

2017 results & perspectives

March 2018

Shaping the future
of animal health

Virbac

AGENDA

2017: results

- **Financial results**
- **Focus US**

Perspectives

Appendix: 2018 agenda

2017 FINANCIALS – SUMMARY ^(1/3)

- **Solid organic growth outside USA**
 - Sales growth 3.6%
 - Margin growth 5.6%
- **Too slow ramp up in the USA**
 - Sales decrease in 2017 compared to 2016 due to a stocking effect in distribution in 2016 (~25 M\$) and lower than expected sales ex-distributors (+4%)
- **Slight decrease of Ebit adjusted¹ (Ebita) @ constant exchange rate (- 2.3 M€ / -2.8%)**
 - Increased R&D spending (+5.6 M€ at constant rate) at 8.4%² vs. sales
 - Good contribution of all regions outside USA

1. Current operating profit before depreciations of assets arising from acquisitions

2. Excluding benefit of French R&D tax credit

2017 FINANCIALS – SUMMARY (2/3)

- **Net profit: 1.8 M€ vs 37.9 M€ in 2016 impacted by :**
 - Non-recurring expenses in 2017:
 - 6.3 M€ - Impairment on CaniLeish and restructuring cost in the USA (vs. -2.6 M€ profit in 2016 linked to IFRS principles related to purchase price allocations in acquisitions)
 - Taxes : 39.2 M€ in 2017 (17.8 M€ excl. non current tax expenses) and 15.0 M€ in 2016
 - 21.4 M€ - Depreciation of 2015, 2016 and 2017 deferred tax in the USA
- **Positive net profit from ordinary activities : 29.5 M€ vs. 35.2 M€**
- **Decrease of total debt by 87 M€**
 - Net debt @ 460 M€ vs. 547 M€ in 2016
 - Positive exchange rate impact of ~40 M€
 - Optimization of working capital
- **On-going deleverage of the company (Net debt on Ebitda ratio)**
 - From 7.3 in June 2015 to 4.3 in December 2017

2017 FINANCIALS – SUMMARY (3/3)

2017 last perspectives vs actuals :

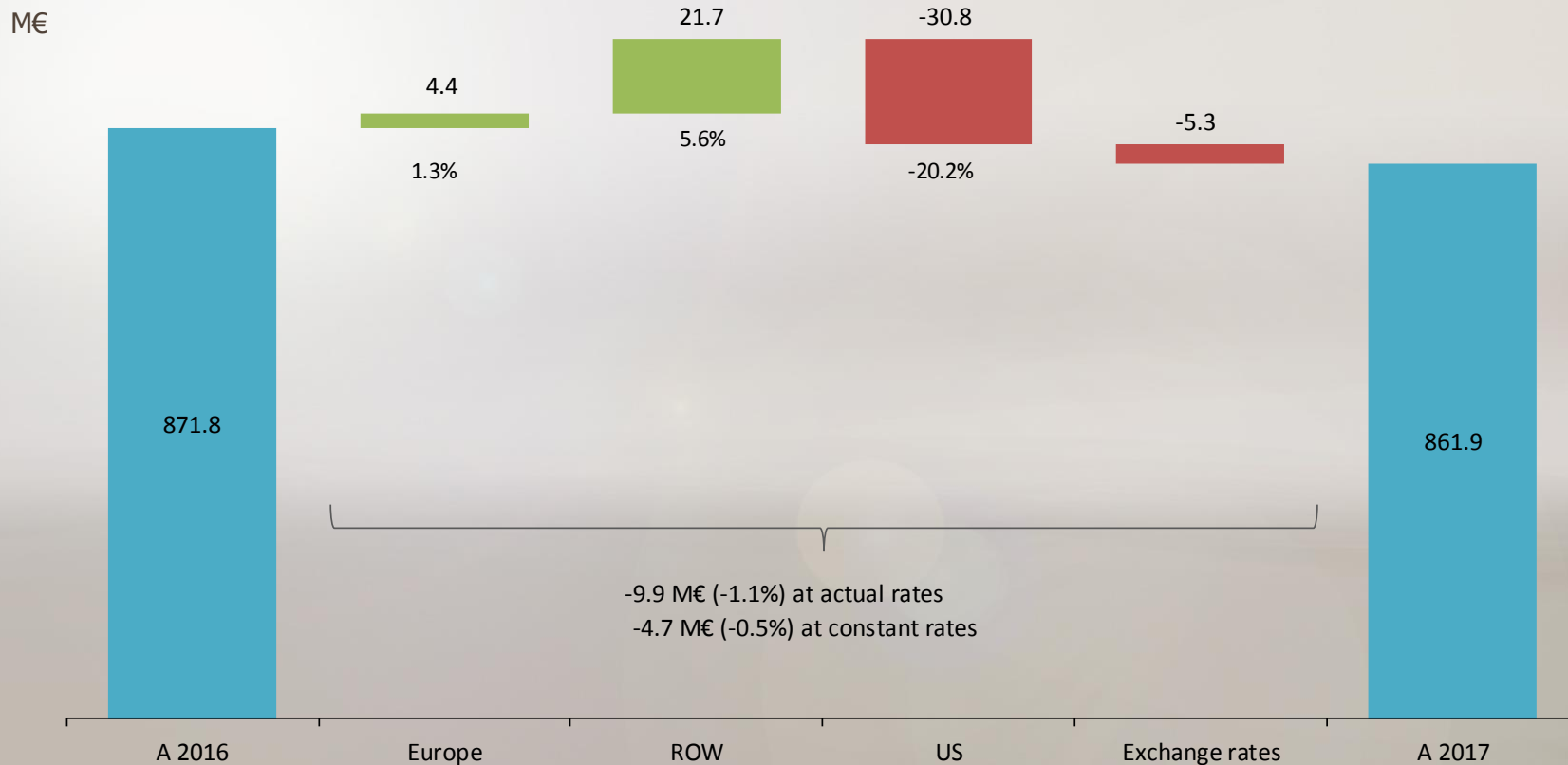
	<u>Perspectives 2017</u>	<u>Actuals 2017</u>	
• Organic growth	~2016@cst rate	-0.5%	✓
• Ebit adj. ¹ ratio @ constant rate	~9.5%	9.3%	✓
• Net debt reduction	~30/50 M€	87 M€	✓

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

CONSOLIDATED SALES

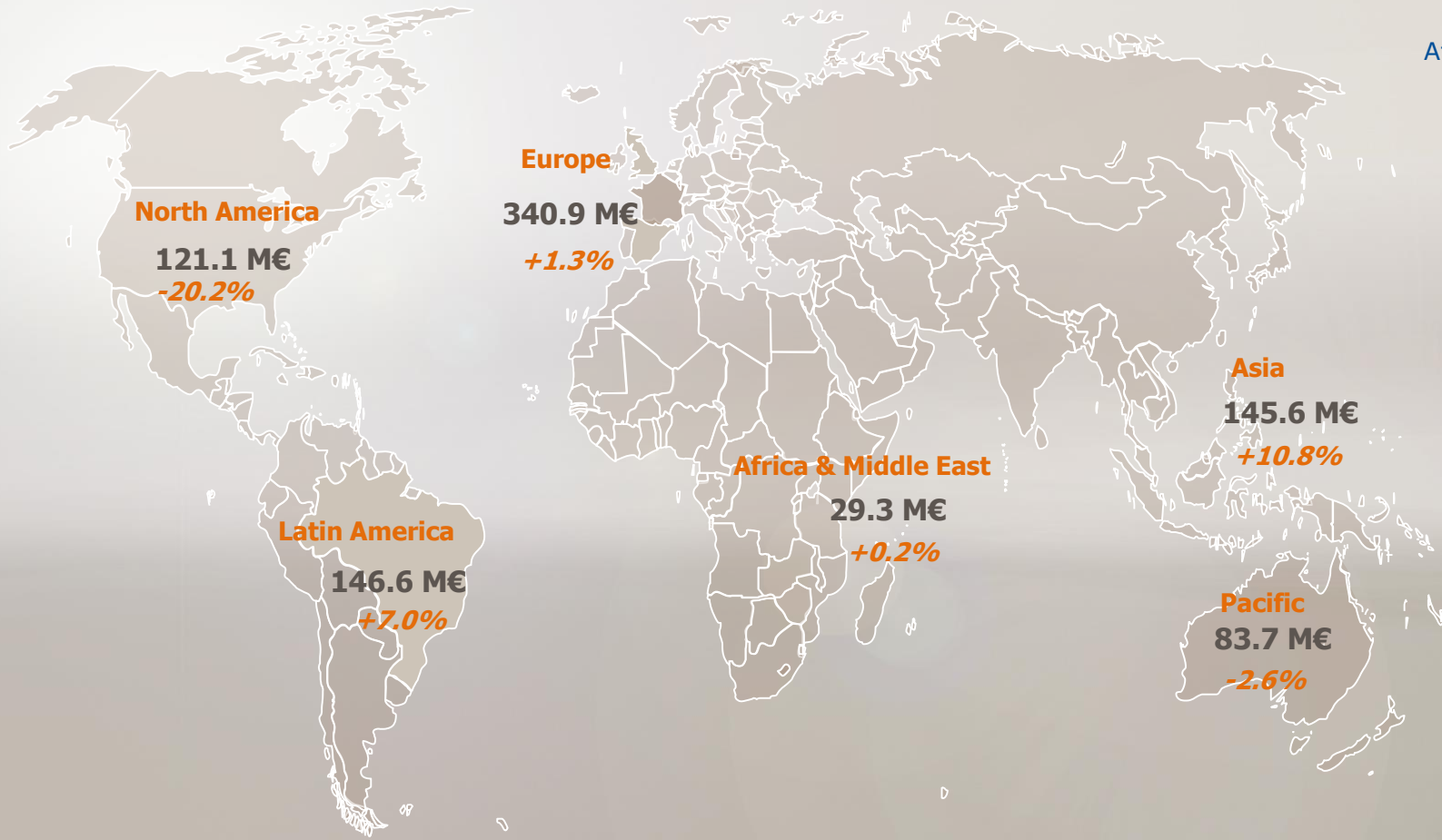
Million €	2017	2016	Var.%
Consolidated sales	861.9	871.8	-1.1%
- Exchange rate impact vs. 2016	5.3		
Consolidated sales at constant rates	867.2	871.8	-0.5%
- Change in perimeter	0.0		
Consolidated sales, <i>pro-forma</i> at constant exchange rates	867.2	871.8	-0.5%

