Operating profit from ordinary activities up sharply for the first half of 2020 reflecting revenue resiliency and strong expenditure restraint during the Covid-19 crisis

The disposal of Sentinel on July 1, 2020 will have an impact on the accounts of the second half of the year, but has enabled the group to reduce entirely its net debt

Public release issued on September 16, 2020 after market close

CONSOLIDATED DATA AS OF JUNE 30th in millions of €	2020	2019	2020/2019 Growth
Revenue	**478.3**	**463.7**	**+3.1%**
Growth at constant exchange rates			*+5.0%*
Growth at constant exchange rates and scope [1]			*+5.0%*
Current operating profit before depreciation of assets arising from acquisitions [2]	**85.5**	**66.9**	**+27.7%**
as a % of revenue	*17.9%*	*14.4%*	
as a % of revenue at constant rates	*18.3%*		
Depreciation of intangible assets from acquisitions	6.3	7.5	
Operating profit from ordinary activities	**79.1**	**59.4**	**+33.2%**
Non-recurring expenses and income	5.4	9.4	
Operating profit	**73.8**	**50.0**	**+47.6%**
Net profit from ordinary activities [3]	**53.6**	**35.5**	**+51.0%**
Consolidated net profit	49.7	28.4	+75.1%
Including net profit - Group share	47.2	26.4	
Shareholders' equity - Group Share	548.0	488.9	+12.1%
Net debt [4]	348.2	455.5	-23.6%
Operating cash flow before interest and taxes [5]	104.2	82.4	+26.4%

[1] Growth at constant exchange rates and scope is the organic growth of sales, excluding the impact of exchange rate changes, by calculating the indicator for the financial year in question and that for the previous financial year on the basis of identical exchange rates (the exchange rate used is that in effect for the previous financial year), and excluding the impact of changes in scope, by calculating the indicator for the financial year in question on the basis of the scope of consolidation for the previous financial year.
[2] Current operating profit before depreciation of assets arising from acquisitions reflects profit from ordinary activities adjusted for the impact of allowances for depreciation of intangible assets resulting from acquisition transactions.
[3] Net profit from ordinary activities corresponds to net consolidated profit adjusted for non-recurring expenses and income (€5.4 million), and for non-current tax (- €1.5 million).
[4] Net debt corresponds to current (€104.5 million) and non-current (€328.3 million) financial liabilities as well as a lease obligation related to the application of IFRS 16 (€33.3 million), less cash and cash equivalents (€117.9 million) as published in the statement of financial position.
[5] Operating cash flow corresponds to operating profit (€73.8 million) adjusted for items having no impact on cash position and impacts related to transfers. The following items are adjusted: asset depreciation and impairments (€30.2 million), provisions for risks and charges (- €0.6 million), provisions related to employee benefits (€0.2 million), and the other expenses and income without any impact on cash position (€0.4 million). and the impacts related to transfers (€0.2 million).

The accounts were audited by the statutory auditors and examined by the supervisory board on September 15, 2020. The statutory auditor's report is in the process of being issued. The statements and detailed presentation of half-year results are available on the corporate site at corporate.virbac.com.

Thanks to the Virbac teams' constant dedication to animal health and the resilience of the sector, we posted annual revenue of €478.3 million, an increase of +3.1% (+2.4% excluding Sentinel) over 2019 at actual exchange rates and +5.0% (+4.5% excluding Sentinel) at constant rates. All regions were experiencing growth at the end of June, reflecting the resilience of the sector and also the different stages of the epidemic depending on the geographical location. Europe and Latin America led the growth for the half-year at +5.7% (+5.5% at constant exchange rates) and +1.3% (+9.3% at constant exchange rates) respectively, although some countries were more affected by the health crisis (United Kingdom and Italy). The Asia-Pacific region grew by +0.1% (+2.4% at constant exchange rates), impacted by a significant decline in India over the period. Finally, the United States achieved growth of +5.8% (+3.1% at constant exchange rates and -2.8% excluding Sentinel) thanks in particular to sales of Sentinel and the dermatology, hygiene and nutraceutical lines. In terms of species, the companion animals business grew overall by +5.0% at actual rates (+5.3% at constant rates and +4.6% excluding Sentinel), essentially driven by growth in the internal and external parasiticide lines and pet food (anticipation of purchases preceding price increases and Covid-19-related lockdowns), which compensated for the withdrawal of the antibiotic and vaccine lines. The food producing animals segment also achieved growth of +1.4% (+5.3% at constant exchange rates), buoyed by the ruminants sector and aquaculture.

The current operating profit before depreciation of assets arising from acquisitions amounts to €85.5 million, significant growth compared to the first half of 2019 (€66.9 million). This growth in performance of 3.5 points (3.9 points at constant exchange rates) as a ratio to revenue is attributable to three main factors: a marked reduction in expenses related to the Covid-19 situation, excluding recognition of exceptional items over the first half of 2019 of €4.3 million, (postponement of seminars, conferences and events, suspension of travel in many countries, postponement of projects and reduction in marketing expenses, etc.), a marked reduction in our R&D expenditures related to delays and program postponements, and lastly to our good sales performance and improvement in our gross margin with a favorable mix of our products, in particular a very strong contribution by Sentinel, whose prices increased significantly as at February 1. These various first-half items will not recur in the future and may even trend in the opposite direction, with a decline in sales anticipated in the second half (disposal of Sentinel, vaccine shortages), and an increase in expenditures (renewed marketing activity and R&D programs).

