Operating profit on the rise in the first half of 2019

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CONSOLIDATED DATA AS OF JUNE 30 in € million	2019	2018	% change 2019/2018
Revenue from ordinary activities	**463.7**	**430.0**	**+7.9%**
Evolution at constant exchange rates			*+6.6%*
Evolution at constant exchange rates and scope [1]			*+6.6%*
Current operating profit before depreciation of assets arising from acquisitions [2]	**66.9**	**45.2**	**+48.1%**
As a % of sales	*14.4%*	*10.5%*	
As a % of sales at constant exchange rates	*14.6%*		
Depreciations of intangible assets arising from acquisitions	7.5	7.6	
Operating profit from ordinary activities	**59.4**	**37.6**	**+58.2%**
Non-recurring expenses and revenues	9.4	1.2	
Operating profit	**50.0**	**36.4**	**+37.3%**
Net profit from ordinary activities [3]	**35.5**	**16.8**	**+111.6%**
Net consolidated profit	28.4	12.6	+124.9%
Of which net profit - Group share	26.4	12.3	+115.5%
Shareholder's equity	488.9	450.2	+8.6%
Net debt [4]	455.5	487.1	-6.5%
Operating cash flow before interest and taxes [5]	82.4	59.5	+38.5%

[1] Evolution 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 (€9.4 million) and for non-current tax (-€2.3 million).
[4] Net debt corresponds to current (€95.8 million) and non-current (€398.8 million) financial liabilities as well as a lease obligation related to application of IFRS 16 (€31.8 million), less cash and cash equivalents (€70.9 million) as published in the statement of financial position.
[5] Operating cash flow corresponds to operating profit (€50.0 million) adjusted for items having no impact on cash position and impacts related to disposals. The following items are adjusted: asset depreciation and impairments (€36.7 million), provisions for risks and charges as well as provisions related to employee benefits (-2.3 million), and impacts related to disposals (-€2.0 million).

The Group has applied IFRS standard 16, "Leases", since January 1, 2019, opting for the simplified-retrospective approach for transition. Certain income statement items were impacted by the application of IFRS 16, in particular "External Expenses", through cancellation of a rental expense (€5.7 million), "Impairments and Provisions", through depreciation for the right of use of the period (€5.2 million) and "Financial Income and Expenses", through recognition of an interest expense on lease obligations (€0.7 million).

The accounts were audited; the statutory auditor's report is in the process of being issued. They are available on the corporate site at corporate.virbac.com

Throughout the first half-year, Group revenue reached €463.7 million versus €430.0 million over the same period in 2018, for an overall change of +7.9%. Adjusted for the favorable impact of exchange rates, revenue shows growth of +6.6%. All areas show growth for the half-year compared to the same period in 2018, with solid double-digit growth in half of the Group's subsidiaries. In the United States, activity shows strong first half-year growth. It benefits from a significant base effect related to 2018 first half-year distribution inventory reductions, which impacted ex-Virbac sales. Outside the United States, the Group continues to see strong growth. In Europe, growth is mainly driven by Spain, Germany, Benelux, Poland, Scandinavia and Portugal and by the companion animal ranges. In Latin America, excluding Chile, the Group had a good start to the year, thanks to contributions by Brazil, Mexico and Colombia. In Asia Pacific, growth was very strong in China, Japan and Taiwan, which offset the more modest growth in India and Australia, as well as New Zealand's delay. Lastly, in Chile, first half-year activity remains strong, driven primarily by sales of injectable vaccines and parasiticides for aquaculture.

The current operating profit before depreciation of assets arising from acquisitions amounts to €66.9 million, growing significantly compared to 2018 (€45.2 million). It benefits from strong performance in all countries, particularly in the United States, as well as in Chile and Australia. Furthermore, sound cost control and a better absorption of fixed costs have also contributed to improving the operating margin for the period. Lastly, first half results are favorably impacted by the recognition of exceptional items such as the profit from the sale of the American subsidiary's office space, amounting to €1.1 million, and the positive impact of the application of an amendment to executive board members' defined benefit retirement plan, amounting to €3.2 million. Excluding these exceptional items, the ratio of profitability to revenue grew by +3 points compared to the end of June 2018, due to the result of excellent activity in the first half-year, the operational execution of the competitiveness strategy, and to a lesser extent, the favorable base effect in the United States.

Net profit from ordinary activities (net consolidated profit adjusted for non-recurring expenses and income and for non-current taxes) reached €35.5 million, up 111.6% over 2018. Net profit from ordinary activities is positively affected by growth in activity, sound cost control, recognition of a few exceptional items, as well as a favorable exchange rate, mainly for the Chilean peso, which appreciated compared to the euro and the dollar when compared with the same period in 2018, a period in which the exchange rate impact was very negative.

Net profit - Group share reached €26.4 million, a large increase compared to the prior year (€12.3 million). Net profit for the period is impacted by an additional impairment of assets associated with the leishmaniosis vaccine, for a net amount of €7.2 million. However, profit benefits from the positive impact related to an impairment of deferred tax relative to fiscal losses by the American subsidiary, which saw a sharp decrease in the first half of 2019 (€0.1 million) compared to the 2018 impairment amount for the same period (€3.4 million).

From a financial standpoint, the Group's net debt is at €455.5 million, down by €31.6 million compared to June 30, 2018 and €61 million at constant rates and scope (excluding the impact of IFRS16). The lack of a dividend payment by Virbac SA on 2018 profits, and a strict control of working capital requirements and investments contributed to the Group's debt relief. Thus, the Group is in compliance with the financial ratio (Net debt/EBITDA), which comes out at 3.00 versus 4.25, which was the maximum limit set at the end of June, 2019 as part of the financial covenant.

Outlook

First half-year activity supports the outlook announced by the Group for 2019. Annual revenue growth at constant rates is now expected to be at the high end of the 4% to 6% range compared to 2018 and the ratio of "current operating profit, before depreciation of assets arising from acquisitions" to "revenue" should currently be growing by around 2 points compared to 2018 at constant exchange rates. From a financial standpoint, tight control of invested capital should allow further debt relief of between €40 and €50 million at constant rates for the year.

Furthermore, in 2019, the financial ratio (net debt/EBITDA) shall once again respect the obligations of the original contract with the banks, and had to be therefore below 4.25 by the end of June, 2019 and will have to be below 3.75 by the end of December, 2019. The Group's financing is ensured primarily through an RCF (Revolving credit facility) line of €420 million, maturing in April 2022, as well as through bilateral bank loans, financing by the EIB (European investment bank) and *Schuldschein* disintermediated contracts, whose terms are between four and ten years.

ANALYSTS' PRESENTATION - VIRBAC

Virbac will hold an analysts' meeting in audio + slides webcast format on Tuesday, September 17, 2019 at 2:15 pm (Paris time - CET).

To connect to the webcast, please use the link below.

Webcast access link: http://bit.ly/2maJJgz

This access link is available on the corporate.virbac.com site, under the heading ''financial news 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.

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