

2019 half year results & perspectives

September 2019

Shaping the future
of animal health

Virbac

Disclaimer

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corporate.virbac.com

2019 half year results

Strategy execution & perspectives

Appendix : 2019 agenda



- **Solid organic growth of 6.6%**
 - Driven by all areas
 - Favorable 2018 base effect linked to stock decrease at distributor level in H1 2018 in the USA
 - Translating into a double-digit margin growth
- **Sales increase in the USA (+20.5% @ constant rate / ~ +7.0% excl. 2018 base effect linked to stocks decrease)**
 - Sustained Sentinel sales ex-Virbac (favorable base effect vs. 2018) however sales erosion at clinics
 - Iverhart range sales showed solid double-digit growth thanks to Iverhart Max Soft Chew
 - Other ranges : double-digit performance of the dental range thanks to Veggiedent Fr3sh as well as the specialties products and antibiotic range
- **Strong increase of Ebit adjusted (Ebita¹) +21.9 M€ @ constant exchange rate (+48.4%) leading to 14.4% of EBITA ratio**
 - Strong contribution of all regions
 - Improvement in the US profitability (+11.1 M€ Ebita @ constant rate incl. favorable base effect vs. 2018)
 - EBITA ratio also positively impacted by one-off positive contributions and favorable timing of expenses in H1 2019 especially within R&D
- **Forex impact**
 - Favorable on sales (+5.3 M€)
 - Slightly unfavorable on Ebita (-0.1 M€)

¹ Ebita : Current operating profit before depreciations of assets arising from acquisitions

FINANCIALS – SUMMARY (2/4)

H1 2019

Average rates	USD	GBP	JPY	MXN	AUD	ZAR	BRL	INR	CHF	CLP
A 2018	1.19	0.88	131	23.1	1.57	14.9	4.15	79.6	1.17	740
A 2019	1.13	0.87	124	21.6	1.60	16.0	4.35	79.0	1.13	762
Variance A19/A18	5.8%	0.6%	5.8%	6.6%	-1.9%	-7.3%	-4.4%	0.7%	3.6%	-2.8%

Average rates	NZD	COP	CRC	PHP	THB	VND	TWD	CNY	KRW	DKK
A 2018	1.69	3,449	688	62.9	38.4	27,471	35.6	7.70	1,304	7.45
A 2019	1.68	3,597	676	58.9	35.7	26,288	35.0	7.66	1,295	7.47
Variance A19/A18	0.6%	-4.1%	1.7%	6.9%	7.6%	4.5%	1.9%	0.5%	0.6%	-0.2%

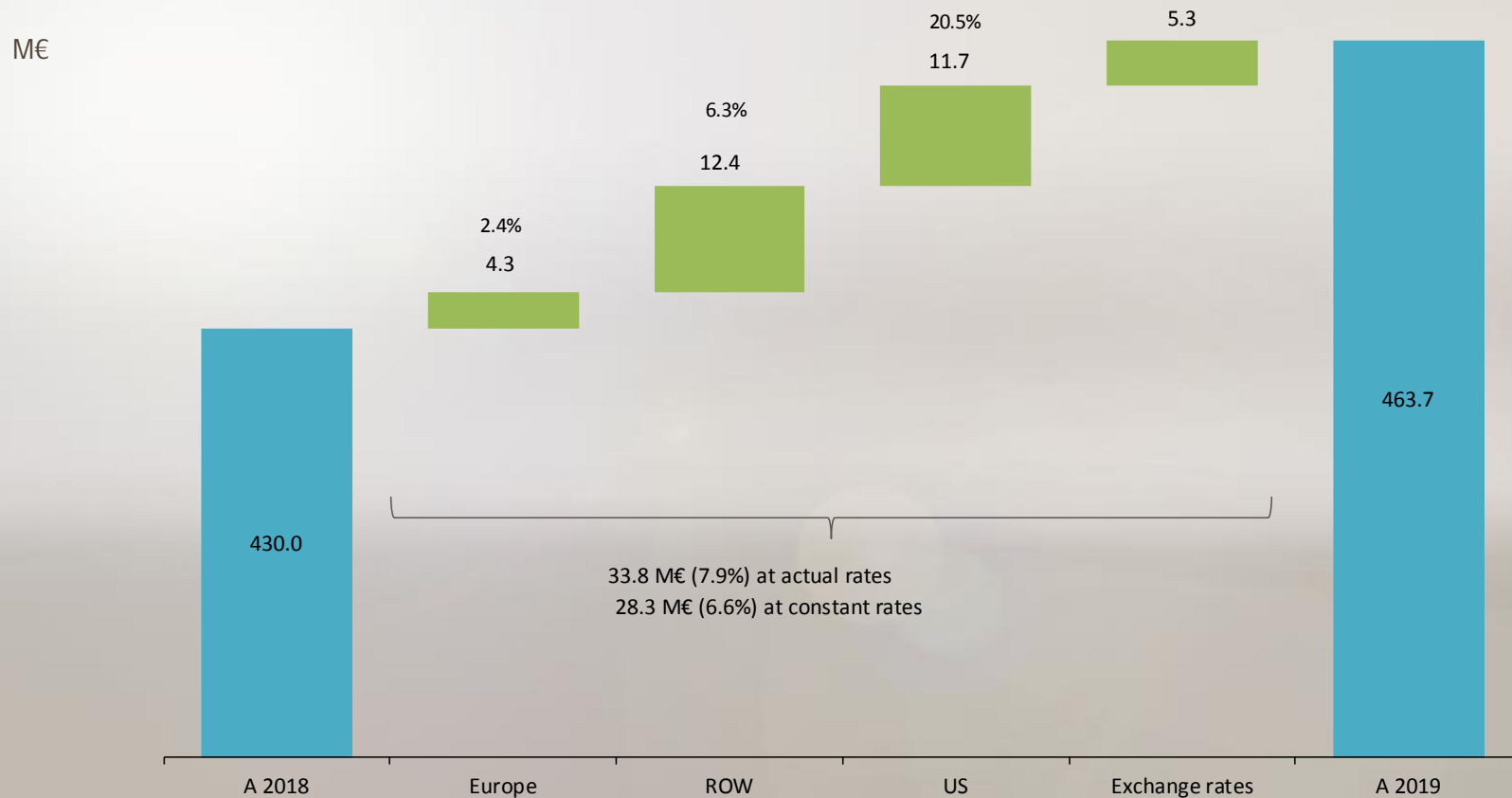
- **Net profit : 28.4 M€ (vs. 12.6 M€ in 2018) @ real rate impacted by :**
 - Operational improvement
 - Changes in the pension scheme of the members of the Executive Board (+3.2 M€)
 - Favorable exchange rate impact on CLP vs. US\$ and €
 - Impairment on CaniLeish assets (-7.2 M€)
- **Increase of total net debt by 29.4 M€ (Decrease by 2.3 M€ @ constant exchange rate & scope)**
 - Net debt @ 455 M€ and 424 M€ at cst scope vs. 426 M€ at year end 2018 and 487 at the end of June 2018
 - Stable net cost of financing (better financing conditions but negative impact of LIBOR)
 - Seasonal increase of working capital requirement offset by the level of net cash flow
 - Impact of IFRS 16 increasing debt by 31.8 M€
- **On-going deleverage of the company : Net debt on Ebitda ratio @ 3.00¹ in June 2019**
 - From 7.3 in June 2015 to 3.00 in June 2019 below bank covenant commitment of 4.25