SALES EVOLUTION

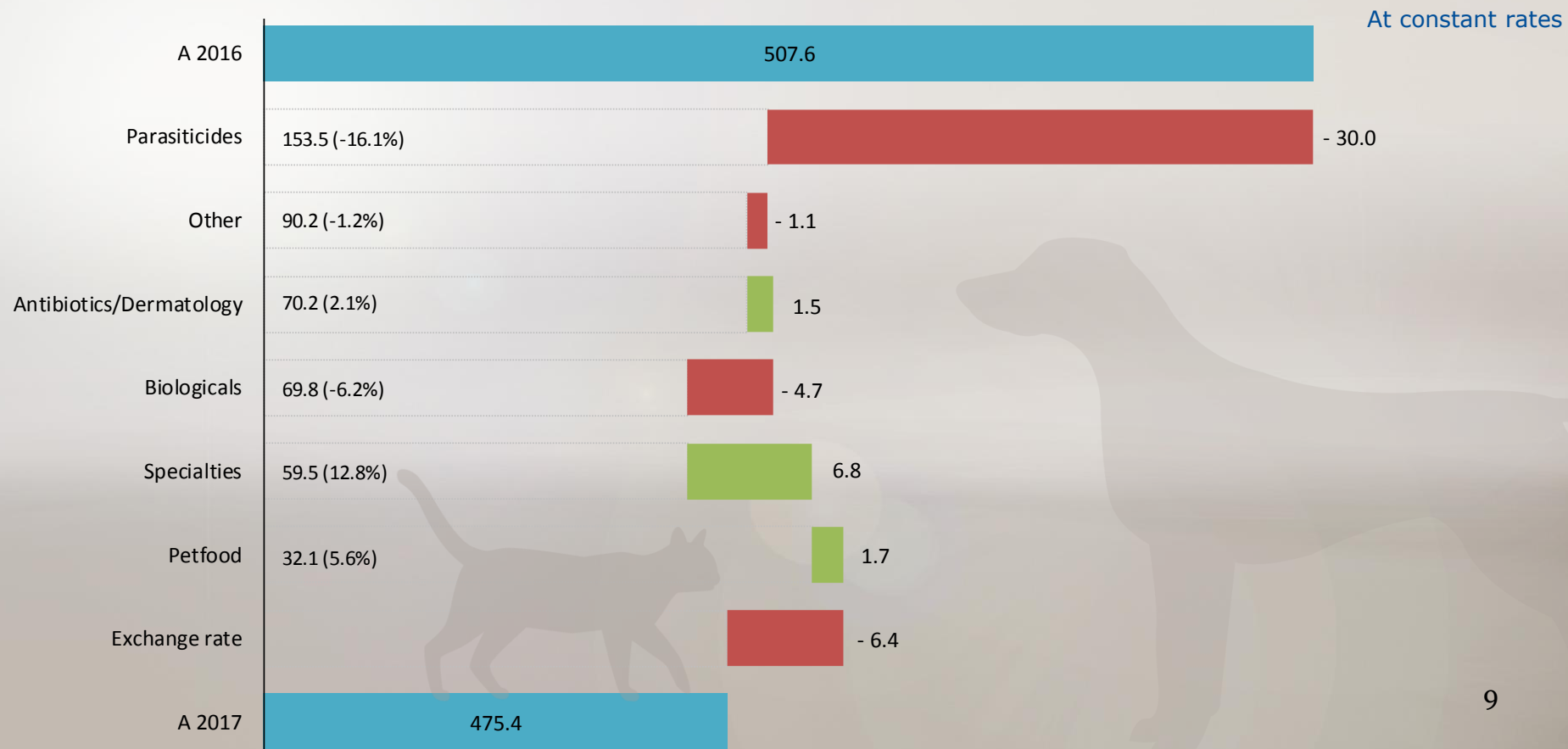


SALES GROWTH BY REGION

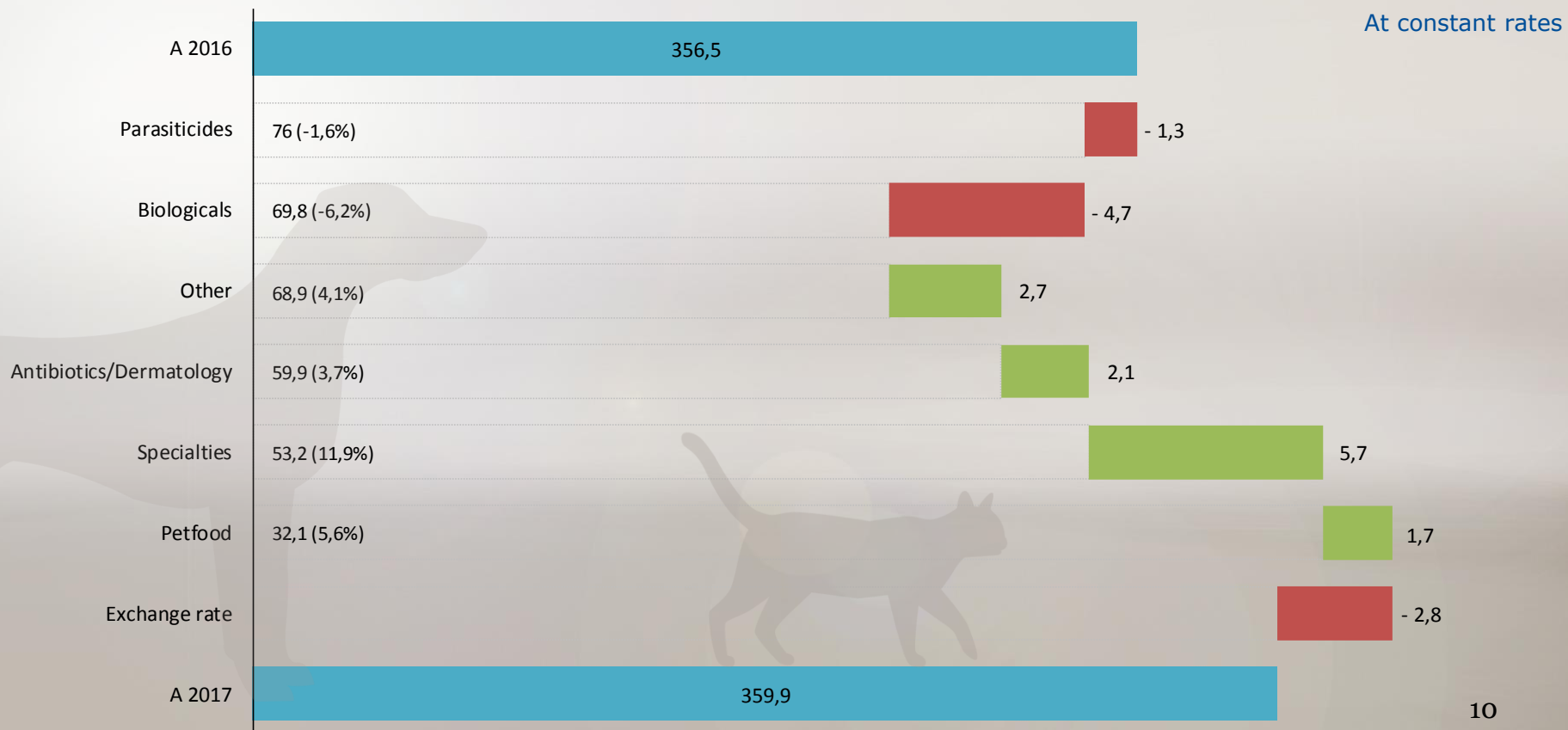
At constant rates



SALES GROWTH BY SEGMENT - COMPANION ANIMALS

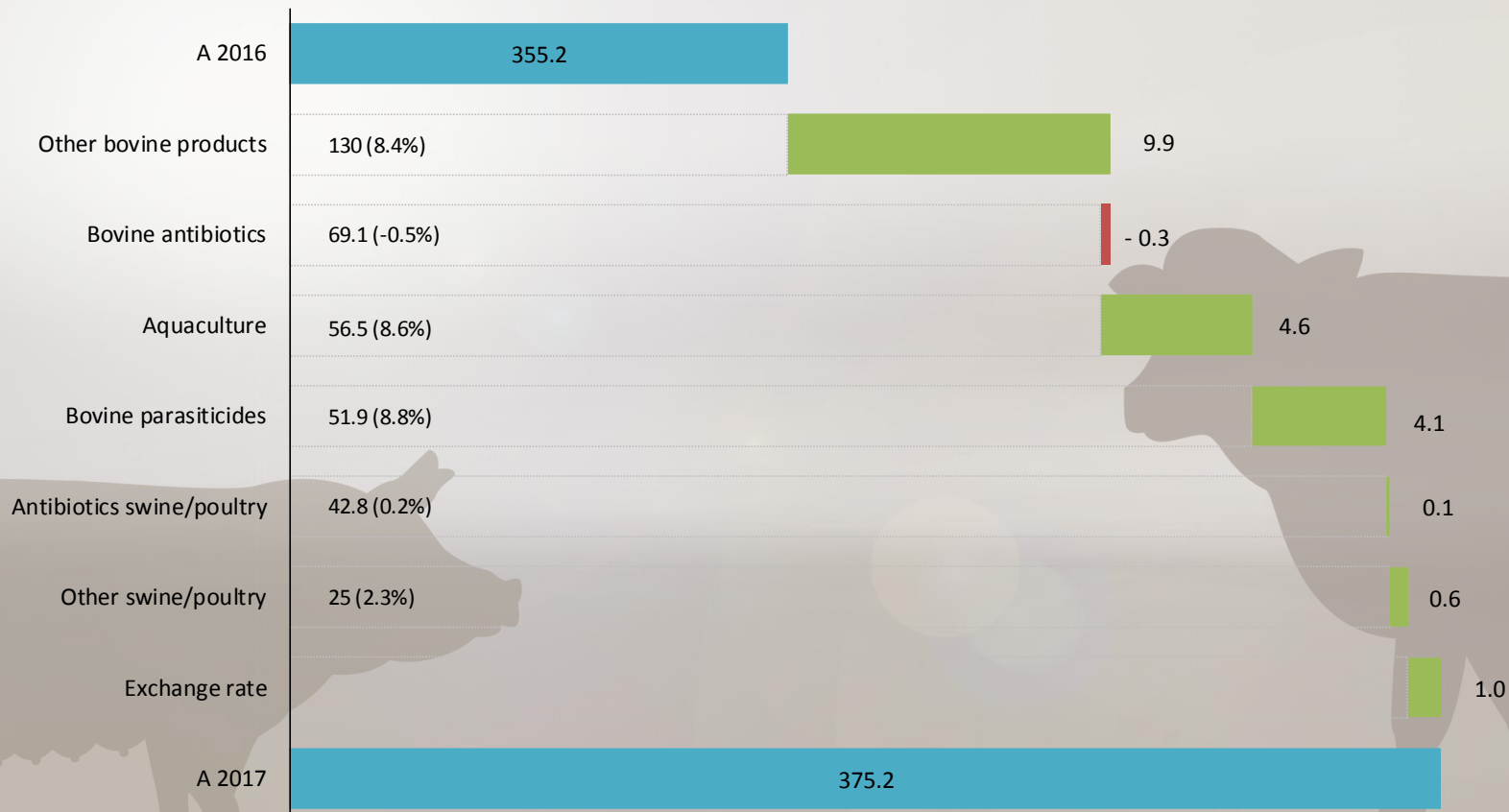


SALES GROWTH BY SEGMENT - COMPANION ANIMALS EXCL. USA

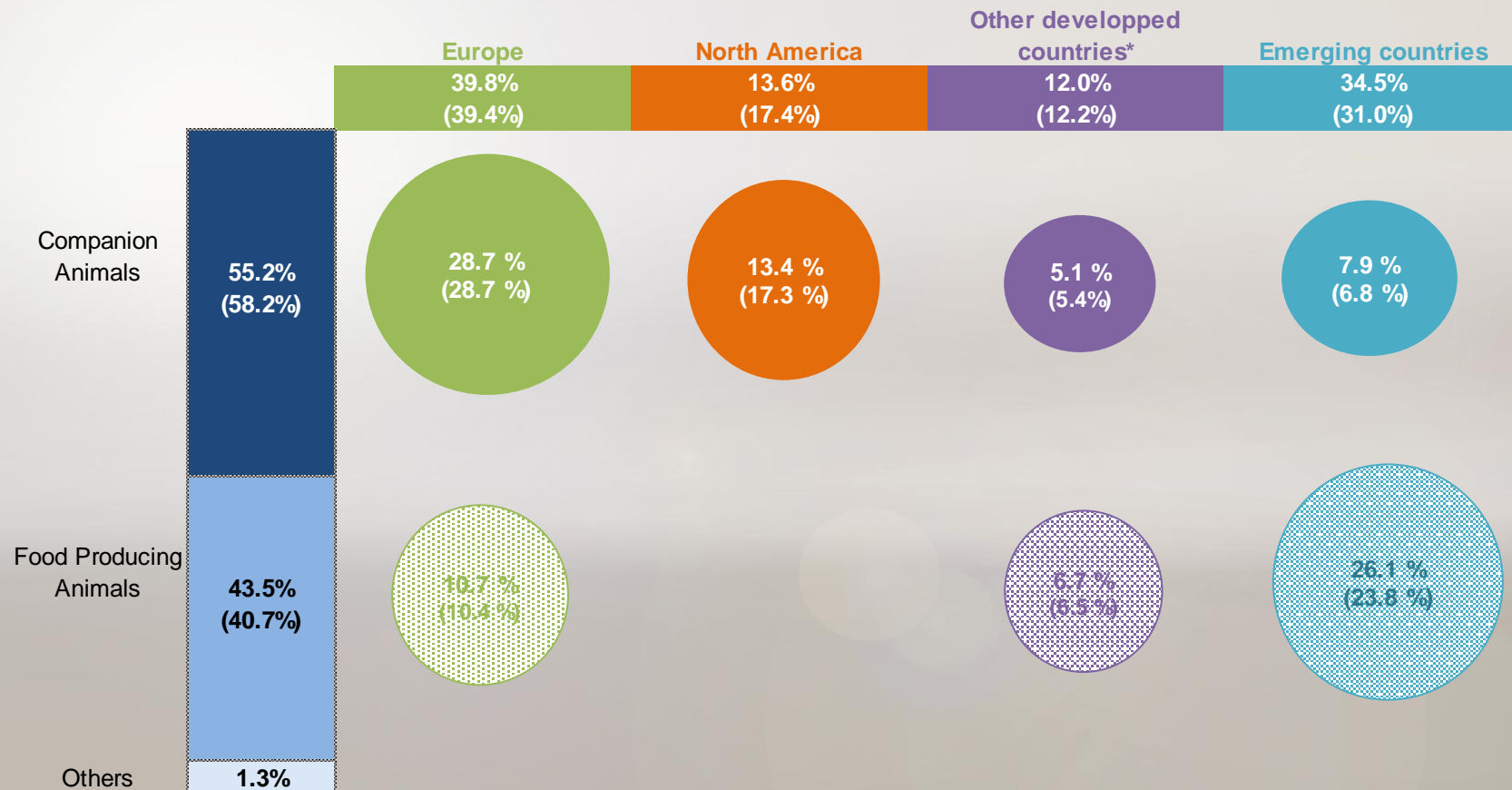


SALES GROWTH BY SEGMENT - FOOD PRODUCING ANIMALS

At constant rates



SALES BREAKDOWN BY REGION AND BUSINESS



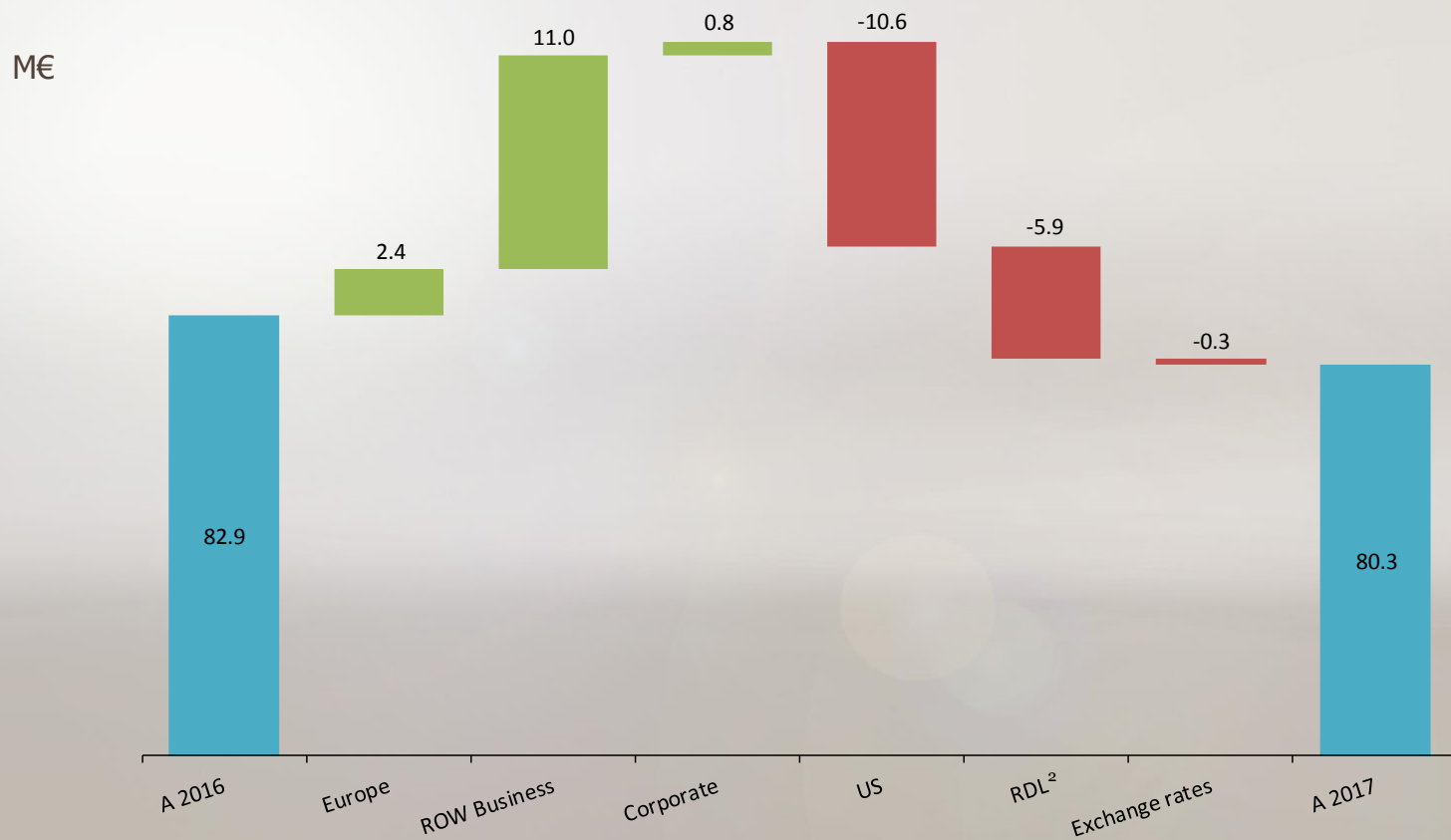
() : 2016

* Australia. New Zealand. Japan. Korea

2017 PROFIT & LOSS STATEMENT

in M€	31/12/2017	%	31/12/2016	%	Variation
Net sales	861,9	100,0	871,8	100,0	-1,1%
Gross margin on material cost	558,4	64,8	571,7	65,6	-2,3%
External expenses	179,0	20,8	181,9	20,9	-1,6%
Personnel expenses	263,1	30,5	269,7	30,9	-2,4%
Other expenses	9,4	1,1	10,2	1,2	-7,2%
Depreciation and amortization	26,8	3,1	26,7	3,1	0,5%
Net provisions (excluding inventories)	-0,3	0,0	0,3	0,0	-189,5%
Current operating profit before depreciation of assets arising from acquisitions	80,3	9,3	82,9	9,5	-3,0%
Amortization of intangible assets arising from acquisitions	15,9	1,9	16,5	1,9	-3,2%
Operating profit from ordinary activities	64,4	7,5	66,4	7,6	-3,0%
Other non-current income and expenses	6,3		-2,6		
Operating profit	58,0	6,7	69,0	7,9	-15,9%
Net financial expenses	17,8	2,1	16,5	1,9	8,3%
Profit before tax	40,2	4,7	52,6	6,0	-23,4%
Income tax expense	39,2		15,0		161,8%
<i>Including non-current tax expense</i>	<i>21,4</i>		-		
Share in earnings - Equity method	-0,8		-0,3		
Net result of consolidated entities from ordinary activities	29,5	3,4	35,2	4,0	-16,3%
Net result of consolidated entities	1,8	0,2	37,9	4,3	-95,4%
Non-controlling interests	4,3		3,2		
Net result - Group's share	-2,6	-0,3	34,6	4,0	-107,4%

