.7 million. The resolution of these tax matters may take many years. The range of reasonably possible outcomes within the next twelve months is an outflow of £nil to £3.5 million.

6 Dividends

The final dividend for the year ended 30 June 2022 of 32.89 pence per share, costing £37.4 million, has been paid in the Period.

The Directors have declared an interim dividend of 12.50 pence per share (six months ended 31 December 2021: 12.00 pence) costing £14.2 million (six months ended 31 December 2021: £13.0 million). It is payable on 13 April 2023 to shareholders whose names are on the Register of Members at close of business on 10 March 2023. The ordinary shares will become ex-dividend on 9 March 2023. 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 2023.

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
	31.12.22	31.12.21	30.06.22
	Pence	Pence	Pence
Basic earnings per share			
— Underlying*	**55.79**	64.37	121.57
— Basic	**19.98**	37.59	53.72
Diluted earnings per share			
— Underlying*	**55.44**	64.01	120.84
— Diluted	**19.86**	37.38	53.40

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	**63.1**	69.7	131.7
Earnings for basic and diluted earnings per share	**22.6**	40.7	58.2

	Number	Number	Number
Weighted average number of ordinary shares for basic earnings per share	**113,094,990**	108,281,403	108,332,583
Impact of share options	**729,200**	610,619	654,836
Weighted average number of ordinary shares for diluted earnings per share	**113,824,190**	108,892,022	108,987,419

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

The number of ordinary shares issued in the period to 31 December 2022 is 5,443,844 (period to 31 December 2021: 149,381).

8 Underlying Operating Profit, EBITDA and Profit before Taxation

	Six months ended		Year ended
	31.12.22	31.12.21	30.06.22
	£m	£m	£m
Operating profit			
Underlying operating profit is calculated as follows:			
Operating profit	**44.6**	57.4	95.5
Amortisation of acquired intangibles	**36.9**	35.4	72.8
Cloud computing arrangement costs	**3.8**	–	2.8
Impairment of assets	**–**	1.1	2.9
Remeasurement of contingent consideration	**(0.4)**	–	–
Unwind of fair value uplift of inventory on acquisitions	**3.1**	–	–
Expenses relating to acquisitions and subsequent integration activities	**2.3**	–	0.3
Underlying operating profit	**90.3**	93.9	174.3
Depreciation	**6.2**	5.2	11.1
Amortisation and impairment	**2.4**	2.2	5.2
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	**98.9**	101.3	190.6
Profit before taxation			
Underlying profit before taxation is calculated as follows:			
Profit before taxation	**29.7**	53.4	77.6
Amortisation of acquired intangibles	**36.9**	35.4	72.8
Cloud computing arrangement costs	**3.8**	–	2.8
Impairment of assets	**–**	1.1	2.9
Remeasurement of contingent consideration	**(0.4)**	–	–
Unwind of fair value uplift of inventory on acquisitions	**3.1**	–	–
Expenses relating to acquisitions and subsequent integration activities	**2.3**	–	0.3
Share of realised non-underlying profit of investments accounted for using the equity method	**(0.5)**	(0.4)	(0.6)
Amortisation of notional acquired intangibles from equity accounting for associates	**0.4**	0.4	0.7
Foreign exchange losses on contingent consideration	**0.7**	0.1	10.1
Unwind of discount associated with contingent consideration	**6.3**	0.5	3.4
Underlying profit before taxation	**82.3**	90.5	170.0

8 Underlying Operating Profit, EBITDA and Profit before Taxation continued

	Six months ended 31.12.22 £m	Six months ended 31.12.21 £m	Year ended 30.06.22 £m
Impact of non-underlying items on income tax			
Tax on non-underlying loss before tax items	**12.1**	9.0	21.1
Revaluation of deferred tax balances following the change in US, Dutch and UK tax rates	**–**	(0.9)	(2.2)
Total impact of non-underlying items on income tax	**12.1**	8.1	18.9

The Group's underlying gross profit of £219.3 million excludes the charge relating to the fair value uplift on Med-Pharmex inventory (£3.1 million) that has been sold in the Period, more details are included in note 10. In the Prior Period the Group's underlying gross profit of £189.2 million excluded the impairment of inventory of £0.5 million relating to the sale of the Agricultural Chemicals business.