1. Covenant calculated as per the RCF contract, without the impact of IFRS 16

Million euros	2019	2018	Var.%
Consolidated sales	463.7	430.0	+7.9%
- Exchange rate impact vs. 2018	-5.3		
Consolidated sales at constant rates	458.4	430.0	+6.6%
- change in perimeter	0.0		
Consolidated sales, pro-forma at constant exchange rates	458.4	430.0	+6.6%

SALES EVOLUTION

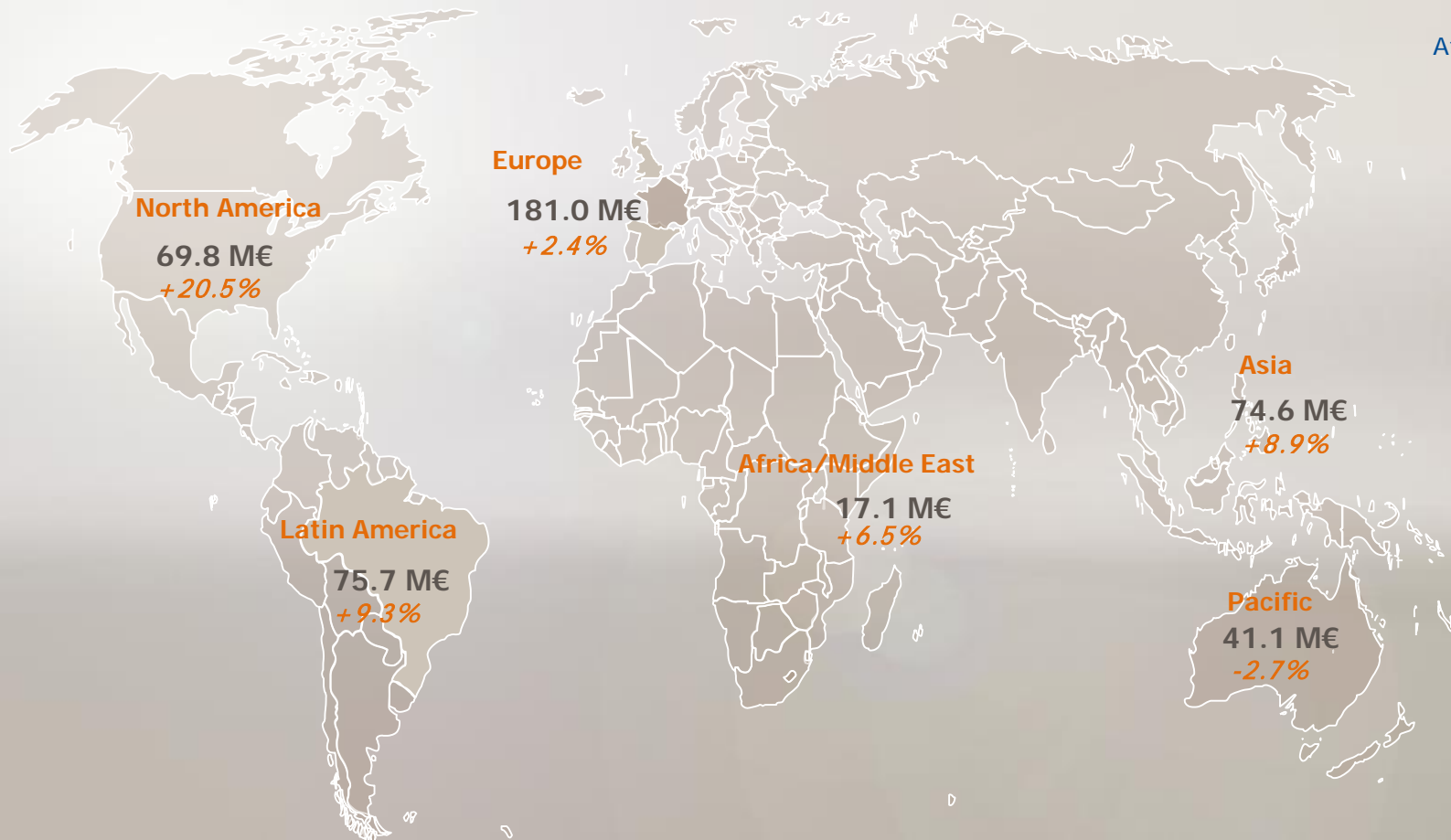
H1 2019



SALES GROWTH BY REGION

H1 2019

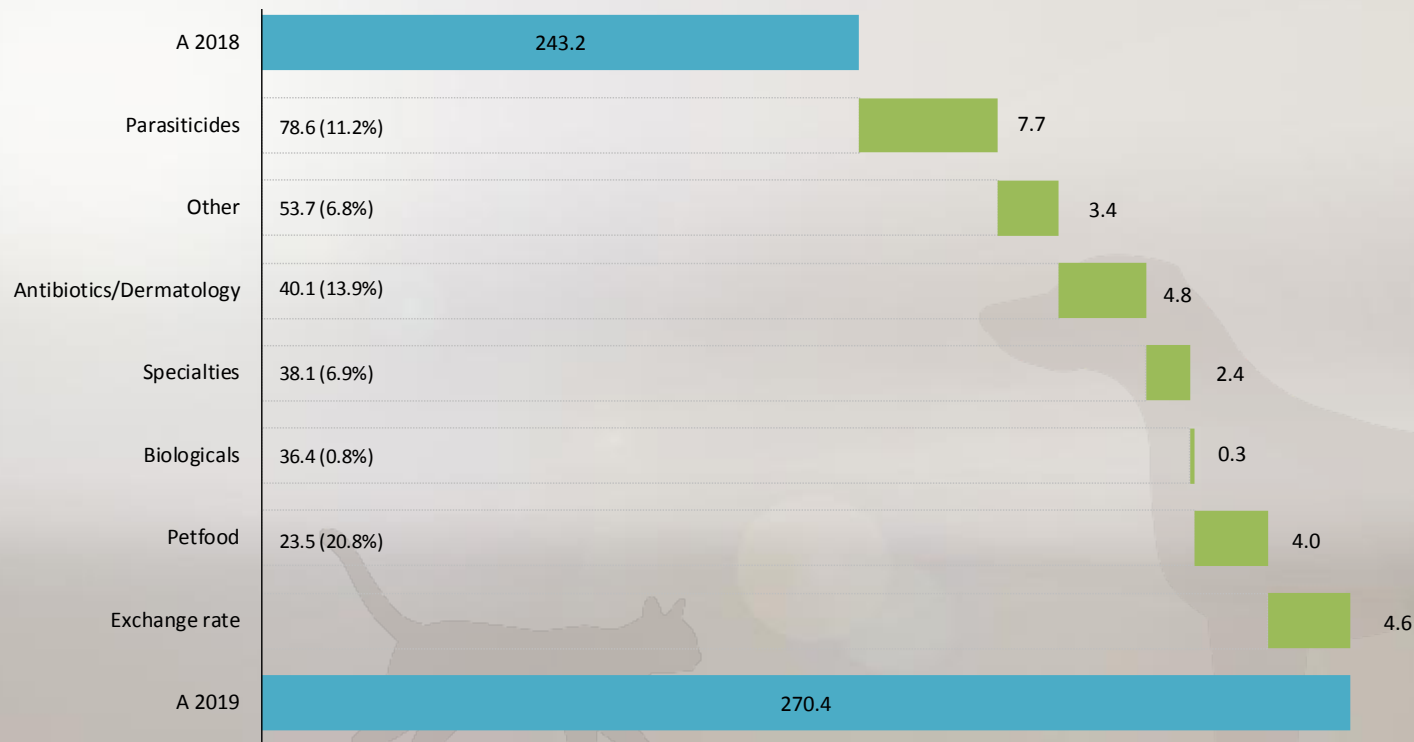
At constant rates



SALES GROWTH BY SEGMENT - COMPANION ANIMALS

H1 2019

At constant rates

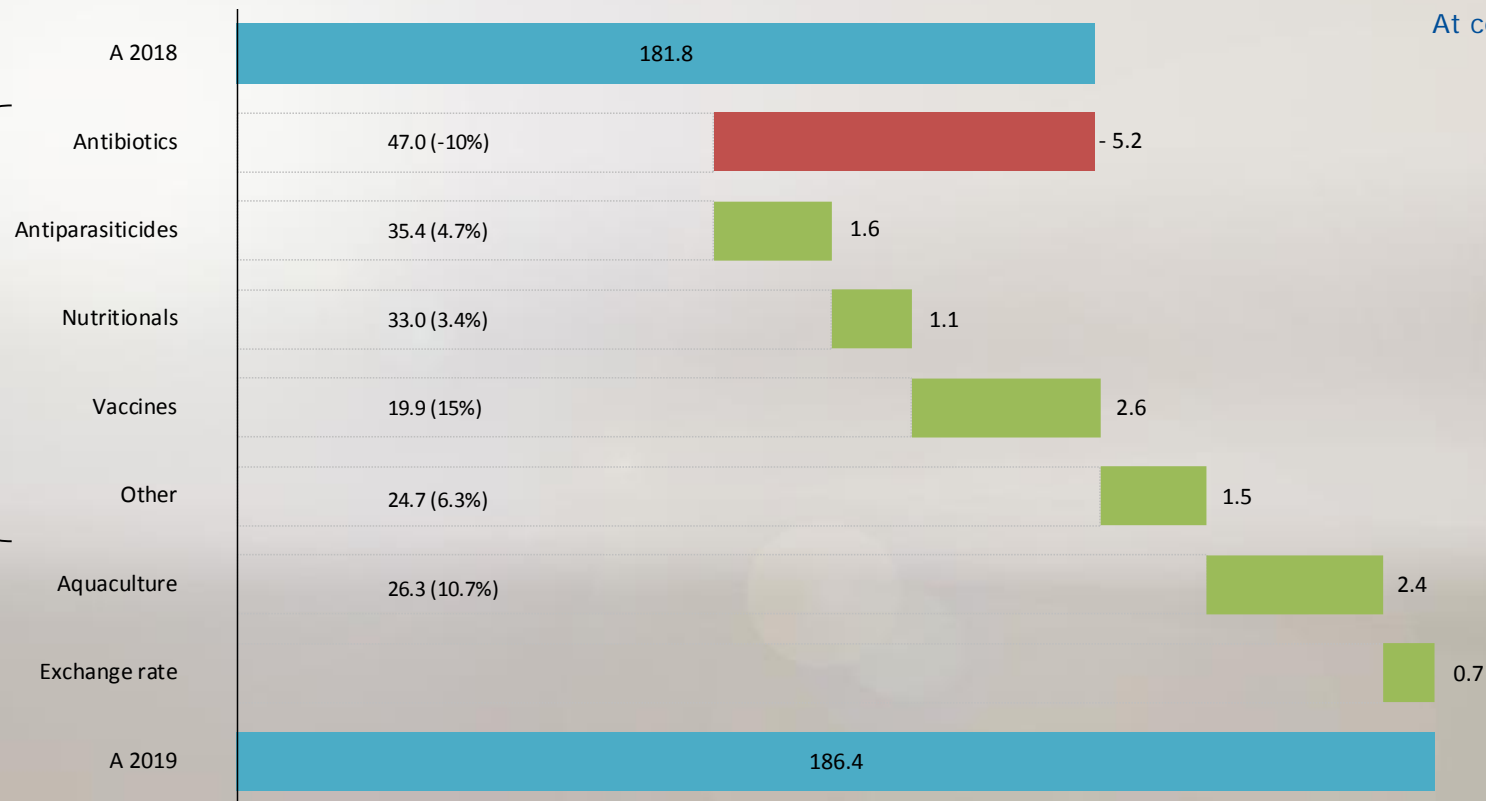


SALES GROWTH BY SEGMENT - FOOD PRODUCING ANIMALS

H1 2019

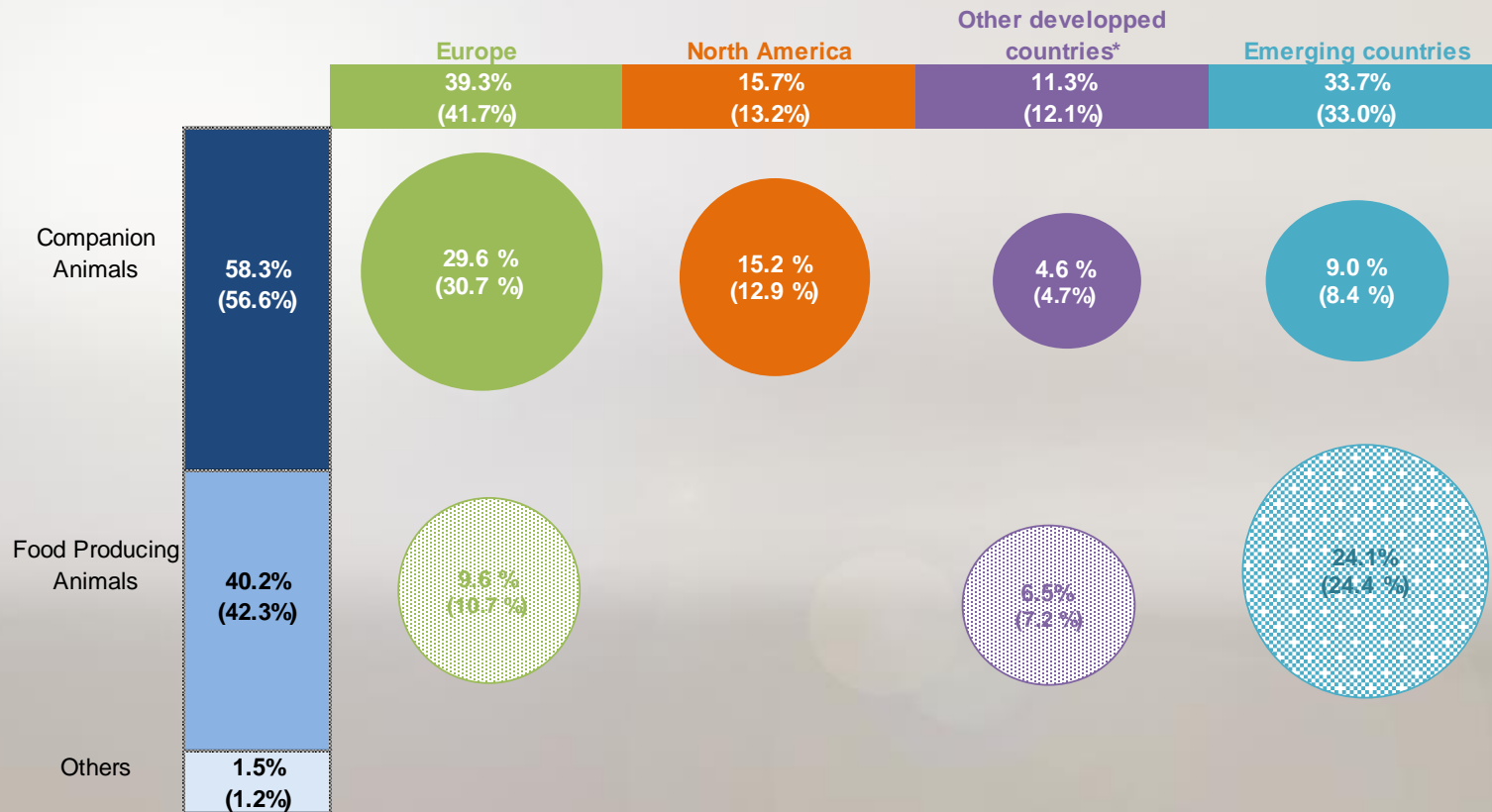
At constant rates

Bovine,
Swine &
Poultry



SALES BREAKDOWN BY REGION AND BUSINESS

H1 2019



() : 2018

* Australia, New Zealand, Japan, Korea

NEW IFRS ACCOUNTING STANDARDS

- **Standards applicable to financial years beginning on or after January 1, 2019**

- **IFRS 16 - Lease**