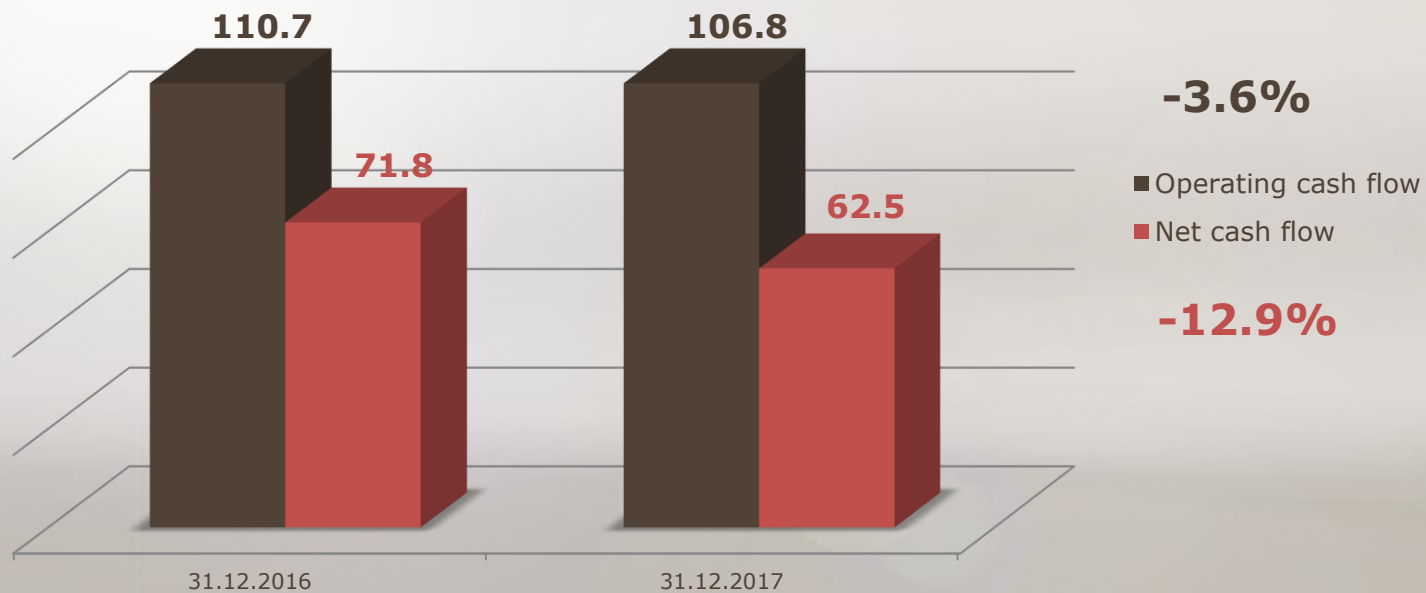
BREAKDOWN OF EBIT ADJUSTED¹ EVOLUTION



1. Current operating profit before depreciations of assets arising from acquisitions

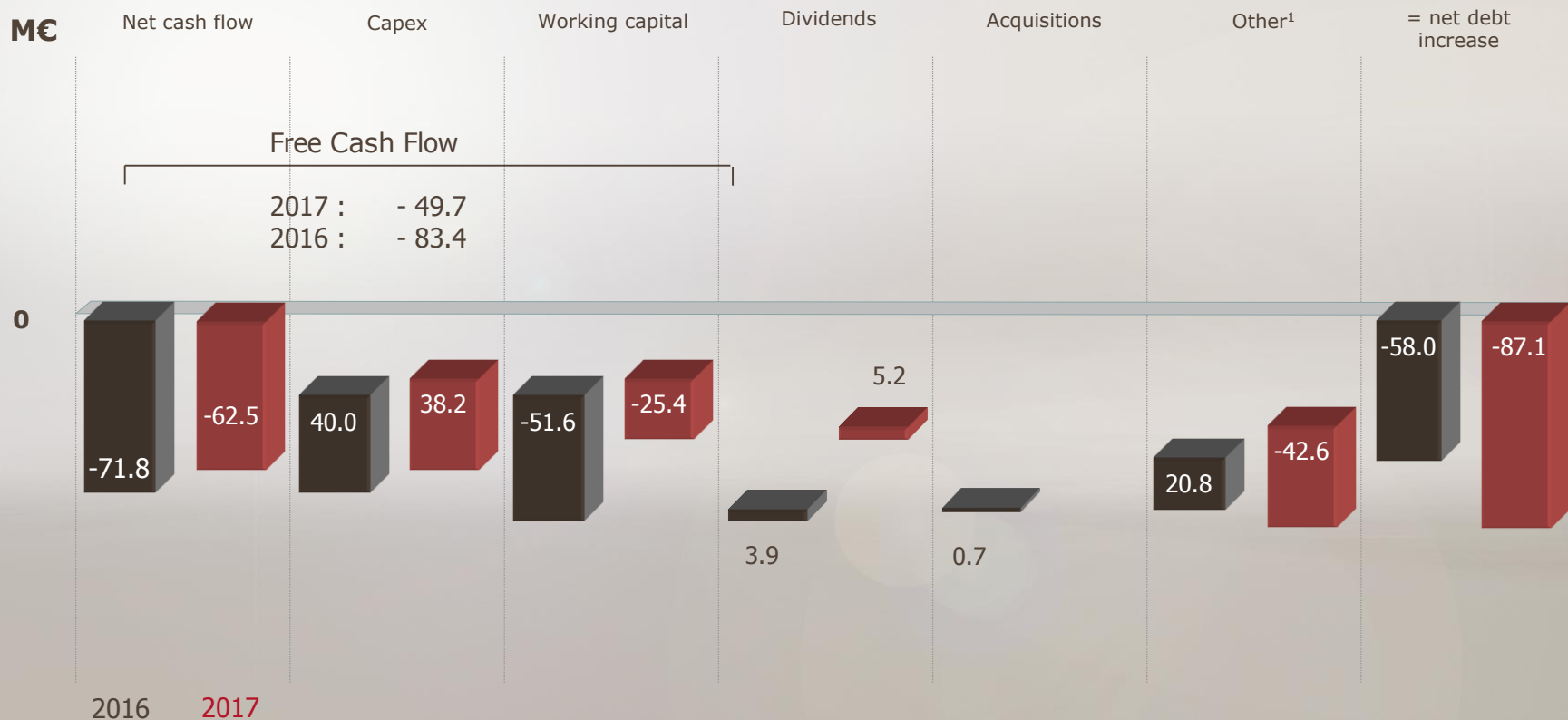
2. RDL : Research, Development & Licensing

