

2020 half year results & perspectives

September, 2020

Shaping the future
of animal health

Virbac

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corporate.virbac.com

AGENDA

2020 half year results

Strategy execution & perspectives

Appendix : 2020 agenda



- **Organic growth of 5.0% @constant rates**
 - Driven by all areas and a strong sector resilience with some anticipated buy-in in the 1st quarter followed by an expected weaker 2nd quarter
- **Sales increase in the USA (+3.1% @ constant rate)**
 - Higher Sentinel sales (+11% @ cst rate vs. 2019) following price increases effective February 1st
 - Other ranges are decreasing by 2.8% (dermatology range performing well thanks to the relaunch of Easotic whereas dental and antibiotics ranges more affected by the Covid-19 situation)
- **Strong increase of Ebit adjusted (Ebita¹) +22.3 M€ (+ 33.3%) @ constant exchange rate leading to 18.3% of EBITA ratio**
 - Strong gross margin contribution of all regions driven by sales growth and positive product mix
 - Positive short term impact of expenses reduction in the context of the Covid-19
 - Commercial expenses : travel ban, postponement to 2021 of many meetings, congresses, events & sponsorships, marketing spend and recruitment limitation
 - R&D expenses : postponement of many studies and +1.7 M€ RTC² favorable accrual reversal
 - Other expenses : deferral of Opex and Capex projects
- **Forex impact**
 - Unfavorable on sales (-8.4 M€)
 - Unfavorable on Ebita (-3.7 M€)

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

² RTC : Research Tax Credit

FINANCIALS – SUMMARY (2/4)

H1 2020

Average rates	USD	GBP	JPY	MXN	AUD	ZAR	BRL	INR	CHF	CLP
A 2019	1.13	0.87	124	21.6	1.60	16.0	4.35	79.0	1.13	762
A 2020	1.10	0.87	119	23.6	1.68	18.2	5.45	81.4	1.06	898
Variance A20/A19	2.6%	1.0%	4.4%	-8.4%	-4.9%	-12.1%	-20.2%	-2.8%	6.1%	-15.2%

Average rates	NZD	COP	CRC	PHP	THB	VND	TWD	CNY	KRW	DKK
A 2019	1.68	3 597	676	58.9	35.7	26 288	35.0	7.66	1 295	7.47
A 2020	1.77	3 988	629	55.8	34.9	25 725	33.1	7.78	1 331	7.46
Variance A20/A19	-4.8%	-9.8%	7.6%	5.5%	2.4%	2.2%	5.7%	-1.6%	-2.7%	0.0%

- **Net profit : 49.7 M€ (vs. 28.4 M€ in 2019) @ real rate impacted by:**
 - + Higher level of sales – with favorable product mix (i.e. Sentinel)
 - + Opex savings (one-off) due to Covid-19 situation
 - + Decrease of the net cost of financing
 - - Unfavorable exchange rate impact on CLP vs. US\$ and €
 - - Impairment on CaniLeish (-3.3 M€)
- **Decrease of total net debt by 20.2 M€ (Decrease by 16.7 M€ @ constant exchange rate & scope)**
 - Net debt @ 348 M€ and 352 M€ at cst scope vs. 368 M€ at year end 2019 and 455 at the end of June 2019
 - Seasonal increase of working capital requirement offset by the level of net cash flow and around 10 M€ Covid related positive impacts (payments postponement of tax and social contributions granted by governments)
- **On-going deleverage of the company : Net debt on Ebitda ratio @ 1.90¹ in June 2020**
 - From 7.3 in June 2015 to 1.90 in June 2020 below bank covenant commitment of 4.25

1. Covenant calculated as per the RCF contract

Million euros	2020	2019	Var.%
Consolidated sales	478.3	463.7	+3.1%
- Exchange rate impact vs. 2019	8.4		
Consolidated sales at constant rates	486.7	463.7	+5.0%
- change in perimeter	0.0		
Consolidated sales, pro-forma at constant exchange rates	486.7	463.7	+5.0%