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 excludes certain items in determining underlying operating profit, including the following:

- 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.
- Cloud computing arrangement costs of £3.8 million relates to the implementation of the Manufacturing and Supply Function's new ERP and Electronic Quality Management systems, the total cost of which is expected to be £27.0 million over the next five years. Included within underlying administrative expenses is £0.3 million of cloud computing arrangement costs which relates to the implementation of a global payroll platform.
- Impairment of assets relates to the impairment of certain assets prior to the sale of the Agricultural Chemicals business in January 2022 (£1.1 million). These assets were classified as held for sale at December 2021, with the impairment charge taken in December 2021. The remainder of the charge in the full year predominantly related to a small number of In-Process Research and Development assets recognised on the acquisition of AST Farma and Le Vet (£1.7 million).
- Expenses relating to acquisition and subsequent integration activities for Med-Pharmex and Piedmont of £2.3 million. Additional acquisition expenses of £0.7 million are expected to be incurred over the next eighteen months.

9 Analysis of Net Borrowings

	As at 31.12.22 £m	As at 31.12.21 £m	As at 30.06.22 £m
Analysis of net debt			
Cash and cash equivalents	**87.9**	123.7	120.9
Lease liabilities	**(15.3)**	(15.4)	(15.4)
Bank loans	**(237.2)**	(187.0)	(189.7)
Senior loan notes	**(260.5)**	(116.2)	(125.5)
Arrangement fees	**1.8**	1.8	1.5
	(423.3)	(193.1)	(208.2)

	At 01.07.22 £m	Cash flows £m	New lease liabilities £m	Foreign exchange movements £m	Other non-cash movements £m	At 31.12.22 £m
Cash and cash equivalents	120.9	(35.3)	–	2.3	–	**87.9**
Lease liabilities within one year	(3.3)	2.0	(0.2)	–	(1.7)	**(3.2)**
Lease liabilities after one year	(12.1)	–	(1.6)	(0.1)	1.7	**(12.1)**
Bank loans after one year	(188.7)	(53.0)	–	5.5	(0.2)	**(236.4)**
Senior loan notes after one year	(125.0)	(126.2)	–	(8.2)	(0.1)	**(259.5)**
Net debt	(208.2)	(212.5)	(1.8)	(0.5)	(0.3)	**(423.3)**

The Group entered into a multi-currency facilities agreement (the Facility Agreement) in July 2017 with a group of banks comprising Bank of Ireland (UK) plc, BNP Paribas, Fifth Third Bank, HSBC Bank plc, Lloyds Bank plc (replaced by Credit Industriel et Commercial, London branch (CIC) in August 2019), Raiffeisen Bank International AG and Santander UK plc. The Facility Agreement has a Revolving Credit Facility (RCF) of £340.0 million, which is committed until July 2024. The Group is in the process of refinancing this RCF.

9 Analysis of Net Borrowings continued

In January 2020, the Group undertook a Private Placement raising EUR50.0 million and USD100.0 million (under seven and ten year new senior secured notes respectively) which remains fully drawn at 31 December 2022. The Private Placement amounts are not secured on any specific assets of the Group, but are supported by a joint and several cross guarantee structure. Interest is charged on the EUR50.0 million amount at a fixed rate of 1.19% until maturity (January 2027). Interest is charged on the USD100.0 million amount at a fixed rate of 3.34% until maturity (January 2030).

On 14 July 2022 the Group undertook a further Private Placement raising EUR50.0 million and EUR100.0 million (under seven and ten year new senior secured notes respectively), which remains fully drawn at 31 December 2022. The Private Placement amounts are not secured on any specific assets of the Group, but are supported by a joint and several cross guarantee structure. Interest is charged on the EUR50.0 million amount at a fixed rate of 3.64% until maturity (July 2029). Interest is charged on the EUR100.0 million amount at a fixed rate of 3.93% until maturity (July 2032). This £126.8 million was used to repay EUR150.0 million on the RCF. Expenses of £0.6 million in relation to the Private Placement have been capitalised and will be amortised over the term of the senior secured notes.

On 26 August 2022 a further USD260.0 million (£219.8 million) was drawn against the RCF. The interest rate charged on this loan is based on SOFR plus the Margin plus a Credit Adjustment Spread (CAS), calculated daily in arrears. The Margin on this Facility is a minimum of 1.3% and a maximum of 2.2%, dependent upon the Leverage (Adjusted Net Debt to underlying EBITDA ratio) of the Group. The CAS charged on the RCF will be a minimum of 0.0326% and a maximum of 0.42826%, dependent upon the term and currency of the new Borrowings. During the Period, in addition to the £126.8 million repayment of the RCF mentioned above, a further £40.0 million has also been repaid.