Recording of future lease payments as a liability and the right of use as an asset on the balance sheet

For the implementation of this standard, the Group opted for the simplified retrospective method
The impacts in the consolidated financial statements as of June 30, 2019 are as follows:

- **Statement of financial position**

• Net right of use	31.3 M€
• Lease obligation	31.8 M€

- **Income statement**

• Leasing charge neutralization	5.7 M€
• Right of use amortization	5.2 M€
• Interests on leasing obligation	0.7 M€

PROFIT & LOSS STATEMENT AT REAL RATES

H1 2019

<i>in M€</i>	2019	%	2018	%
Net sales	463.7	100.0	430.0	100.0
Gross margin on material cost	311.2	67.1	285.0	66.3
Net expenses	224.3	48.4	227.0	52.8
Amortizations, depreciations and provisions	20.0	4.3	12.8	3.0
Current operating profit before depreciation of assets arising from acquisitions	66.9	14.4	45.2	10.5
Amortization of intangible assets arising from acquisitions	7.5	1.6	7.6	1.8
Operating profit from ordinary activities	59.4	12.8	37.6	8.7
Other non-current income & expenses	9.4		1.2	
Operating profit	50.0	10.8	36.4	8.5
Net financial expenses	8.7	1.9	12.0	2.8
Profit before tax	41.3	8.9	24.4	5.7
Income tax expense	13.0		12.0	
<i>Including non-current tax expense (income)</i>	-2.3		3.0	
Share in earnings - Equity method	-0.1		-0.2	
Net result from ordinary activities of consolidated entities	35.5	7.7	16.8	3.9
Net result of consolidated entities¹	28.4	6.1	12.6	2.9
Non-controlling interests	2.0		0.4	
Net result - Group's share	26.4	5.7	12.3	2.9

¹ The net result for the first half 2019 includes the IFRS 16 impacts (as disclosed on the previous slide)

BREAKDOWN OF EBIT ADJUSTED¹ EVOLUTION

H1 2019



¹ Ebit adjusted : current operating profit before depreciations of assets arising from acquisitions

² RDL : Research, Development & Licensing

CONTRIBUTION OF THE US OPERATIONS TO THE EBIT ADJUSTED¹

H1 2019

M\$

Excluding R&D

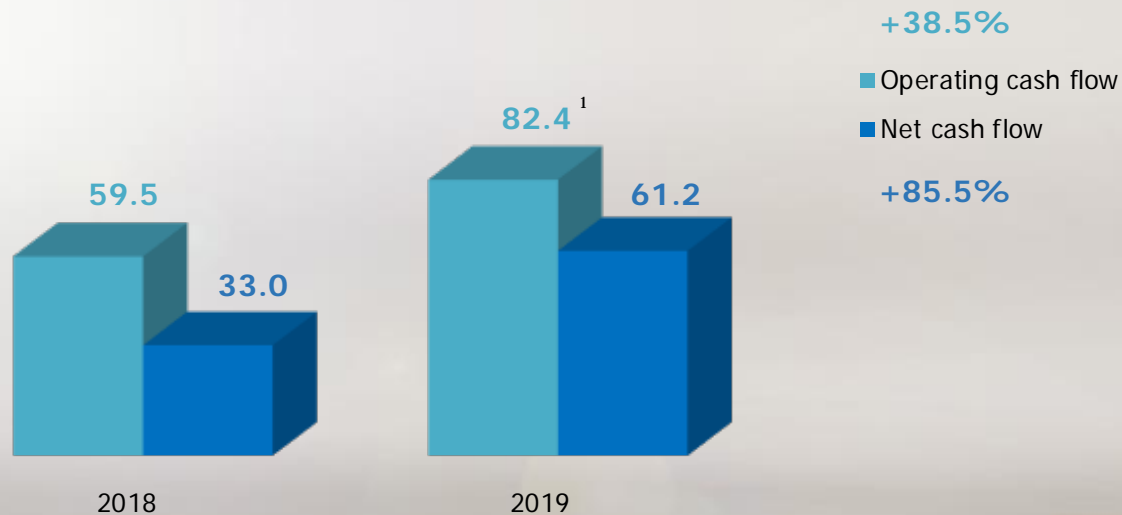


¹ Ebit adjusted : current operating profit before depreciations of assets arising from acquisitions