Net profit from ordinary activities (net consolidated profit adjusted for non-recurring expenses and income and for non-current taxes) totaled €53.6 million, up 51.0% over the first half of 2019. This improvement in net profit from ordinary activities is attributable to the items listed above, particularly the growth in activity and excellent cost control, which compensate for the recognition of the additional impairment of assets associated with the leishmaniosis vaccine due to the definitive discontinuation of marketing of this product, for a net amount of €3.3 million. It should be noted that the financial result remains stable compared to the same period last year, with the €3.0 million decrease in the cost of net financial debt offset by unfavorable exchange rates, mainly for the Chilean peso, which declined sharply compared to the euro and the US dollar.

Net Profit - Group Share reached €47.2 million, a strong increase compared to the first half of the previous year (€26.4 million), buoyed by operational performance and the elements shared above.

From a financial standpoint, our net debt is at €348.2 million, down by €20.2 million compared to December 31, 2019 at actual rates, and €16.7 million at constant rates and scope. The lack of a dividend payment by Virbac S.A. on 2019 profits, and a strict control of working capital requirements and investments contributed to debt relief. Thus, the Group is in compliance with the financial ratio (Net debt/Ebitda), which was 1.90 versus 4.25, which was the maximum limit set at the end of June, 2020 as part of the financial covenant.

Outlook

The animal health sector has shown relative resilience in recent months, which helped to limit the impact on our business at the end of June, despite the anticipated downturn in the second quarter of 2020. However, there are still many unknowns regarding the outlook for demand in the countries in which we operate (particularly in major countries such as the United States, India, and Chile), and also regarding the inventory position at all stages of the distribution chain in the different channels. In addition, we are also facing uncertainties related to the current health situation in certain countries that entered into confinement later (Brazil, Mexico, Chile, India, etc.), and possible resurgences or second waves of Covid-19 in the coming months, which could lead to a sustained and prolonged reduction in demand.

On the supply side, we managed to limit the impact on the first half of the year. However, we cannot rule out possible pressures across the world on the supply of certain components and even certain products in the second half of the year. Our Indian subsidiary (the Group's third largest subsidiary), which obtains its supplies locally, experienced supply disruptions during the quarter due to the country's complex health and economic situation, and even if the situation is improving, we do not anticipate a return to normal for some months.

In terms of production, we continue to operate at our main sites with additional constraints (health measures). Even so, we have returned to near-normal activity levels at these sites, with the exception of Chile, which is still operating at approximately 80%, due to Covid-19 prevention measures that have imposed a slow-down in production. With regard to our inventories, production activity levels were slowed and under constraints during the second quarter, preventing us from maintaining safety stocks for all of our products, and will cause shortages in the second half of the year. Finally, the stoppage of our worldwide production of dog and cat vaccines, which lasted just over two months, is creating third-quarter shortages that will impact us throughout the entire second half of the year.

In view of these items and the resilience of our business, at this stage we anticipate revenue that could be on the high end of the previously shared range of -3% to 0% for 2020 at actual scope (post-Sentinel disposal) and at constant rates. Furthermore, on the basis of mid-July exchange rates, we anticipate an unfavorable exchange rate impact of approximately €25 to €30 million related to the sharp depreciation of currencies in the Latin America and Asia-Pacific regions. The ratio of “current operating profit before depreciation of assets arising from acquisitions” to “revenue” should be within a range of 12% and 13% in 2020 at actual scope and constant rates.

Finally, the early July disposal of Sentinel brands, for which we will continue to manufacture the Sentinel Spectrum formulation at our US site in Bridgeton, is expected to result in a decrease in revenue of approximately US $55 million and approximately 3 points of the Ebita[1] to revenue ratio on a pro forma full-year basis. For 2020, the impact on the Ebita to revenue ratio is expected to be limited to approximately 1 point, given the good level of sales of Sentinel, which accounted for revenue of US $39 million in the first half.

From a financial standpoint, the divestiture of Sentinel for a total of US $410 million resulted in negative net debt. Lines of credit drawn in US dollars were repaid, and the major portion of our financing, maturing in 2022 for the most part, was retained for covering potential working capital requirements, external growth operations or other projects.

[1]*Ebita: Current operating profit before depreciation of assets arising from acquisitions*

ANALYSTS' PRESENTATION - VIRBAC

We will hold an analysts' meeting on Thursday, September 17, 2020 at 3:00 pm (Paris time – *CET*) in the Vivaldi Auditorium of Club Laffitte, 54 rue Laffitte- 75009 Paris (France).

Participants may arrive 15 minutes before the start of the meeting.

You may also attend the meeting using the webcast (audio+slides) available via the link below.

Information for participants:

Webcast access link: https://bit.ly/31AKCjv

This access link is available on the corporate.virbac.com site, under the heading ''financial press releases''. This link allows participants to access the live and/or archived version of the webcast.

You can ask questions via chat (text) directly during the webcast or after watching the replay at the following email address: finances@virbac.com.

A lifelong commitment to animal health
Virbac offers veterinarians, farmers and pet owners in more than 100 countries a practical range of products and services for diagnosing, preventing and treating the majority of diseases while improving quality of life for animals. With these innovative solutions covering more than 50 species, Virbac contributes day after day to shaping the future of animal health.

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