SALES EVOLUTION

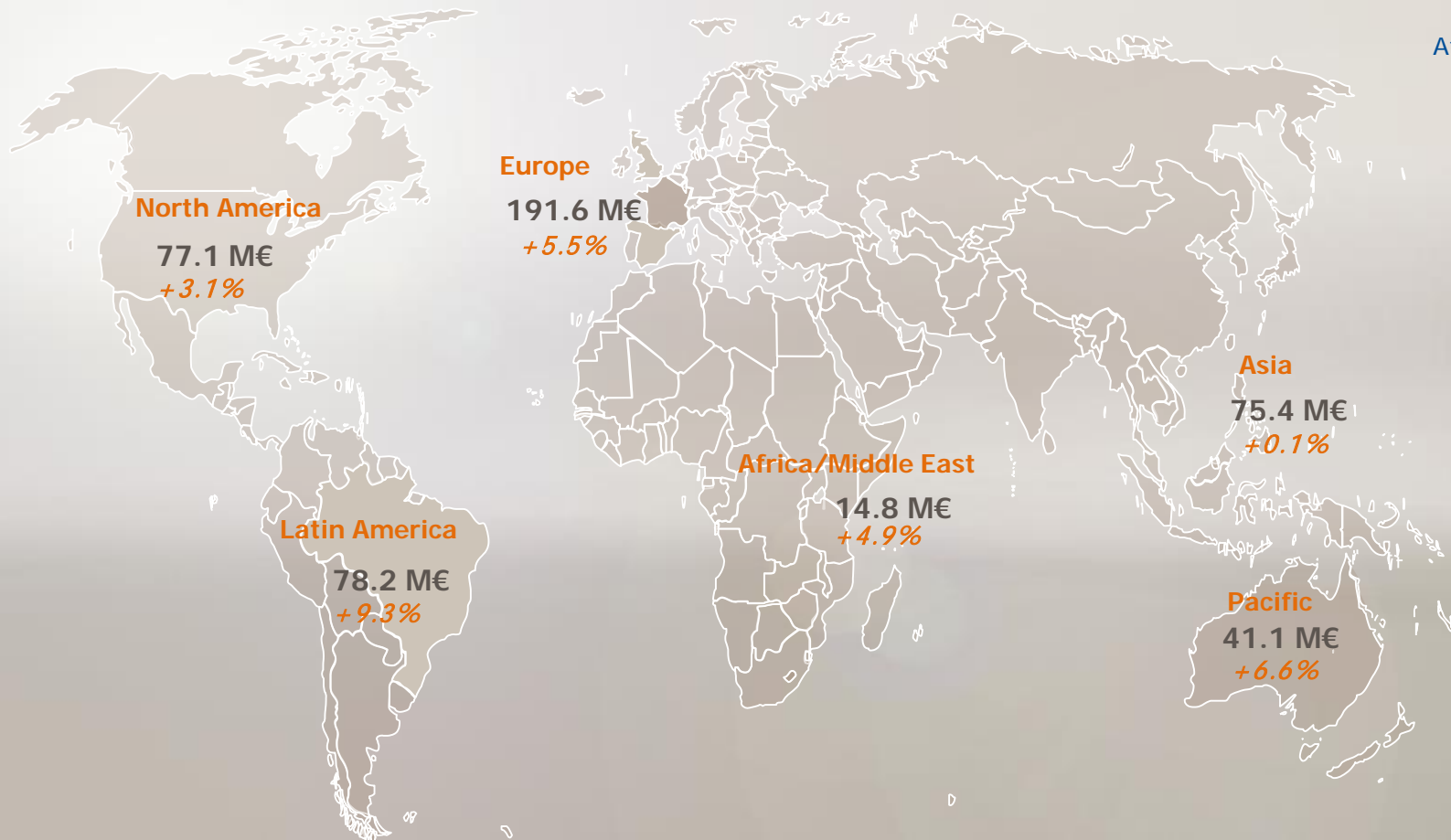
H1 2020



SALES GROWTH BY REGION

H1 2020

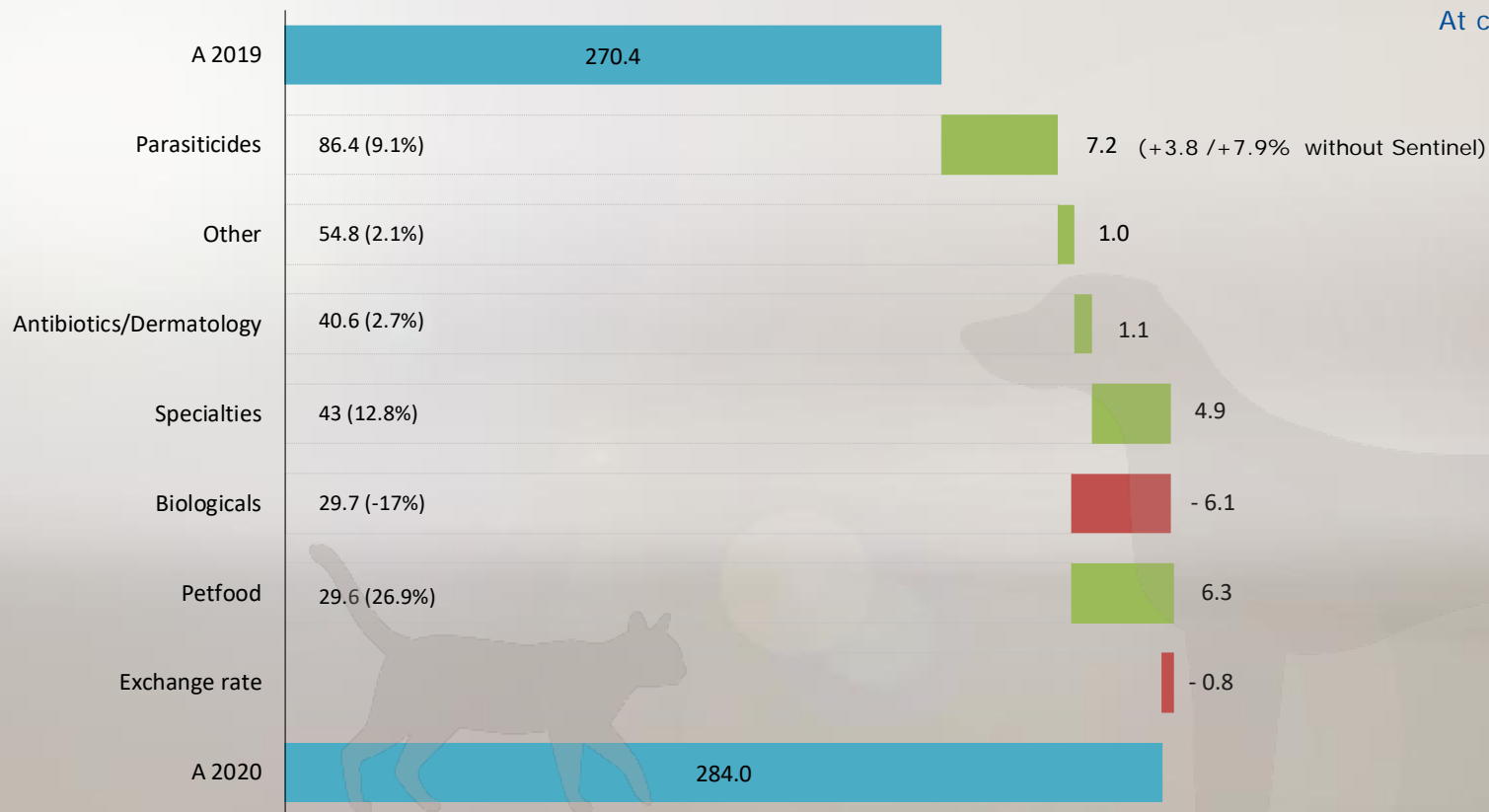
At constant rates



SALES GROWTH BY SEGMENT - COMPANION ANIMALS

H1 2020

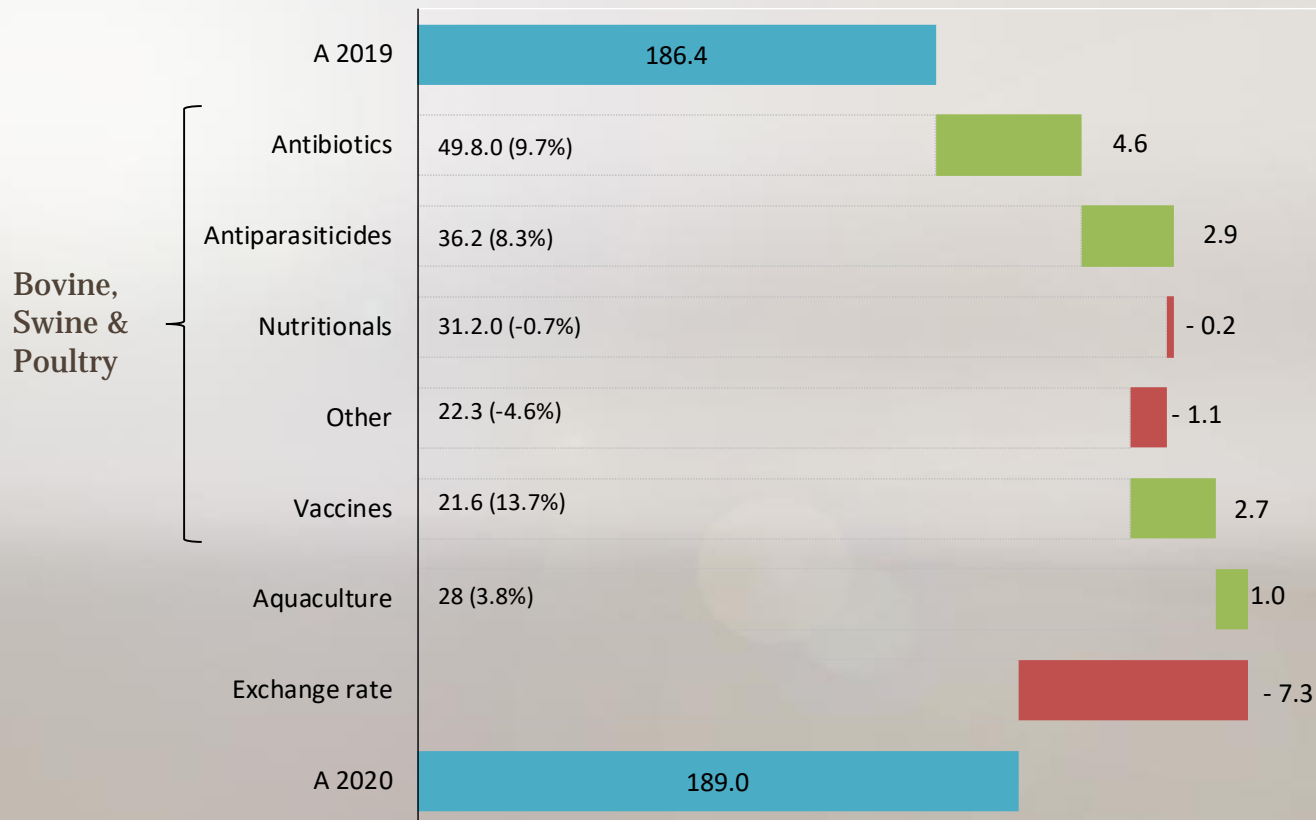
At constant rates



SALES GROWTH BY SEGMENT - FOOD PRODUCING ANIMALS