EVOLUTION OF CASH-FLOW

H1 2019

M€



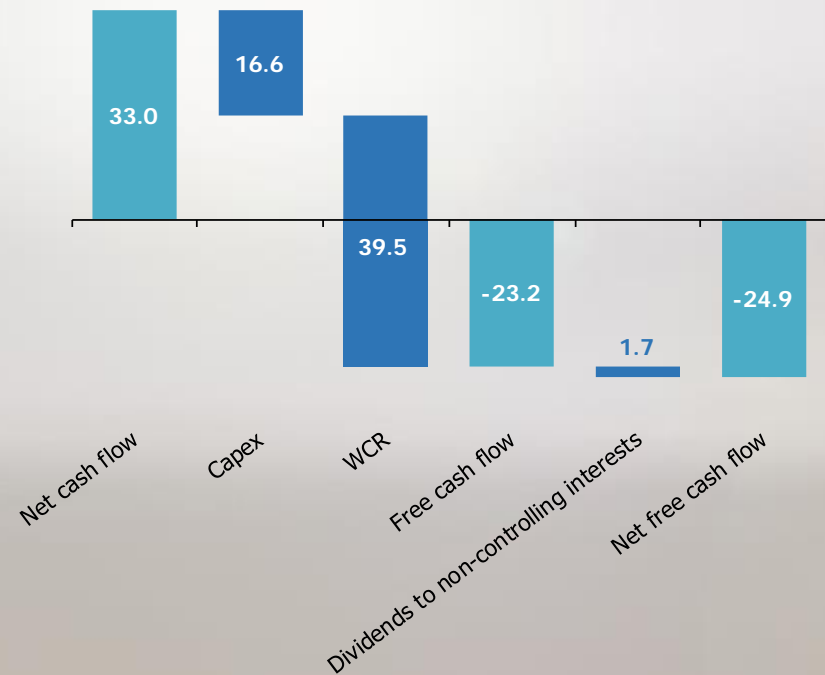
¹ The application of IFRS 16 has positively impacted H1 2019 operating cash flow by 4.9 M€, and net cash flow by 4.1 M€