EVOLUTION OF CASH-FLOW



USE OF FUNDS

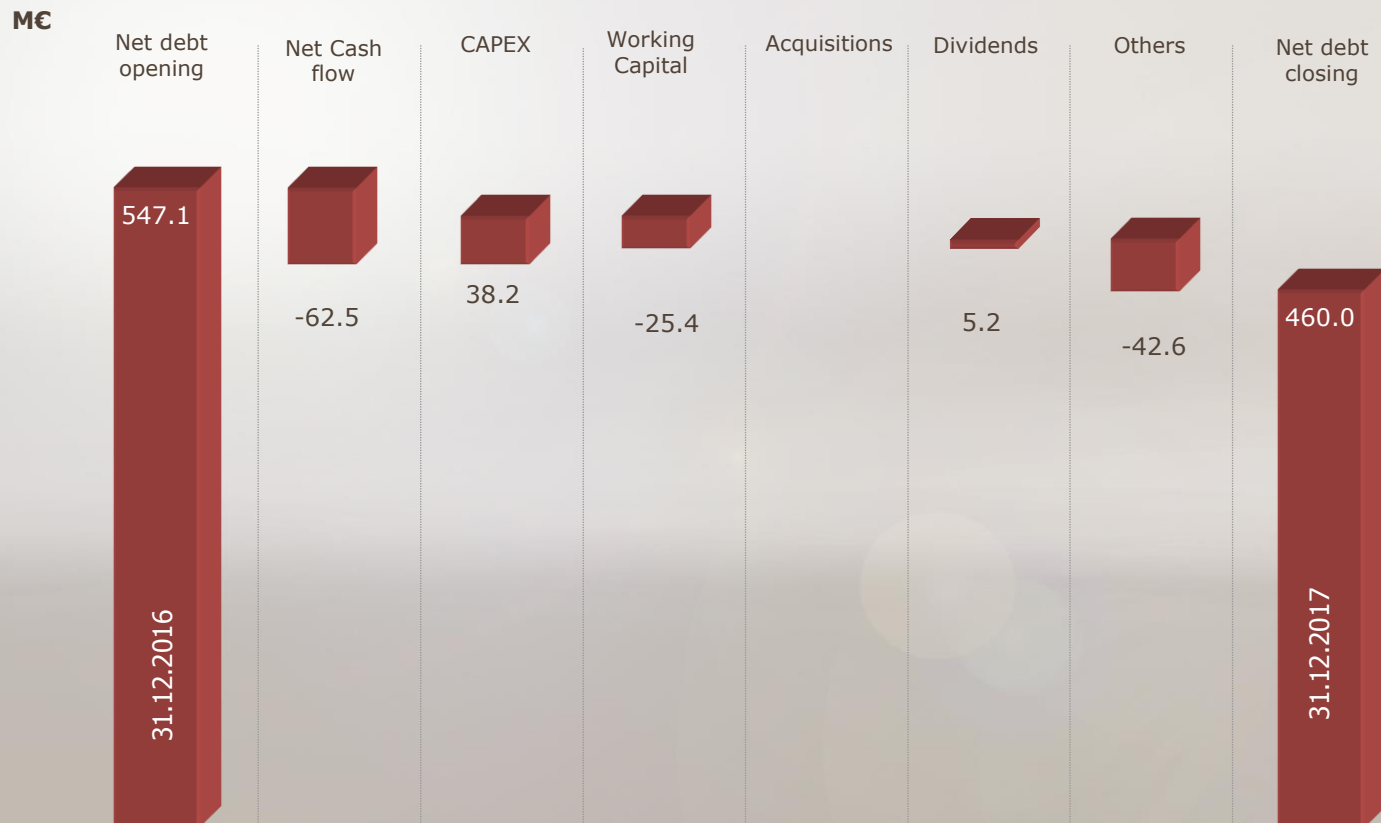
M€



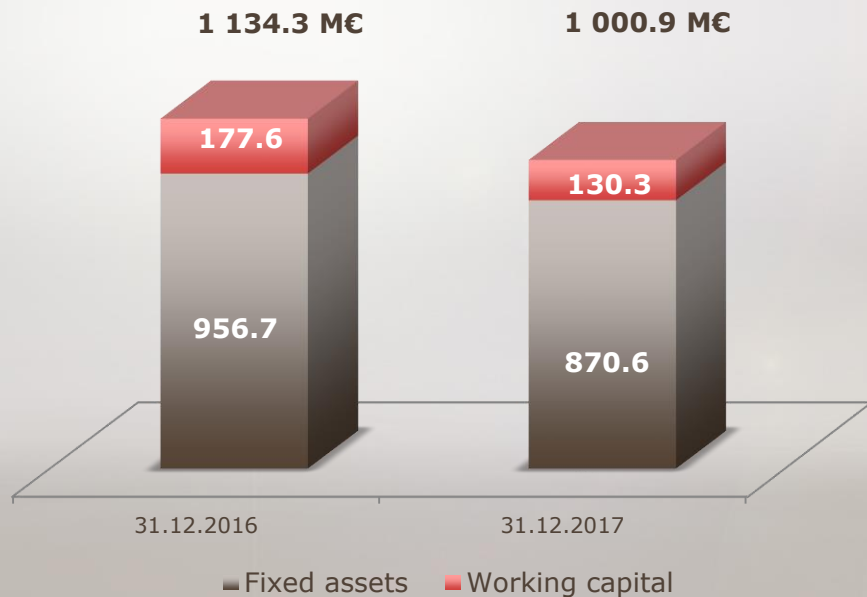
1. Including translation variance

EVOLUTION OF NET DEBT

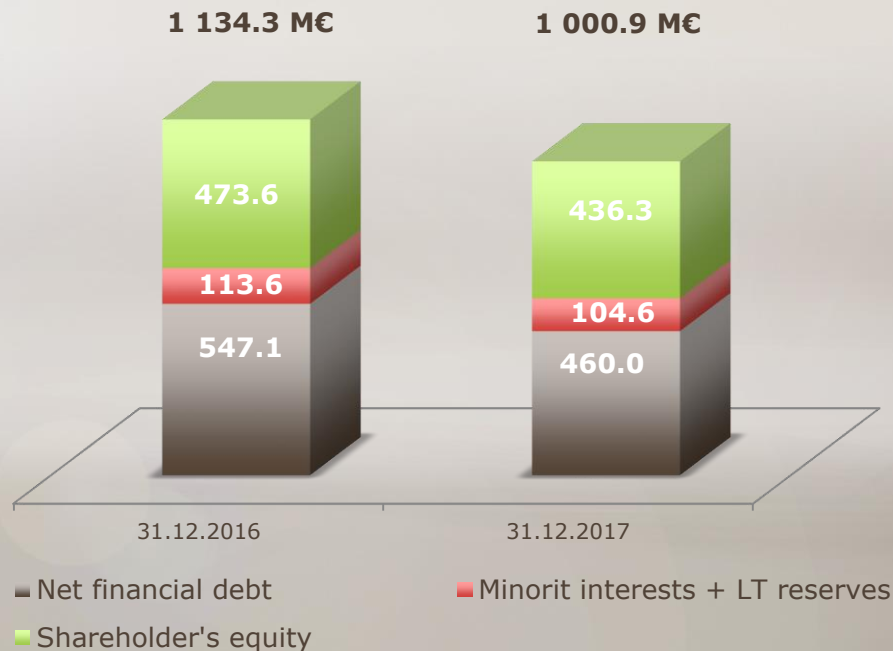
2017



BALANCE SHEET ANALYSIS



INVESTED CAPITAL



CAPITAL EMPLOYED

DEBT SITUATION – IMPROVED LIQUIDITY AND EASING OF COVENANT IN 2018

Situation early 2017

Financing available : ~530 M€

- Banking pool (RCF¹) : ~420 M€
- Schuldschein : ~30 M€
- Bi-lateral : ~80 M€

Covenant² :

- 30.06.17 : 5.50
- 31.12.17 : 4.75
- 30.06.18 : 4.25
- 31.12.18 : 3.75
- 30.06.19 : 4.25
- 31.12.19 : 3.75

**Additional financing
obtained from BEI
(90 M\$)**

**Relaxation of financial
covenant
(net debt/Ebitda)
for 2018**

Situation early 2018

Financing available : ~620 M€

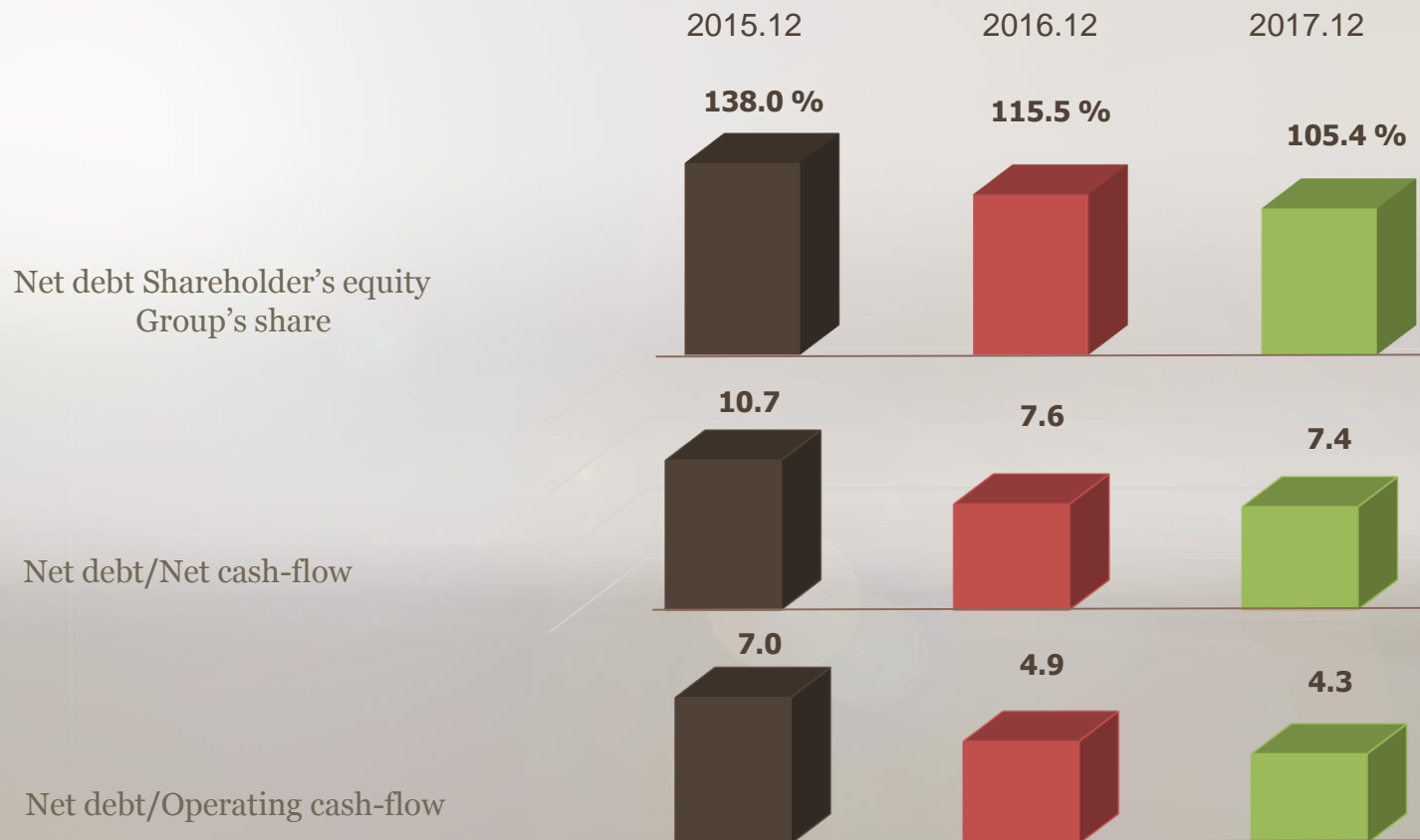
- Banking pool (RCF¹) : ~420M€
- BEI : ~90 M\$
- Schuldschein : ~30 M€³
- Bi-lateral : ~95 M€

Covenant² :

- 30.06.17 : 5.50
- 31.12.17 : 4.75
- 30.06.18 : 5.00
- 31.12.18 : 4.25
- 30.06.19 : 4.25
- 31.12.19 : 3.75