All covenants in relation to the Private Placement and the RCF have been met during the period ended 31 December 2022. No interest has been capitalised during the period (31 December 2021: £nil).

10 Acquisitions

Acquisition of Piedmont Animal Health LLC

On 25 July 2022, Dechra acquired 100% of the share capital of Piedmont Animal Health LLC, for a total consideration of £175.6 million (USD209.5 million).

	Provisional fair value £m
Recognised amounts of identifiable assets and liabilities acquired	
Property, plant and equipment	**0.3**
Other receivables	**0.3**
Trade and other payables	**(1.3)**
Contingent consideration liabilities (note 13)	**(12.7)**
Cash	**0.5**
Intangible assets	**204.7**
Deferred tax liabilities	**(42.6)**
Net identifiable assets	**149.2**
Goodwill	**26.4**
Total consideration	**175.6**
Purchase consideration:	
Accounts receivable	**(0.1)**
Cash	**175.7**
Total purchase consideration	**175.6**
Net cash outflow arising on acquisition:	
Cash consideration	**175.7**
Less: Cash and cash equivalents	**(0.5)**
Net cash outflow arising on acquisition	**175.2**

The fair values shown above are provisional and may be amended if information that would have been available at the acquisition date comes to light. The provisional fair value adjustments principally relate to the recognition of a fair value uplift on intangibles in accordance with IFRS 3, and the deferred tax liability thereon.

10 Acquisitions continued

Acquisition of Piedmont Animal Health LLC continued

The intangible assets, which relate to the intellectual property acquired, were valued based on a combination of both the excess earnings method and the replacement cost method. The approach adopted was dependent on the stage of the development of the intellectual property which relates to In-Process Research and Development assets. The table below shows on an indicative basis the sensitivity to reasonably possible changes in significant assumptions used in the valuation of the intangible assets. There will be a corresponding impact to the deferred tax liability (at the substantively enacted tax rate) and goodwill.

	Intangible assets
1% increase in discount rates (£m)	**(20.2)**
1% decrease in discount rates (£m)	**23.6**
10% increase in cash flows (£m)	**20.4**
10% decrease in cash flows (£m)	**(20.4)**
10% increase in volume attrition upon patent expiry (£m)	**(5.7)**
10% decrease in volume attrition upon patent expiry (£m)	**5.7**
5% increase in ongoing volume attrition (£m)	**(8.9)**
5% decrease in ongoing volume attrition (£m)	**16.2**

The goodwill of £26.4 million arising from the acquisition has predominantly arisen due to the deferred tax on the intangible assets which was not considered when pricing the acquisition, given there is no intention to sell the vast majority of intangible assets. This is aligned with the market participation view of the acquisition. The goodwill is not tax deductible.

Acquisition related costs (included in operating expenses) amounted to £0.2 million. Piedmont's results are reported within the Pharmaceuticals Research and Development Segment.

Piedmont contributed £nil revenue and £2.8 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 day of the financial year, the contribution to the Group revenues for the period would have been £nil and the contribution to the Group's underlying operating profit would have been a loss of £4.1 million. The reported operating loss after taking into account non-underlying items for acquisition and integration costs would be £4.3 million.

Acquisition of Med-Pharmex Holdings, Inc

On 26 August 2022, Dechra acquired 100% of the share capital of Med-Pharmex Holdings Inc., and its subsidiaries Med-Pharmex Property LLC, Med-Pharmex Inc and Cephazone Pharma LLC (collectively Med-Pharmex), for total consideration of £223.6 million (USD264.5 million).

	Provisional fair value £m
Recognised amounts of identifiable assets and liabilities acquired	
Property, plant and equipment	**47.9**
Inventory	**15.2**
Trade and other receivables	**6.9**
Trade and other payables	**(5.2)**
Cash	**2.6**
Intangible assets	**179.6**
Current tax assets	**1.3**
Deferred tax liabilities	**(49.6)**
Net identifiable assets	**198.7**
Goodwill	**24.9**
Total consideration	**223.6**
Purchase consideration:	
Deferred consideration	**1.5**
Cash	**222.1**
Total purchase consideration	**223.6**

10 **Acquisitions** continued

Acquisition of Med-Pharmex Holdings, Inc continued

	£m
Net cash outflow arising on acquisition:	
Cash consideration	**222.1**
Less: Cash and cash equivalents	**(2.6)**
Net cash outflow arising on acquisition	**219.5**

The fair values shown above are provisional and may be amended if information that would have been available at the acquisition date comes to light. The provisional fair value adjustments principally relate to the recognition of a fair value uplift on acquired inventory, property, plant and equipment and intangibles in accordance with IFRS 3, and the deferred tax liability thereon.