EVOLUTION OF FREE CASH-FLOW

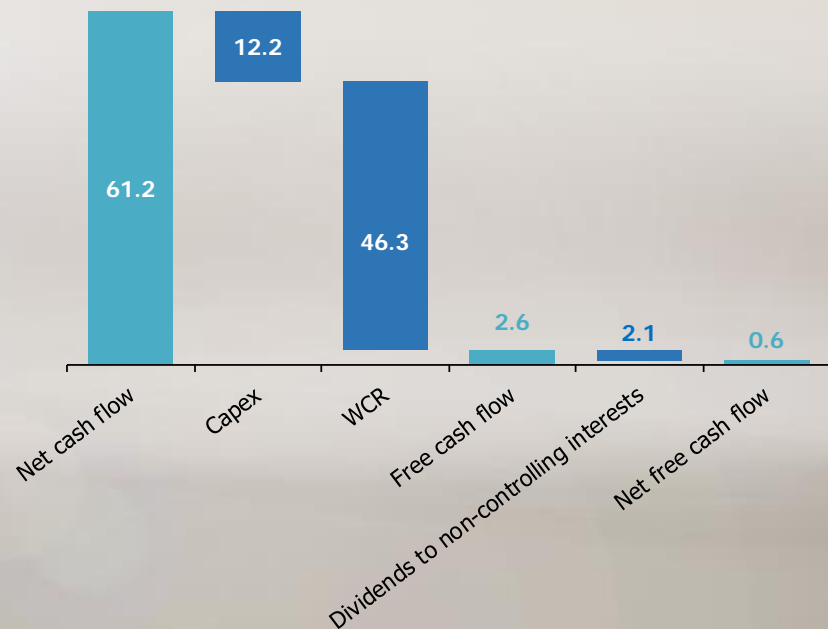
H1 2019

M€

2018.06



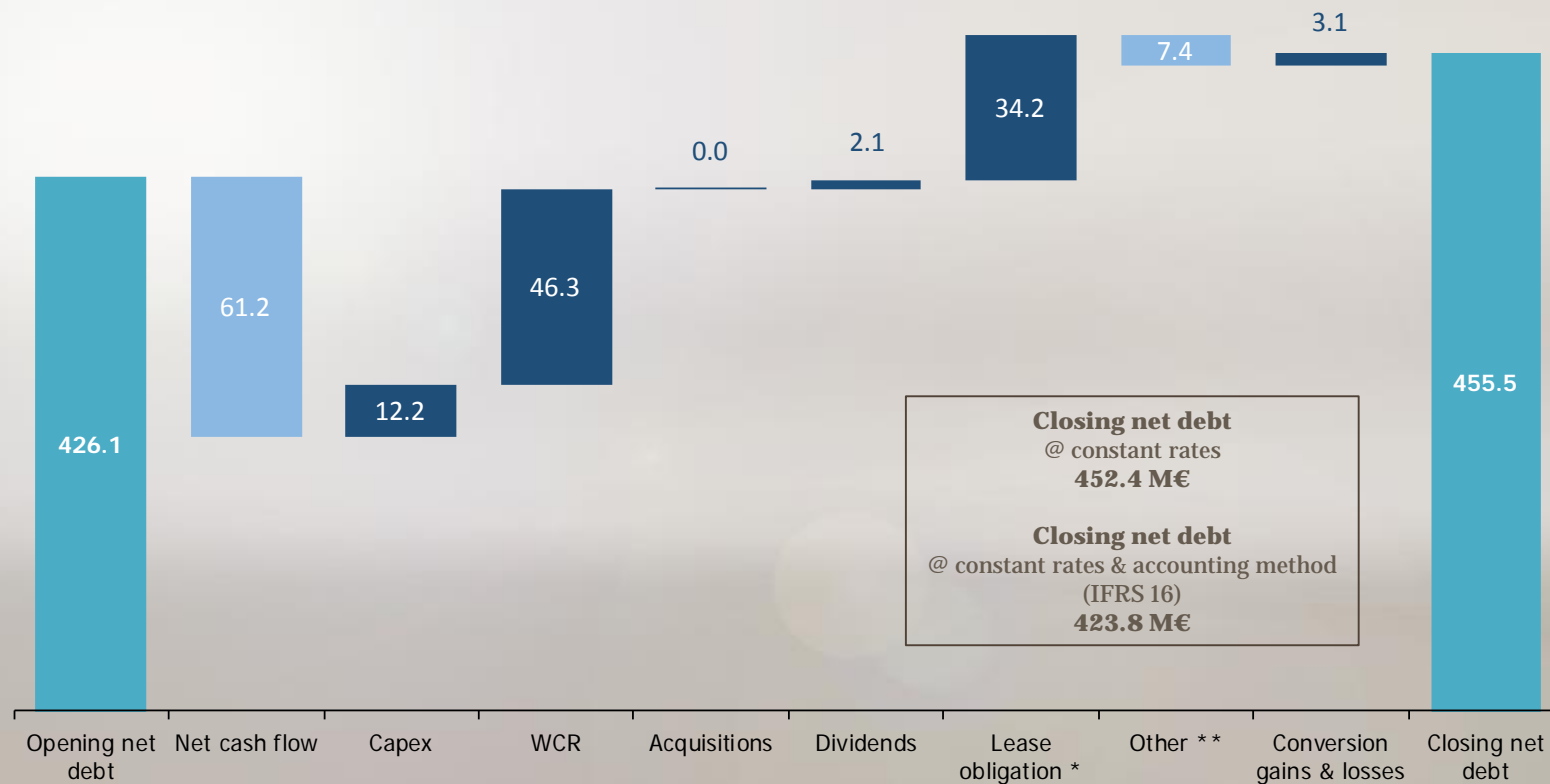
2019.06



EVOLUTION OF NET DEBT

H1 2019

M€

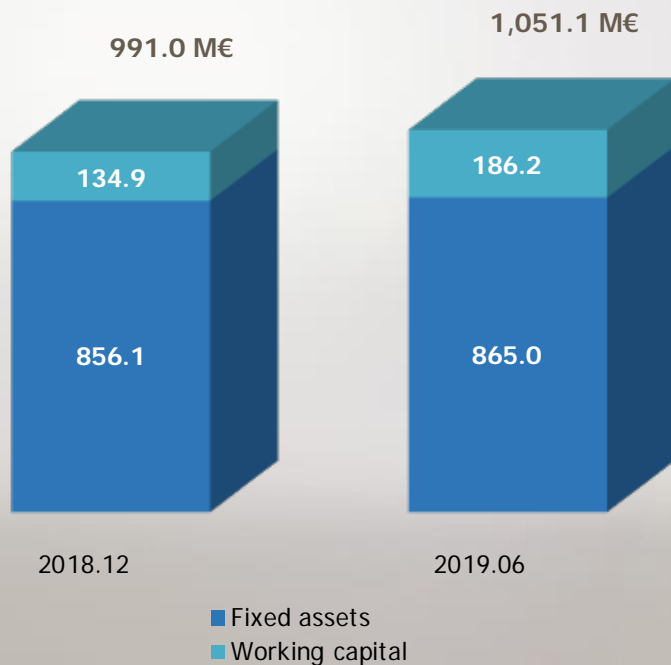


* Impact of IFRS16 first application

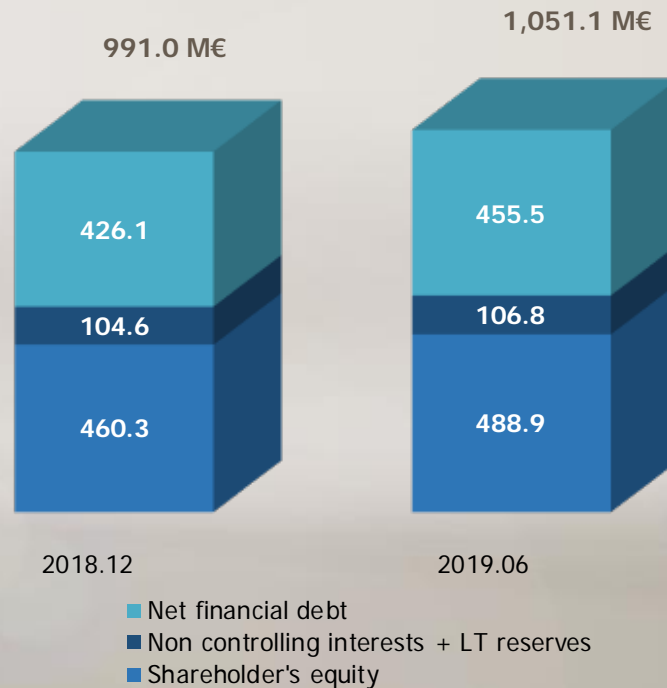
** Includes the disposal of FW buildings (\$6.1 M)

BALANCE SHEET ANALYSIS

H1 2019



INVESTED CAPITAL



CAPITAL EMPLOYED

Situation December 2018

- Financing available : ~611 M€
- Banking pool (RCF¹) : ~420M€
2022 maturity
 - BEI : ~90 M\$
 - *Schuldschein* : ~30 M€
 - Bi-lateral : ~83 M€

Covenant ²:

- 30.06.19 : 4.25
- 31.12.19 : 3.75
- 2020 onwards : same as 2019

**Financial covenant
(Net debt/Ebitda) at
June, 2019 ³ :**

3.00 < 4.25

Situation June 2019

- Financing available : ~610 M€
- Banking pool (RCF ¹) : ~420M€
2022 maturity
 - BEI : ~90 M\$
 - *Schuldschein* : ~30 M€
 - Bi-lateral : ~82 M€

Covenant ²:

- 30.06.19 : 4.25
- 31.12.19 : 3.75
- 2020 onwards : same as 2019

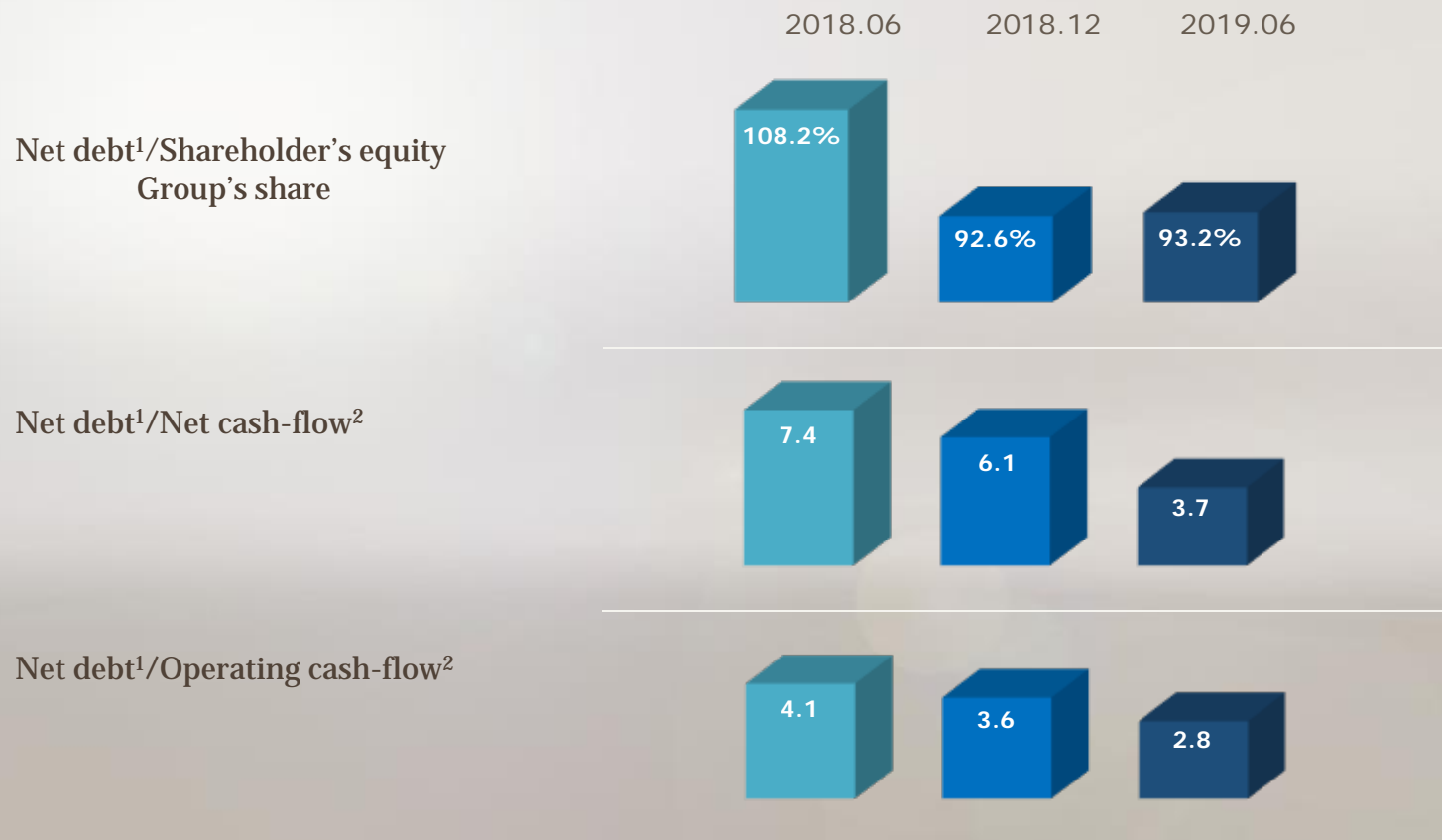
¹ Revolving credit facility

² Net debt on Ebitda

³ Covenant calculated at constant scope vs. 2018

BALANCE SHEET – FINANCIAL RATIOS

H1 2019



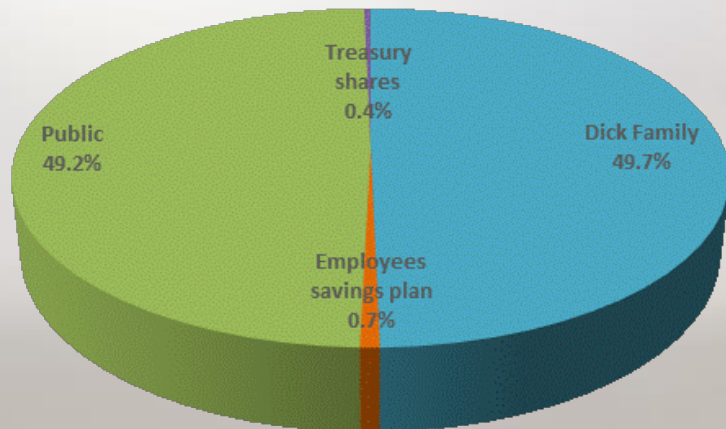
¹ The methodology for calculating the bank covenant differs slightly from the accounting method which includes the IFRS 16 impact

² For the calculation as at end of June, net cash flow and operating cash flow are multiplied by 2

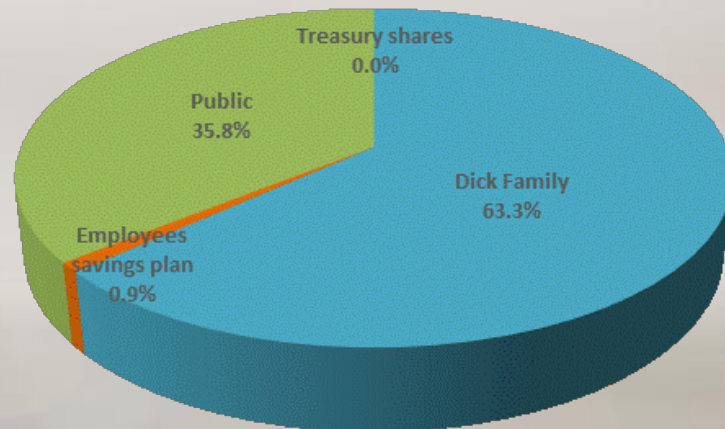
SHAREHOLDING

Number of shares: 8 458 000

In shares



In Voting Rights




2019 half year results

Strategy execution & perspectives

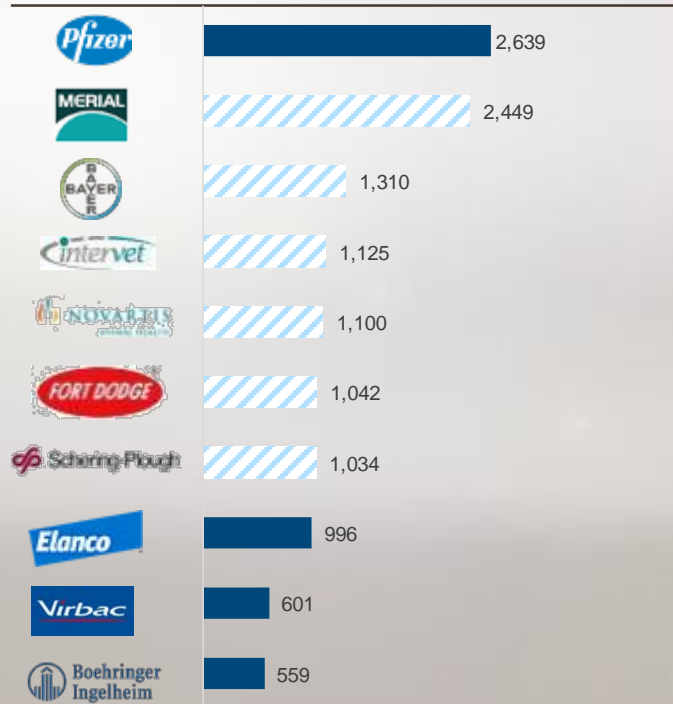
Appendix : 2019 agenda



MASSIVE CONSOLIDATION IN LAST 10 YEARS HAS CREATED A NEW TOP TIER

 Companies that were acquired or merged between 2007 and 2019

Top 10 Companies Revenue in 2007 (\$m)



... And in 2018 (\$m)

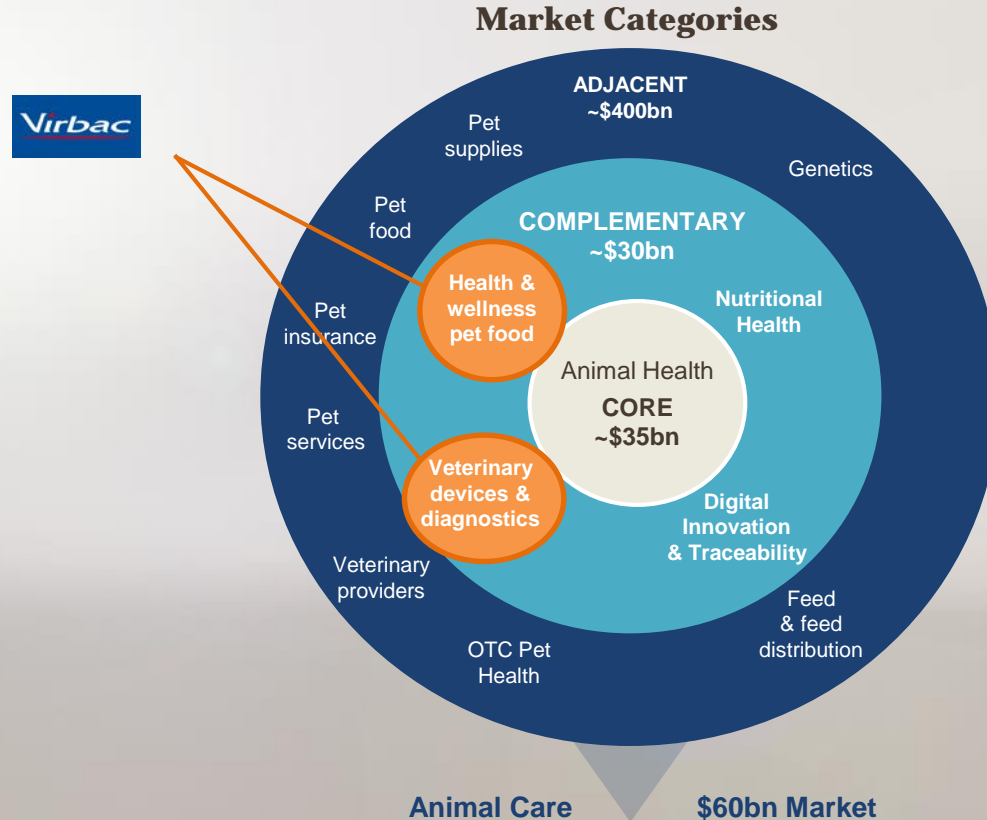


50%

73%

Notes: Converted to USD using average exchange rates for 2018 of €1:\$1.17 and £1:\$1.35, and average exchange rates for 2018 of €1:\$1.37 and £1:\$1.93; (1) Pro-forma for Antellic acquisition; (2) Pro-forma for Aratana acquisition; (3) Pro-forma for IDT Biologika acquisition; (4) Pro-forma for AST Farma, Le Vet acquisitions and Vencofarma acquisitions