1. Revolving credit facility
2. Net debt on Ebitda
3. Relaxation will be requested in S1 2018

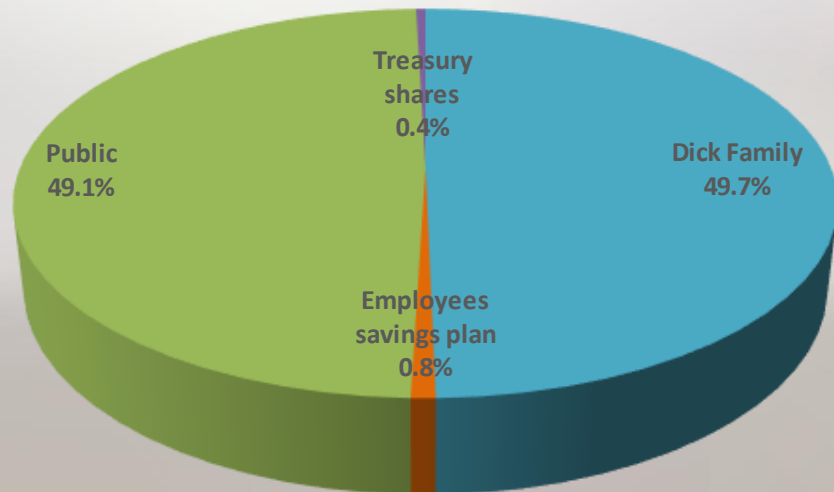
BALANCE SHEET – FINANCIAL RATIOS



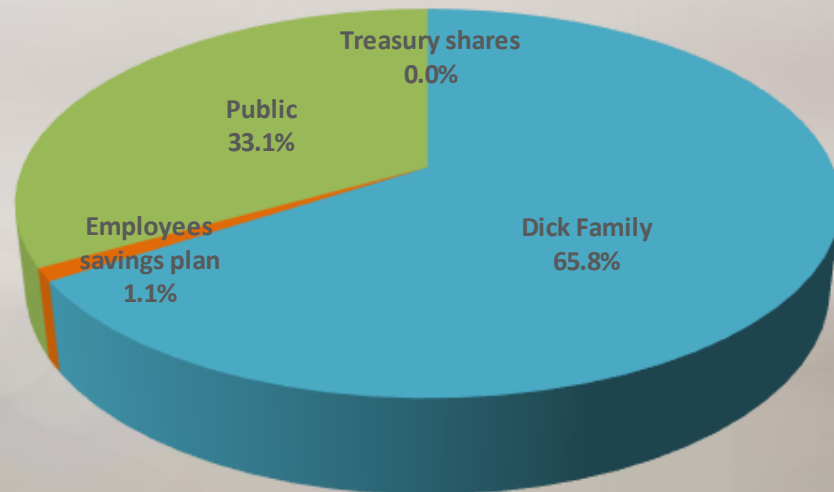
SHAREHOLDING

Number of shares : 8 458 000

In Shares



In Voting Rights



AGENDA

2017: results

- Financial results
- **Focus US**

Perspectives

Appendix: 2018 agenda

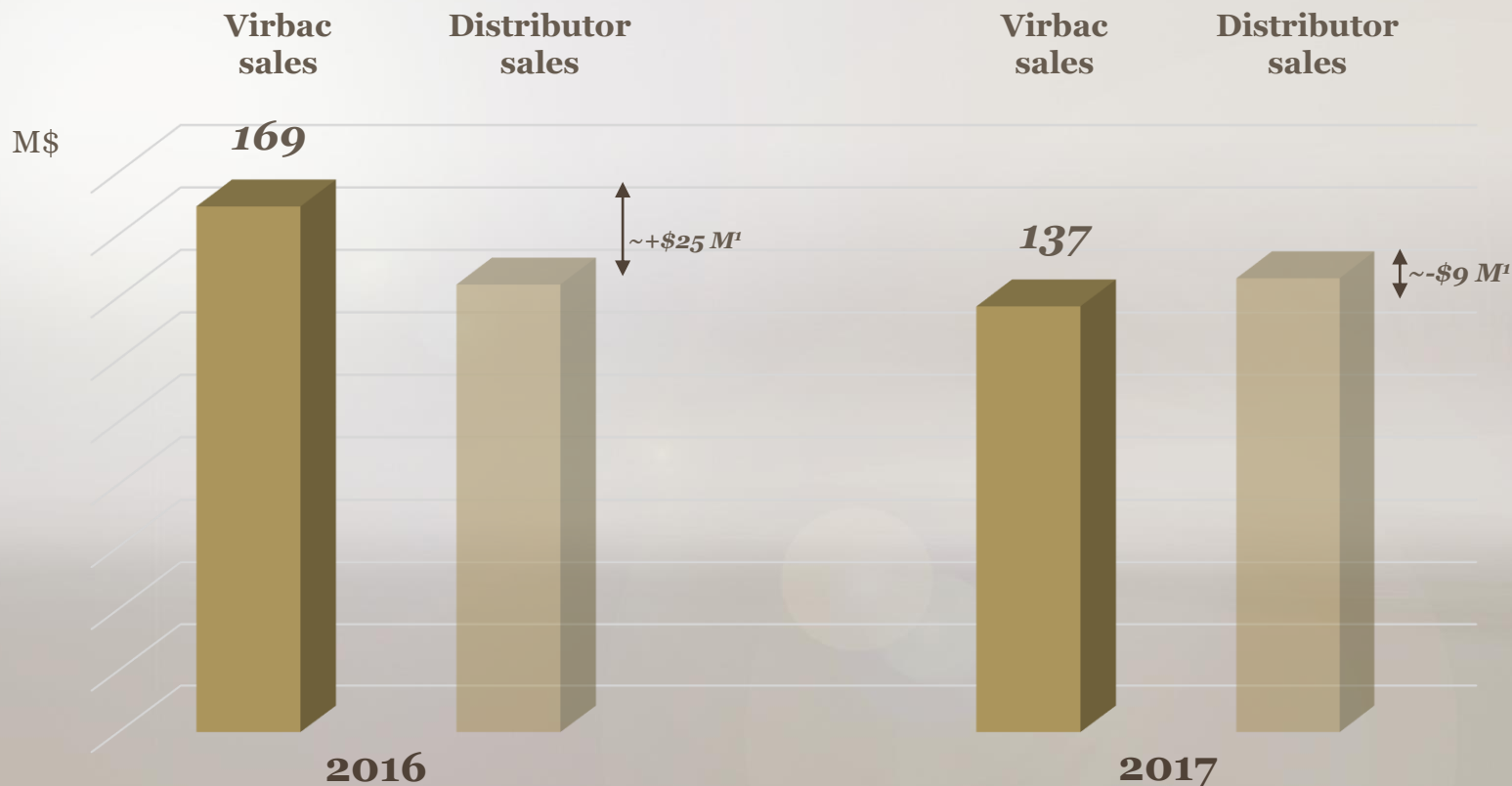
US IN-MARKET PERFORMANCE AT CLINIC LEVEL

(M\$)	Sales from Virbac to distrib. ¹			Sales from distrib. to clinics ² (Extended sales)
	2016	2017	2017 vs. 2016	2017 vs. 2016
Sentinel	88.7	80.7	-9%	-2%
Iverhart	19.8	3.6	-81%	+ 50%
Others	60.5	52.1	-14%	+ 13%
Total	169.1	136.5	-19%	+ 4%

¹ Net sales ex-Virbac. Does not include Gross to Net adjustments not allocated by product (~2-3 M\$)

² Sales from distributors to clinics @ standard price. Does not cover 100% of distribution and does not cover alternate channels (such as web platforms)

THE 2016-2017 US «RUBBER BAND» EFFECT



¹ Virbac estimates based on Stock-in-Trade information
Net sales ex-Virbac. Does not include Gross to Net adjustments not allocated by product (~\$2-3 M)

2017 US ACHIEVEMENTS & PROGRESS

Industrial

- Successful transfer of Sentinel Spectrum & management of Humacao hurricane related issues
- 13 products «return to commerce» (RTC)
 - > delays on some return to commerce products
- 3 year shelf-life extension for Iverhart Plus
- FDA approval for new Iverhart Max Soft Chew
- Reduction of in-house inventories

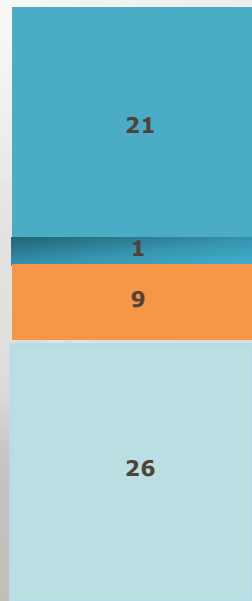
Commercial

- Defense of Sentinel products
- Progressive in-market ramp-up of Iverhart
- In-market growth of other ranges (dermatology, dental, and specialty products)
- Review of sales force coverage and incentive plan following change in management
- Review of marketing programs, prices increases, reduction of couponing
- Strengthening of distributor relations
- Development of alternative channels, especially for dentals

US CURRENT AND FUTURE STATUS OF LEGACY PRODUCTS MANUFACTURED IN THE ST. LOUIS PLANT

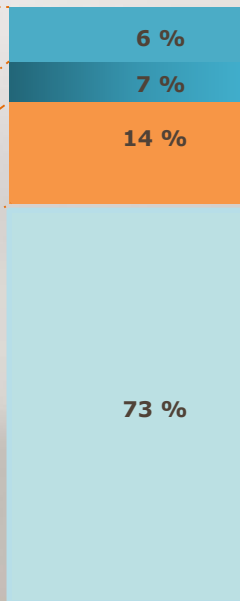
Number of products sourced from
St. Louis, sold in 2014