The intangible assets, which relate to the intellectual property acquired principally relating to Developed Technology and In-Process Research and Development assets, were valued based on the excess earnings method. The table below shows on an indicative basis the sensitivity to reasonably possible changes in significant assumptions used in the valuation of the intangible asset. There will be a corresponding impact to the deferred tax liability (at the substantively enacted tax rate) and goodwill.

	Intangible assets
1% increase in discount rates (£m)	**(16.7)**
1% decrease in discount rates (£m)	**20.0**
10% increase in cash flows (£m)	**18.2**
10% decrease in cash flows (£m)	**(18.3)**

The goodwill of £24.9 million arising from the acquisition has predominantly arisen due to the deferred tax on the intangible assets which was not considered when pricing the acquisition, given there is no intention to sell the vast majority of intangible assets. This is aligned with the market participation view of the acquisition. The goodwill is not tax deductible.

Inventory includes a fair value uplift of £3.8 million (USD4.5 million). A non-underlying charge of £3.1 million (USD3.7 million) relating to the fair value uplift on inventory that has been sold in the Period has been taken to cost of sales in the income statement.

The gross contractual receivables amount to £6.2 million, which are expected to be fully recoverable.

Acquisition and related costs (included in operating expenses) amounted to £2.1 million. Med-Pharmex's results are reported within the North American Pharmaceuticals Segment.

Med-Pharmex contributed £13.4 million revenue and £0.4 million loss (including Research and Development costs of £0.9 million) to the Group's underlying operating profit for the period between the date of acquisition and the balance sheet date. If the acquisition had been completed on the first day of the financial year, the contribution to the Group revenues for the period would have been £19.0 million and the contribution to the Group's underlying operating profit would have been a loss of £0.3 million. The reported operating loss after taking into account non-underlying items for the amortisation of intangible assets, the fair value inventory adjustment and acquisition and integration costs would be £5.3 million.

11 **Investment in Associate**

The Group holds 49.5% of the issued share capital of Medical Ethics. The Group has significant influence but not control of the associate, and as a result will continue to equity account for the investment in the associate.

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

	31.12.22 £m	31.12.21 £m	30.06.22 £m
Opening interest in associate	**3.9**	5.2	5.2
Share of underlying (loss)/profit after tax	**(0.5)**	0.6	(1.2)
Non-underlying realised profit from continuing operations	**0.5**	0.4	0.6
Share of amortisation of notional intangible asset identified on acquisition (net of tax)	**(0.4)**	(0.4)	(0.7)
Interest in associate	**3.5**	5.8	3.9
Goodwill	**11.9**	11.9	11.9
Carrying value of investment in associate	**15.4**	17.7	15.8

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

12 Foreign Exchange Rates

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

	Average rate for the six months ended		Closing rate at	
	31.12.22	31.12.21	**31.12.22**	31.12.21
Australian Dollar	**1.7423**	1.8632	**1.7694**	1.8583
Brazilian Real	**6.1722**	7.3646	**6.3574**	7.5095
Danish Krone	**8.6238**	8.7339	**8.3845**	8.8499
Euro	**1.1593**	1.1744	**1.1275**	1.1901
US Dollar	**1.1750**	1.3635	**1.2026**	1.3479

13 Contingent Consideration Liabilities

	As at 31.12.22 £m	As at 31.12.21 £m	As at 30.06.22 £m
Contingent consideration – less than one year	**3.9**	7.0	6.4
Contingent consideration – more than one year	**99.2**	50.1	104.0
	103.1	57.1	110.4

