Current operating income before R&D slightly improving throughout first half of 2023 in percentage of revenue

Press release issued on September 28, 2023 after market close

CONSOLIDATED FIGURES AS AT JUNE 30 in € million	2023	2022 restated[5]	2023/2022 change
Revenue	**610.5**	**616.4**	**-1.0%**
Change at constant exchange rates			*+0.4%*
Change at constant exchange rates and scope[1]			*+0.4%*
Current operating income, before depreciation of assets from acquisitions[2]	**109.9**	**117.4**	**-6.4%**
as a % of revenue - before R&D and at constant rates	*25.0%*	*24.6%*	
as a % of revenue	*18.0%*	*19.0%*	
as a % of revenue at constant rates	*18.4%*		
Operating income	**108.5**	**115.5**	**-6.0%**
Consolidated net income	**74.8**	**77.6**	**-3.6%**
Including net income - Group share	75.0	77.5	
Shareholders' equity - Group Share	**898.5**	**820.0**	**+9.6%**
Net cash[3]	**51.6**	**19.6**	**163.0%**
Operating cash flow before interest and taxes[4]	**132.4**	**138.3**	**-4.3%**

[1] change at constant exchange rates and scope corresponds to the organic growth of sales, excluding exchange rate variations, by calculating the indicator for the financial year in question and the indicator for the previous financial year on the basis of identical exchange rates (the exchange rate used is the one from the previous financial year), and excluding change 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 income, before depreciation of assets arising from acquisitions, reflects current income adjusted for the impact of allowances for depreciation of intangible assets resulting from acquisition transactions
[3] net cash corresponds to current (€72.8 million) and non-current (€62.0 million) financial liabilities as well as a lease obligation related to the application of IFRS 16 (€34.7 million), less the cash position and cash equivalents (€221.0 million) as published in the statement of financial position
[4] Operating cash flow corresponds to operating income before depreciation of assets from acquisitions (€109.9 million) restated for asset depreciation and impairments (€21.0 million) as well as items having no impact on the cash position (€1.4 million)
[5] non-material impact of restatement linked to IAS 12 amendment relating to deferred tax assets and liabilities - see full note in the half-year financial report

The accounts were audited by the statutory auditors and reviewed by the board of directors on September 26, 2023. The report of the statutory auditors is in the process of being issued. The statements and detailed presentation of the half-year results will be available on the corporate site at corporate.virbac.com on October 6.

As of the end of June, our turnover amounted to €610.5 million compared to €616.4 million in 2022, an overall change of -1.0%. Excluding currency effects, sales remained stable at +0.4%, favorably impacted by price increases (estimated effect of around +5%) offsetting the drop in volumes already observed and which reflects the animal health market trend witnessed for almost twelve months.

Across geographies, dynamics are contrasted with first of all Europe where activity increased by +2.7% at constant exchange rates, mainly thanks to the contribution of France as well as South Europe's countries and despite declining sales of dogs and cats vaccines arising from temporary limitations in our production capacities during the first semester. In Asia-Pacific (+2.2% at constant rates), our products for farm animals continue to fuel our growth in Australia and New Zealand, while our activity in India remains relatively stable compared to 2022, a year which saw very strong growth. Sales in China were down, penalized by weak sales in the first quarter. The Latin America zone is declining (-7.0% at constant rates), penalized by the significant drop in activity of our subsidiary in Chile (-33.4% at constant rates) in particular on the antibiotic and parasiticide ranges which suffer from a base effect linked to the interruption of our main parasiticide product commercialization in July 2022. Excluding Chile and at constant exchange rates, the change in activity is positive at +3.7%, supported by Mexico, Brazil and the countries of Central America, despite the decline in dogs and cats vaccines' sales following temporary limitations in our production capacities. Finally, the activity of our subsidiary in North America is down slightly over the period, mainly explained by a base effect and distributors' destocking in the first half of 2023.

The Current operating income before depreciation of assets resulting from acquisitions amounts to €109.9 million, down compared to the first half of 2022 (€117.4 million), *i.e.* a drop of 1 point of "current operating income before depreciation of assets resulting from acquisitions" ratio to "revenue" which stands at 18.0%. After restatement for the unfavorable exchange rate impact, this same ratio stands at 18.4%, a slight erosion of -0.6 point compared to 2022. This erosion is mainly explained by an increase in our R&D expenses (+ €6.4 million or +1.0 point compared to revenue) in connection with our previous communications disclosing our ambitions to accelerate our investments in this area. At constant exchange rates and before R&D, current operating income before depreciation of assets resulting from acquisitions is therefore improved by approximately +0.4 points over the period, despite animal health market declining volumes, a one-off unfavorable effect on our companion animal vaccines' production capacities, as well as the consequences of the cyberattack of June 2023.
Apart from R&D effects, our price increases allow us to compensate for a slight unfavorable mix effect and thus improve our gross margin on material costs in relative value. Over the period, we also observed a drop in transport costs as well as, to a lesser extent, a decrease of external marketing expenses linked to products launches phasing. These elements allow us to offset an increase in personnel costs which can be explained by the impact of salary increases and the strengthening of our workforce in both industrial and commercial functions.

Consolidated net income stood at €74.8 million, down by -3.6% compared to the first half of 2022 (€77.6 million). As explained above, this drop is mainly explained by the decrease in operating profit subsequent to both, sales decline and additional efforts deployed in R&D. In addition, our financial result is positive at €0.9 million, a strong increase compared to the first half of 2022 (loss of -€8.1 million linked mainly to the depreciation of the Chilean peso over the period). Over the first half of 2023, the profit generated by the appreciation of the Chilean peso against the US dollar is offset by the depreciation of the euro on certain currencies such as the Mexican peso.

Net income - Group share amounted to €75.0 million, a decrease of -3.2% compared to the first half of the previous year (€77.5 million).

On the financial side, our net cash amounts to €51.6 million at the end of June 2022, compared to €79.4 million at the end of December 2022. This deterioration over the first six months of the year is, as with every year, mainly due to the cyclical nature of our cash generation model, with cash generation occurring mostly in the second half of the year. This situation was amplified over the period with one-off reduction of the amount of factored accounts receivables as well as an overall reduction of accounts payables.
It should be noted that in September 2023, Virbac unanimously obtained from its banks a one-year extension of the maturity of its €200 million syndicated financing contract, which is now fixed at October 2028.

Outlook

In line with our press release of July 3, 2023, we confirm our revised forecasts with revenue growth at constant rates and scope expected in a range between 0% and 4% and a ratio of "current operating income before amortization of assets from acquisitions" on "turnover" which should consolidate between 12% and 13% at constant exchange rates.

ANALYSTS' PRESENTATION - VIRBAC

We will hold a virtual analyst meeting on Monday, October 9, 2023 at 2:15 p.m. (Paris time - *CEST*).

Information for participants:

Webcast access link: **https://bit.ly/44bXlbi**
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
At Virbac, we provide innovative solutions to veterinarians, farmers and animal owners in more than 100 countries around the world. Covering more than 50 species, our range of products and services enables us to diagnose, prevent and treat the majority of pathologies. Every day, we are committed to improving the quality of life of animals and to shaping the future of animal health together.