57



Share of ex St. Louis
2014 net sales

100%



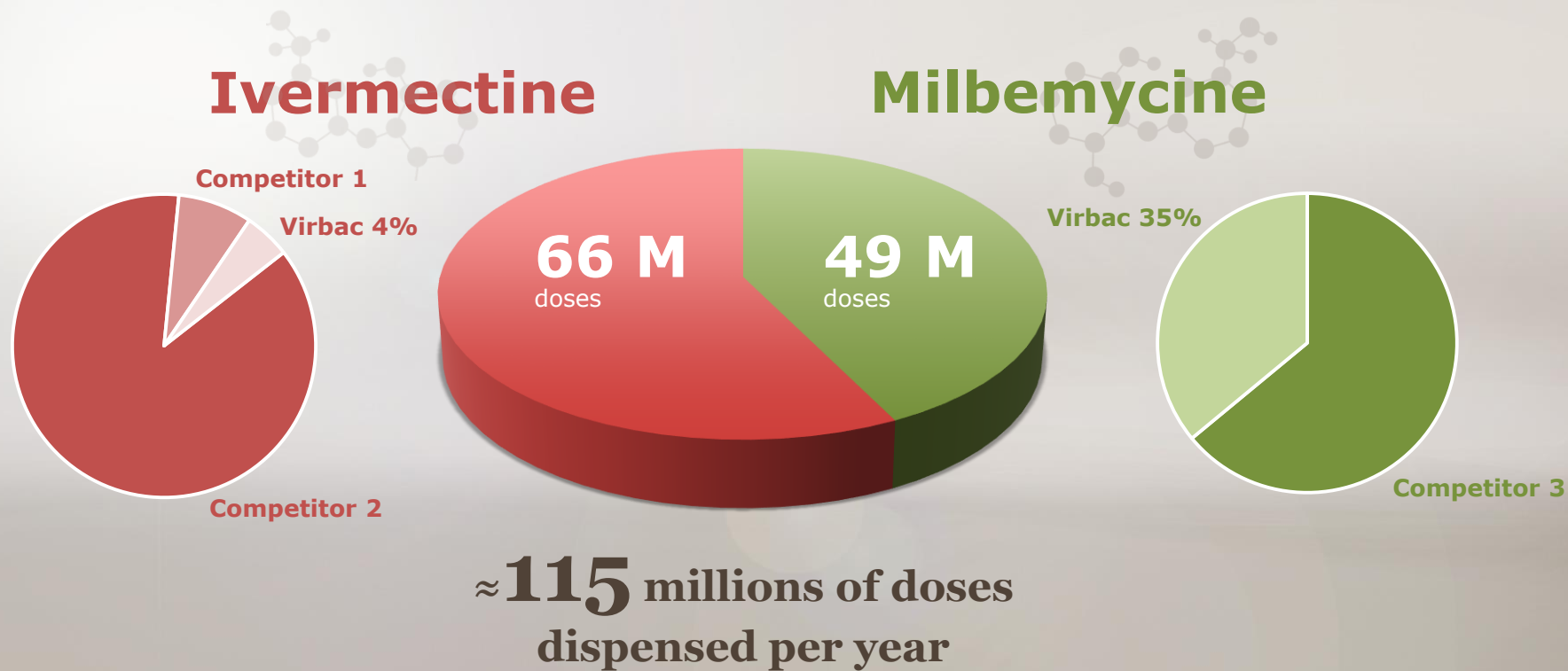
Discontinued

RTC* to be confirmed

2018/2019- Expected RTC*

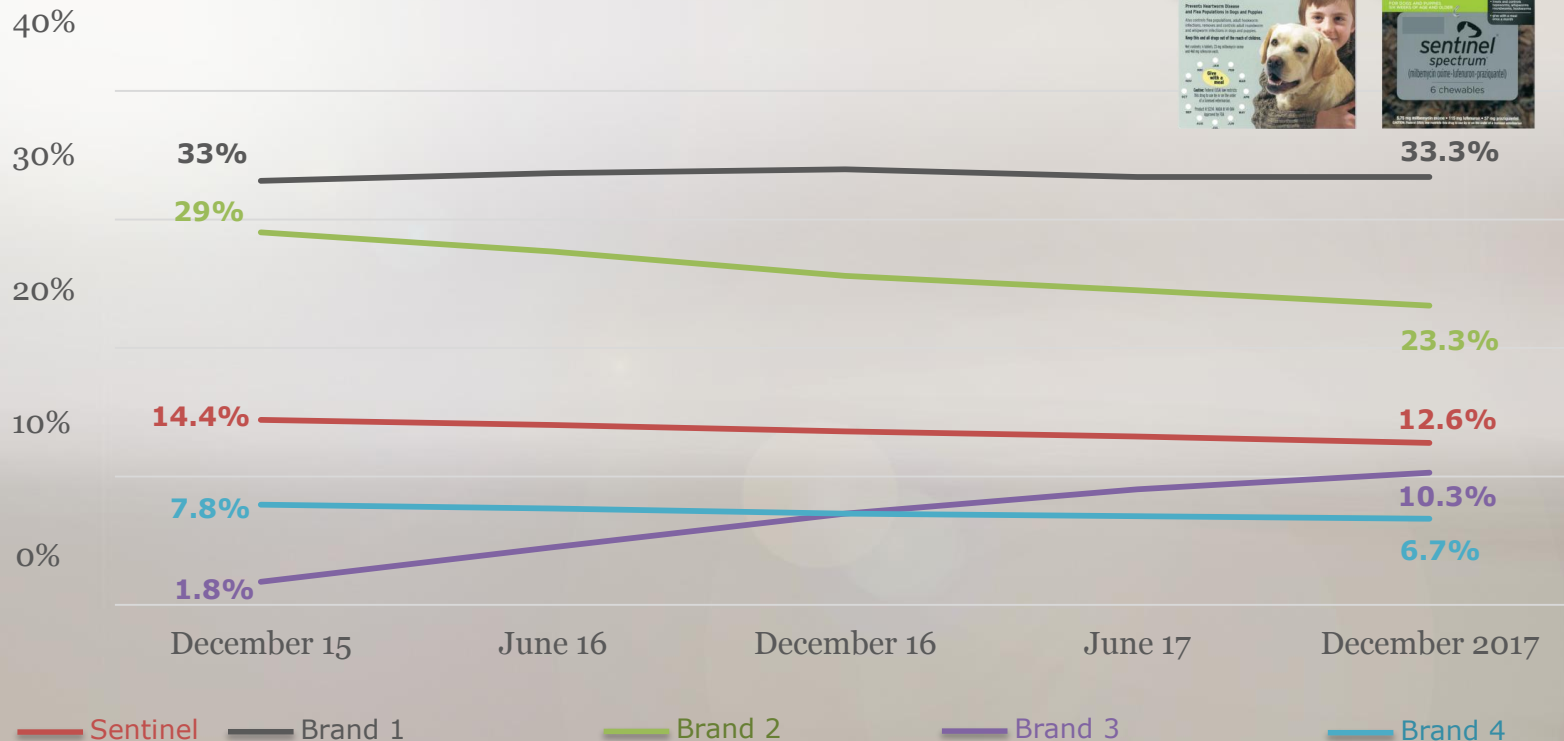
RTC* as of December 31, 2017

US HEARTWORM MARKET (CANINE ONLY)

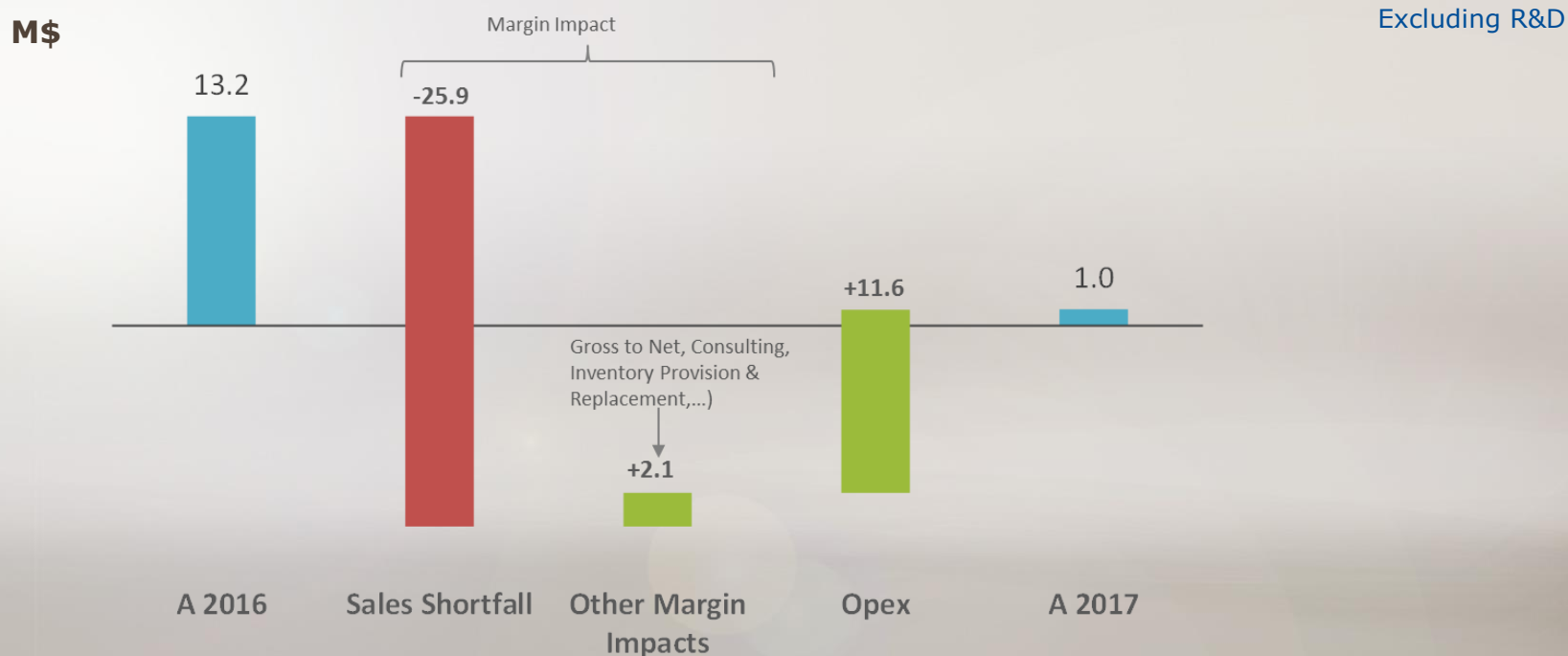


US MARKET SHARES INTERNAL PARASITICIDES FOR DOGS

Dispensed \$ MAT



CONTRIBUTION OF THE US OPERATIONS TO THE EBIT ADJUSTED¹



Adjustment of the US structure
done in Q4 2017

1. Current operating profit before depreciations of assets arising from acquisitions

AGENDA

2017 results

Perspectives

Appendix : 2018 agenda

STRATEGY – AREAS OF FOCUS

- **Geographies**
 - **USA**
 - **Emerging countries**
- **Species & segments**
 - **Companion animals**
 - **Ruminants**
 - **Aquaculture**
 - **Swine**
- **Value Chain**
 - **Innovation**
 - **Manufacturing**
 - **Commercial**

GLOBAL POSITIONS

32 (+1) subsidiaries
Presence in 100+ countries

**11 affiliates in
Top 5**

VIRBAC

**Historical 5 years CAGR
outside of USA 5.2%**

**Historical 3 years CAGR
outside of USA 3.3%**

Market share
Europe ~ 6%
North America ~ 2%
Asia/Pacific/RSA ~ 7%
Latin America ~ 8%



**To enter the
Food production
animals market**

**To recover & gain market share
Companion animals**

**To increase profitability
Manufacturing site
of St. Louis**

EMERGING MARKETS (1/4)



EMERGING MARKETS (2/4)

• China

▪ Companion animals

- Well established brand & image in companion animals
- 8% of tier-1 tier-2 families in China own pets vs. 70% in the USA
- 10 000 pet hospitals but still 70% of them are small-scale

▪ Swine

- High potential > 50% of worldwide hog population (x7 times US hog population)
- Yearly production of 52.8 M metric tons (x4.4 US production, x2.2 EU production)
- Emerging diseases linked to production conditions
- Taiwan base (Manufacturing & R&D capabilities)

▪ Aquaculture

- High potential > 60% of world aquaculture production and 30% of world fish production
- Not yet very industrialized and consolidated / similarities with India

• Brazil

- **Largest beef trader with > 15% of world beef production (>210 M cattle)**
 - 57% of total AH market of Brazil
- **Virbac has strongest market growth both in 2016 & 2017 in ruminants**
 - Prices increases, new commercial organization, multiples business models across the country



EMERGING MARKETS (4/4)

• India

- **1.3 B people, fast growing middle class**
- **1st dairy producer & consumer, 300 M bovines (190 M cattle, 110 M buffaloes)**
 - 160 M tons produced (growing 5% vs 2% world average), cost competitive (low input-low output)
- **Virbac #1 in overall Indian market**
 - 12% CAGR over last 10 years - 740 sales force - #1 of Virbac subsidiaries in ruminants

To shape the future of AH between Virbac & customers

August 2017 >200 customers interviewed

+60
ideas



6 selected
▶ **5 Offer projects**



SPECIES



Strategic



**Bets for
the future**



COMPANION ANIMALS



Virbac busters

- Higher profitability
- Less complexity
- Visibility (brand) & sustainability (product)



Petfood

- Best in class
- Recognized as such
- Few competitors
- New business models (home delivery)
- Higher ROCE



Prevention

- Vaccines
- Parasiticides



Non pharma products

- Historical ranges
- Diagnostics



VETERINARY HPM – RECOGNIZED AS BEST IN CLASS

PREVENTIVE RANGE



2015



DIETETIC RANGE



2017

Unique nutritional approach
High in protein, **LOW** in carbohydrates

RUMINANTS



2nd largest segment
of the animal health market
with strong local differences

Virbac *not* present in more than 50% of markets

- USA, Canada, China, Japan, etc.