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	Piedmont £m	Laverdia® £m	Other £m	Total £m
As at 1 July 2021	56.2	0.6	1.6	1.8	14.4	–	–	5.6	80.2
Additions	–	–	–	–	–	–	–	1.2	1.2
Remeasurement through intangibles	(10.3)	–	0.1	0.1	0.7	–	–	0.3	(9.1)
Cash payments: investing activities	(14.3)	–	–	–	(0.5)	–	–	(1.0)	(15.8)
Finance expense	0.3	–	–	–	0.2	–	–	–	0.5
Foreign exchange adjustments	(0.3)	–	–	(0.1)	0.4	–	–	0.1	0.1
At 31 December 2021	31.6	0.6	1.7	1.8	15.2	–	–	6.2	57.1
As at 1 July 2021	56.2	0.6	1.6	1.8	14.4	–	–	5.6	80.2
Additions	–	–	–	–	–	–	57.9	2.7	60.6
Remeasurement through intangibles	(12.0)	0.3	–	0.1	(2.9)	–	(7.9)	(1.8)	(24.2)
Cash payments: investing activities	(14.6)	(0.4)	(0.8)	(1.9)	(0.7)	–	–	(1.3)	(19.7)
Finance expense	1.5	–	0.1	–	0.4	–	1.2	0.2	3.4
Foreign exchange adjustments	1.5	0.1	0.2	–	1.8	–	6.3	0.2	10.1
At 30 June 2022	32.6	0.6	1.1	–	13.0	–	57.5	5.6	110.4
As at 1 July 2022	32.6	0.6	1.1	–	13.0	–	57.5	5.6	110.4
Acquisitions	–	–	–	–	–	12.7	–	–	12.7
Additions	–	–	–	–	–	–	–	0.8	0.8
Remeasurement through intangibles	(7.2)	–	0.1	–	(0.9)	(0.9)	(13.9)	(0.4)	(23.2)
Remeasurement through income statement	–	–	–	–	–	–	–	(0.4)	(0.4)
Cash payments: investing activities	(1.4)	(0.1)	(0.6)	–	(1.0)	–	–	(1.1)	(4.2)
Finance expense	1.8	–	–	–	0.6	0.9	2.7	0.3	6.3
Foreign exchange adjustments	(0.1)	–	–	–	–	(0.1)	0.7	0.2	0.7
At 31 December 2022	**25.7**	**0.5**	**0.6**	**–**	**11.7**	**12.6**	**47.0**	**5.0**	**103.1**

13 Contingent Consideration Liabilities continued

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

	Tri-Solfen®	StrixNB® & DispersinB®	Injectable Solution 1	Injectable Solution 2	Mirataz®	Piedmont	Laverdia®	Other
Increase/(decrease) in financial liability								
10% increase in royalty forecasts £m	2.0	–	N/A	N/A	1.2	1.1	1.9	0.2
10% decrease in royalty forecast £m	(2.0)	(0.1)	N/A	N/A	(1.2)	(1.1)	(1.9)	(0.2)
1% increase in discount rates £m	(1.5)	–	–	N/A	(0.5)	(0.9)	(2.2)	(0.1)
1% decrease in discount rates £m	1.7	–	–	N/A	0.5	1.0	2.5	0.1
5% appreciation in currency £m	(1.2)	–	–	N/A	(0.6)	(0.6)	(2.2)	(0.2)
5% depreciation in currency £m	1.3	–	–	N/A	0.6	0.7	2.5	0.2
Discount rate range in six months ended 31.12.22	5.4%-24.3%	12.2%-26.5%	12.0%	N/A	9.4%-10.5%	5.8%-10.1%	5.7%-18.6%	11.7%-12.3%
Discount rate range in six months ended 31.12.21	1.5%-20.8%	10.4%-11.7%	9.2%	9.2%	7.1%-9.5%	N/A	N/A	8.6%-10.4%
Discount rate range in 2022 financial year	5.2%-25.0%	11.6%-27.1%	11.6%	11.6%	7.3%-9.4%	N/A	5.1%-14.6%	10.2%-11.6%

Aggregate cash outflow in relation to royalties (remaining terms of royalty agreement)

31.12.22 £m (years)	44.5 (13.5)	0.8 (4.5)	N/A	N/A	18.8 (8.0)	30.4 (15.0)	37.0 (9.5)	3.5 (10.0)
31.12.21 £m (years)	42.6 (14.5)	0.8 (5.5)	N/A	N/A	22.8 (9.0)	N/A	N/A	3.1 (9.0)
30.06.22 £m (years)	50.4 (14.0)	0.8 (5.0)	N/A	N/A	19.8 (8.5)	N/A	51.3 (10.0)	3.8 (5.0)

The consideration payable for Tri-Solfen® is expected to be payable over a number of years, and relates to development milestones and sales performance royalties. During the period, the development milestones and sales performance royalties have been remeasured. At 31 December 2022, the liability was discounted between 5.4% and 24.3%. The broad range of discount rates in respect of this licensing agreement reflects the commercial makeup of the arrangement, with discount rates for milestone payments related to regulatory approvals being lower and based on a cost of debt approach and those with more variability in timing and quantum of future cash flows being higher and based on a Capital Asset Pricing Model based approach, also taking into account systematic risk associated with elements of the future cash flows. The gross value of the development milestones is AUD11.5 million.