ANIMAL HEALTH: A GROWING MARKET WITH POSSIBILITY TO EXPAND INTO ANIMAL CARE



VIRBAC : A VERY WELL POSITIONED PORTFOLIO, WITH OPPORTUNITIES IN VACCINES (FPA), USA AND BLOCKBUSTERS

2018	Competitor 1	Competitor 2		Competitor 3 (*)	Competitor 4
Sales	+++++	++++	++	+	+
% Companion animals	45%	35%	58%	0%	56%
% Antimicrobials within portfolio	22%	37%	17%	n.d	n.d
% Biologicals within portfolio	26%	n.d	14%	13%	0%
% USA within total sales	49%	51%	14%	41%	n.d
Blockbusters	+++	+++	0%	n.d	0%

MAIN 2019 HALF YEAR ACHIEVEMENTS

Gaining market share, delivering growth above market rate

6.6% at constant rates (7.9% at real rates) with sustained growth in the USA

EBITA at 14.4%, with profit improving double-digit

Driven by volume & margin increase and costs control

Debt reduction of 61 M€ versus end of June 2018 excluding IFRS 16 & exchange rates impact

Financial covenants respected & Net debt/EBITDA ratio significantly improved at 3.0

(return to historical covenant ratio & financial conditions)

Long term competitiveness

- « **Competitiveness review** » of main manufacturing sites leading to execution of action plans in France and USA
Signature of a private label agreement adding volumes to the St. Louis plant (USA)
- « **Think very big (TVB)** » **China** plan underway (local R&D, registrations, partnerships, etc.)
- **> 10 new product launches** including in-licensing deals (Prevendog collar, Vetemex, Hyaloral, Anibidiol, etc...) and continuation of geo-extension programs (PCV2d vaccine, petfood diet, etc.)
- **Acceleration of digital transformation** of the company
 - Implementation of a digital workplace (G-suite)
 - Launch in China of flagship store on Tmall platform <https://virbac.tmall.com> (August 2019)
 - More webshops (Japan, Germany, Italy, Poland, etc.)
 - On-going digitalization of internal processes
- **Great Place To Work:** follow up initiatives with the employees (workshops & bottom up implication)
- **Sale of VB US Fort Worth real estate**

MAIN 2019 HALF YEAR COMMERCIAL ACHIEVEMENTS

Product ranges growth at constant rates

- Busters programs
 - Petfood (+21%)
 - Veggiedent chews (+18%)
 - Suprelorin (+6%) due to supply constraints
- FPA vaccines (w/o Aquaculture) > +15%
Aquaculture vaccines +28%

Countries growth at constant rates

- ~ 50% commercial affiliates delivering a double-digit growth, with outstanding growth in main markets: USA (+21%), China (+37%), Brazil (+16%), and Chile (+12%)

- **Ex-Virbac performance : +21% and around +7% excluding destocking impact (base effect of 2018)**
- **In-clinic market performance¹ :**
 - **Sentinel sales eroding but globally in line with market trend**
 - **Iverhart & Other ranges growing double-digits**
- **Strong growth of on-line sales**

¹ In-clinic market performance refers to sales from distributors to clinics only and not to alternative channels (on-line)

CHILE

Growth at constant rates perfectly in line with expectations

- **Aquaculture : +17%**

- Injectable vaccines: +45%
- Oral vaccines: -7%
- Antibiotics: -14%
- Parasiticides: +28%
- Other products: +37%

- **Other species : Stable**

- Companion animals: +8%
- Pigs & Poultry: +8%
- Ruminants: -28%



MAIN 2019 PRIORITIES

Competitiveness

- **Industrial focus**
- **Profitable growth in all regions** (margin & opex ratios)
- **Business development boost**
- **HQ costs optimization**

Busters & portfolio management

- **Innovation & partnerships**
- **Commercial** (Petfood, Suprelorin, Veggiedent chews, others)

Digital & systems (across the company)

- **More productivity & efficiency** (Industrial, HR and Digital workplace)

ESTIMATED PEAK SALES POTENTIAL OF MAIN R&D PROJECTS

(September, 2019)

Launch Year	Companion Animals	M €	Food Producing Animals	M €
2019	<ul style="list-style-type: none"> • Anti-infectives • Specialities • Dermatology • Non pharma products 	16	<ul style="list-style-type: none"> • Vaccines • Parasiticides 	12
2020	<ul style="list-style-type: none"> • Parasiticides • Vaccines • Non pharma products 	21	<ul style="list-style-type: none"> • Parasiticides • Minerals 	14
2021	<ul style="list-style-type: none"> • Anti-infectives • Parasiticides • Specialities 	14	<ul style="list-style-type: none"> • Parasiticides • Anti-infectives 	15
2022	<ul style="list-style-type: none"> • Dermatology • Specialities 	28	<ul style="list-style-type: none"> • Parasiticides • Anti-infectives • Miscellaneous 	36

2019 PERSPECTIVES – SUMMARY

2019 organic growth¹: at the upper end of the 4% to 6% range

Ebit adjusted² ratio: + ~2.0 pt @ constant rate

Debt reduction: between 40 and 50 M€ @ constant rate (no dividend paid by Virbac SA)

1. At constant exchange rates and scope

2. Ebit adjusted : current operating profit before depreciations of assets arising from acquisitions

AMBITION

1 key objective

~15% of Ebita¹
(around 2022)

10.1% of Ebita¹

3 main levers

▶ **US infrastructure leverage**

▶ **Profitable growth in other geographies**

▶ **Margin optimization**

- Top-line revenue growth
- St. Louis profitability improvement plan
- Entry in FPA

- Leveraging emerging countries dynamism
- Controlling cost of doing business in all countries
- In-licensing agreements

- Innovation
- Portfolio management & rationalization
- Virbac busters (focus)

¹ Ebita: current operating profit before depreciations of assets arising from acquisitions

2019 half year results

Strategy execution & perspectives

Appendix : 2019 agenda



2019 AGENDA

April 11*	Q1 sales
June 18	Annual shareholders' meeting
July 16*	Q2 – H1 sales
September 16*	Half-year financial results
September 17	SFAF meeting - 1st half 2019 financial & strategic information
October 11*	Q3 sales
January 16, 2020*	Q4 – Full year sales

* After market close

Shaping the future of animal health

Virbac