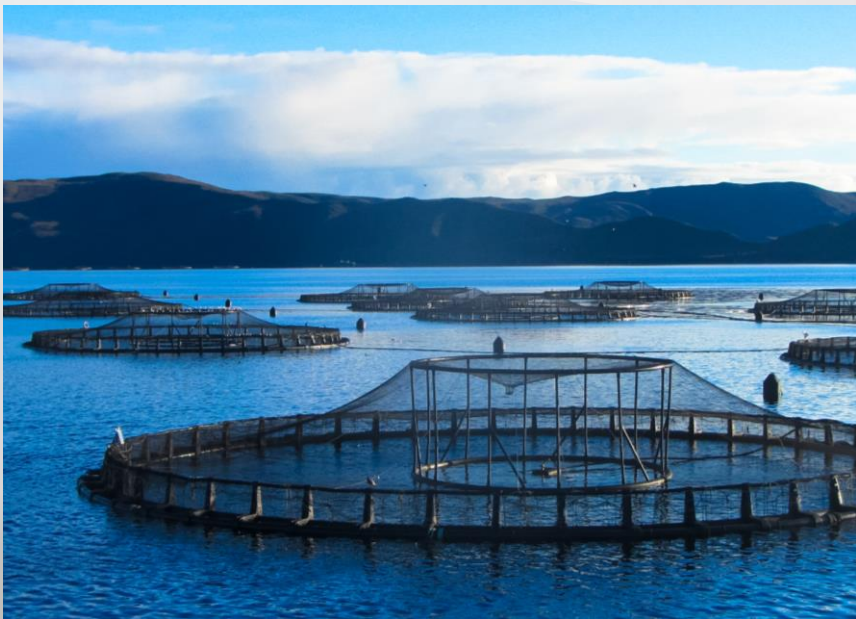
But good product range & high market share when present

- # 1 in India and in Uruguay
- Top 3 in Australia, RSA and smaller countries
- MS% > 10% in 8 countries

Strong local footprint with local R&D & manufacturing capabilities

- Australia, New Zealand, RSA, Mexico, Uruguay

AQUACULTURE (1/2)



10 billion people in 2050

World per capita fish consumption

9.9 kg in 1960 | 14.4 kg in 1990

> 20 kg today and > 27 kg in developed countries

Nº 1 source of animal protein

Most efficient protein producer

(feed conversion index, thermoregulation)

Market:
the most significant growth
with aquaculture > capture



Virbac: **top 3** worldwide player

First in class through innovation

- Emerging diseases
- Oral vaccines

Warm water species

- Innovation
- Geo-extension, species extension
- Services

Cold water species

- To plan entry in Norway, UK/Ireland

SWINE



4.2 B\$

Focus in Asia

- > **35%** of global swine market

Focus on vaccines

- > **55%** of global swine market



VIRBAC VALUE CHAIN FOCUS

R&DL

- Innovation
- Geo-extension
- External Partnerships



Manufacturing

- Concentration > ROCE
- Quality & Productivity on core technologies



Commercial

- Virbac DNA
«Closer to customers,
Better through people»
- Commercial excellence



Competitiveness

ESTIMATED PEAK SALES POTENTIAL OF MAIN R&DL PROJECTS

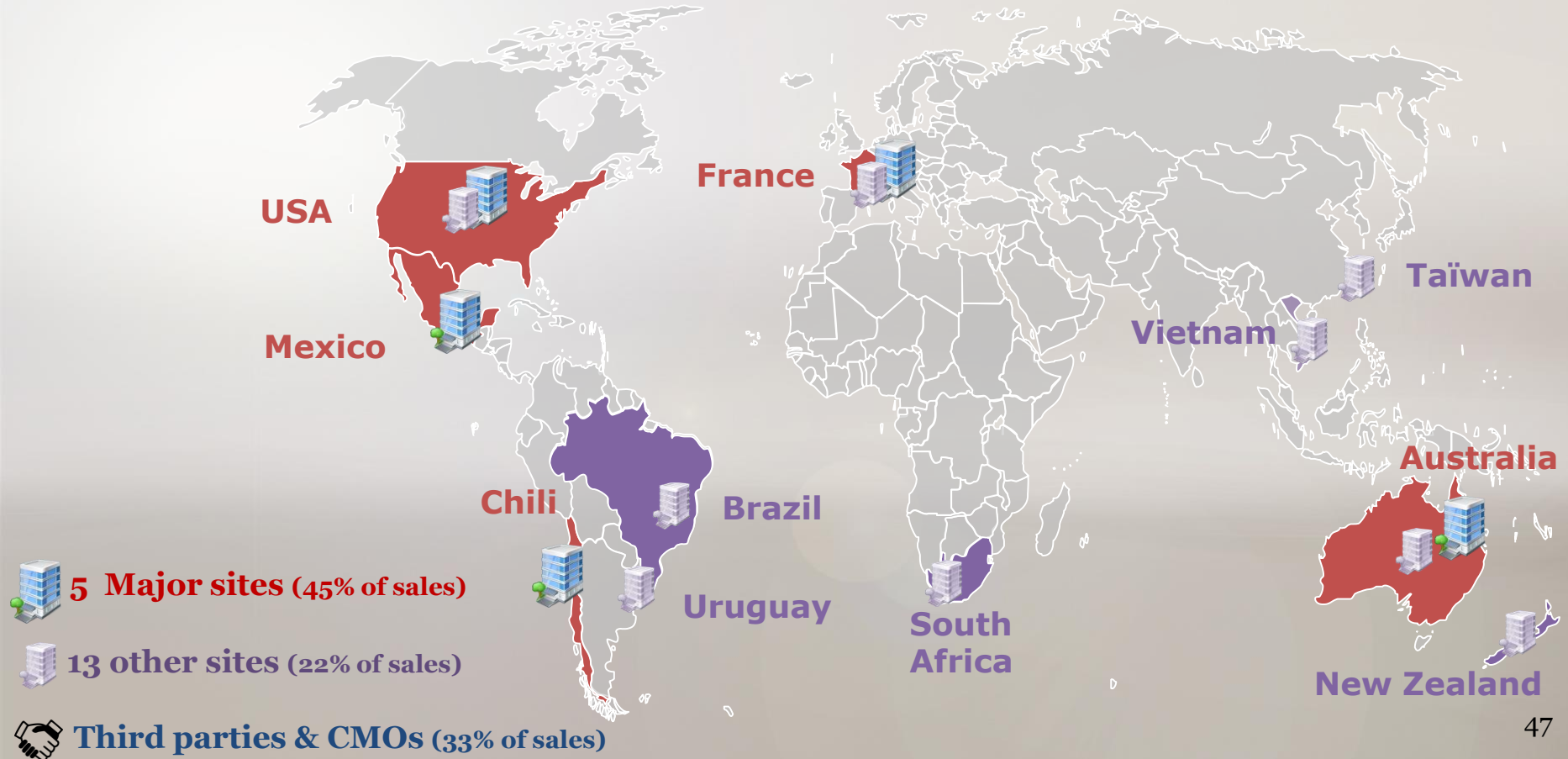
Launch Year	Companion Animals	M €	Food Producing Animals	M €
2019	<ul style="list-style-type: none"> • Anti-infectious (USA) • Non pharma products (Geo-extension) 	10	<ul style="list-style-type: none"> • Vaccines (ROW) • Parasiticides (ROW) 	10
2020	<ul style="list-style-type: none"> • Parasiticides (USA/Europe) • Dermatology (USA) • Non pharma products (WW) 	20	<ul style="list-style-type: none"> • Parasiticides (Europe, ROW) 	15
2021	<ul style="list-style-type: none"> • Speciality (WW) 	10	<ul style="list-style-type: none"> • Various (WW) 	15

**11 new products
in China by 2021**

**9 new products
in Brazil by 2021**

**10 new products
in India by 2021**

MANUFACTURING: 2/3 OF SALES PRODUCED IN-HOUSE (18 SITES)



MANUFACTURING - TO IMPROVE ROCE AND DILUTE RISKS

Sites

- **Concentration on our 5 major sites**
 - Quality & productivity
 - Consolidation of volumes & complexity reduction
 - St. Louis profitability

Technologies

- **In-house mastery of key technologies** (including vaccines, extruded products)
- **Systematic make or buy analysis** for other technologies or when capex is required

Third parties

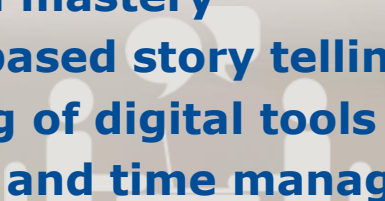
- **Scale effect available**
- **Leverage of CMO certifications**
- **Alliance management**

COMMERCIAL : COMPETITIVE ADVANTAGES/DIFFERENTIATION

The Virbac DNA

- **Innovative**
 - **Entrepreneurship**
 - **Engagement**
 - **Customer driven**
 - **Attention to people**
 - **Long term oriented**
- 

Commercial excellence

- **Closeness to customers**
 - **Preferred & long term partner**
 - **Key account management**
 - **Focus on customer experience**
 - **Virbac sales attitude**
 - **Widest range of products & services in Companion animals**
 - **Technical mastery**
 - **Science based story telling**
 - **Mastering of digital tools**
 - **Territory and time management**
- 

2018 PERSPECTIVES – SUMMARY

- **2018 organic growth¹: low single digit**
- **Ebit adj.² ratio: + ~0.5 pt @ constant rate**
- **Debt reduction: ~ 30 M€ (no dividends paid by Virbac SA)**

1. *At constant exchange rates and scope*

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

1 key objective

3 main levers

~15% of Ebita¹



~10% of Ebita¹

▶ **US infrastructure leverage**

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

▶ **Profitable growth in other geographies**

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

▶ **Margin optimization**

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

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

AGENDA

2017: results

Perspectives

Appendix: 2018 agenda

2018 AGENDA

April 12*

Q1 sales

June 20

Annual shareholders' meeting

July 17*

Q2 – H1 sales

September 14*

Half-year financial results

October 11*

Q3 sales

January 17, 2019*

Q4 – Full year sales

* After market close

Thank you
for your attention

Shaping the future
of **animal health**

Virbac

Disclaimer

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