The consideration payable for Laverdia® is expected to be payable over a number of years, and relates to approval milestones and sales performance royalties. During the Period, approval milestones and sales performance royalties have been remeasured. At 31 December 2022, the liability was discounted between 5.7% and 18.6% reflecting the commercial makeup of the arrangement similar to Tri-Solfen®. The gross value of the approval and sales performance (non-royalty) milestones is USD45.5 million.

The consideration payable for Piedmont is expected to be payable over fifteen years, and relates to approval milestones and sales performance royalties under pre-existing licensing arrangements.

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 remaining for a licensing agreement for an injectable solution relates to development milestones.

Phycox, which has been classified within Other, 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 2022. 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 2022, the fair value of senior loan notes was £238.0 million (carrying value: £260.5 million).

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 4 for amounts recognised in the Condensed Consolidated Income Statement in the period.

15 Related Party Transactions

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

In 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. An associated royalty payment of AUD0.7 million (£0.4 million) has also been paid in the Period.

16 Contingent Liabilities

The Group continues to monitor developments in relation to EU State Aid investigations. On 25 April 2019, the EU Commission's final decision regarding its investigation into the UK's Controlled Foreign Company (CFC) regime was published. It concluded that the legislation up until December 2018 does partially represent State Aid. This decision was upheld by the EU General Court on 8 June 2022, when it dismissed the UK Government's annulment application. The UK Government has since lodged an appeal to the EU Court of Justice in August 2022.

At 31 December 2022, the Group considers that the potential amount of additional tax payable is between £nil and £2.75 million (2022: £nil and £4.0 million) depending on the basis of calculation and the outcome of HMRC's appeal to the EU Court of Justice. Based on current advice, the Group does not consider any provision is required in relation to this investigation. This judgement is based on current interpretation of legislation and professional advice.

The Group received charging notices from HMRC in January and February 2021 under The Taxation (Post Transition Period) Act for the full exposure (£2.75 million) and has paid this to HMRC. As the Group considers that HMRC's appeal will be successful, the charging notices which were settled in full during 2021 (£2.75 million) are recorded as current tax receivables on the basis that the amount will be repaid in due course.

At 31 December 2022, contingent liabilities arising in the normal course of business amounted to £10.2 million (31 December 2021: £13.0 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 consideration liability have not been recognised.

Independent Review Report to Dechra Pharmaceuticals PLC

Report on the Condensed Consolidated Interim Financial Statements

Our Conclusion

We have reviewed Dechra Pharmaceuticals PLC's condensed consolidated interim financial statements (the "Interim Financial Statements") in the Half-Yearly Financial Report 2023 of Dechra Pharmaceuticals PLC for the six month period ended 31 December 2022 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, '*Interim Financial Reporting*' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The Interim Financial Statements comprise:

- the Condensed Consolidated Statement of Financial Position as at 31 December 2022;
- the Condensed Consolidated Income Statement and the Condensed Consolidated Statement of Comprehensive Income for the period then ended;
- the Condensed Consolidated Statement of Cash Flows for the period then ended;
- the Condensed Consolidated Statement of Changes in Shareholders' Equity for the period then ended; and
- the explanatory notes to the Interim Financial Statements.

The Interim Financial Statements included in the Half-Yearly Financial Report 2023 of Dechra Pharmaceuticals PLC have been prepared in accordance with UK adopted International Accounting Standard 34, '*Interim Financial Reporting*' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, '*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*' issued by the Financial Reporting Council for use in the United Kingdom ("ISRE (UK) 2410"). 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 2023 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Interim Financial Statements.

Conclusions relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the Directors have inappropriately adopted the going concern basis of accounting or that the Directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the Group to cease to continue as a going concern.

Responsibilities for the Interim Financial Statements and the Review

Our Responsibilities and those of the Directors

The Half-Yearly Financial Report 2023, 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 2023 in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the Half-Yearly Financial Report 2023, including the interim financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the Interim Financial Statements in the Half-Yearly Financial Report 2023 based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report. 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.

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham
27 February 2023

Dechra Pharmaceuticals PLC
24 Cheshire Avenue
Cheshire Business Park
Lostock Gralam
Northwich
CW9 7UA

T: +44 (0) 1606 814730
F: +44 (0) 1606 814731
E: corporate.enquiries@dechra.com

www.dechra.com

Company number: 3369634

Stock Code: DPH