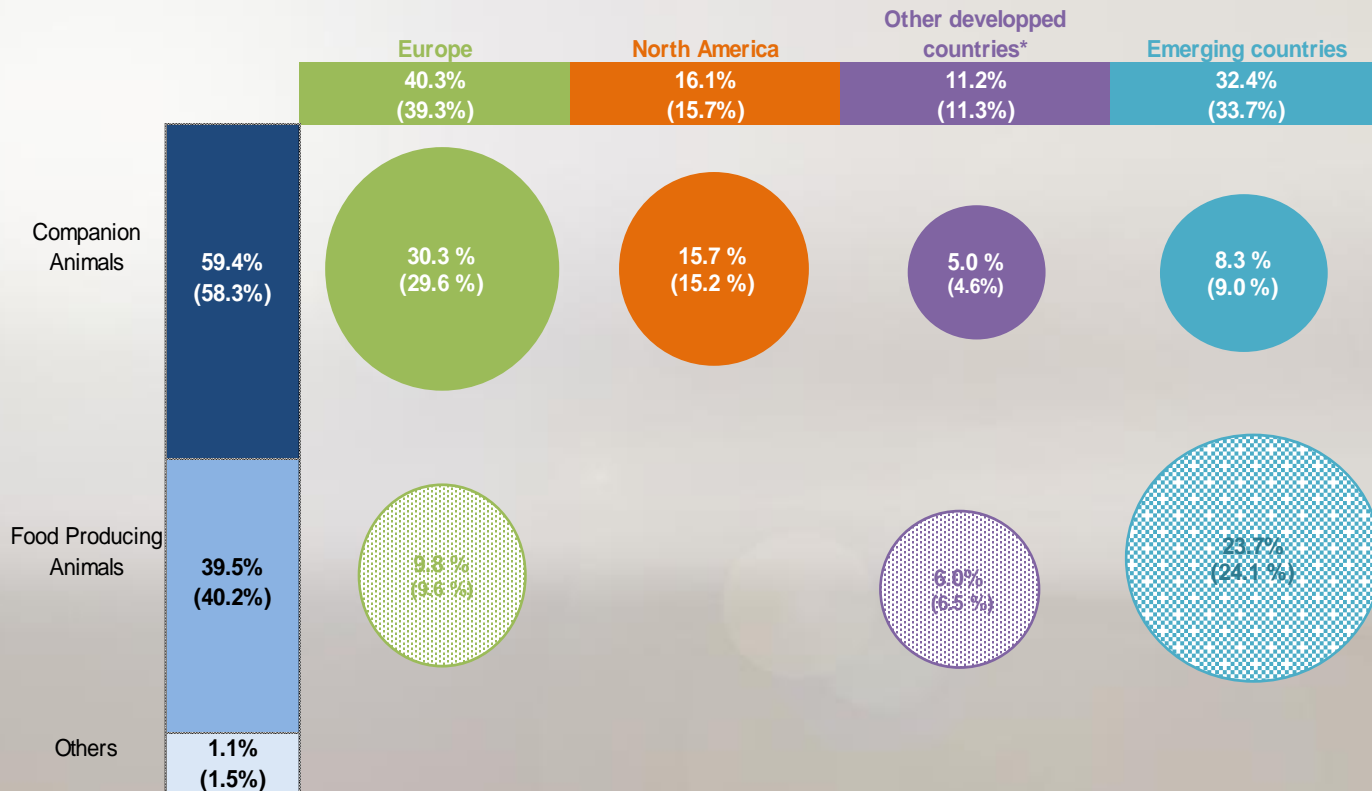
H1 2020

At constant rates



SALES BREAKDOWN BY REGION AND BUSINESS

H1 2020



() : 2019

* Australia, New Zealand, Japan, Korea

SENTINEL DIVESTMENT ACCOUNTING IMPACTS

- **In the consolidated financial statements of June 30, 2020, the Sentinel transaction is treated in accordance with IFRS 5 "Assets held for sale"**

The 3 criteria of the standard (IFRS 5 § 2 to 5) are met:

- the assets are available for immediate sale in their current state
- the sale is highly probable (the closing was signed on July 1)
- the net book value of assets is recovered through disposal, rather than through their use

- **The net value of assets classified as assets held for sale breaks down as follows (in € million):**

Goodwill	171.1
Intangible assets	110.8
Inventories	7.6
	<hr/>
	289.5

- **The final consideration for the sale amounts to US \$410 million, and capital gain of around US \$84 million subject to customary closing adjustments (accounted in H2-2020)**

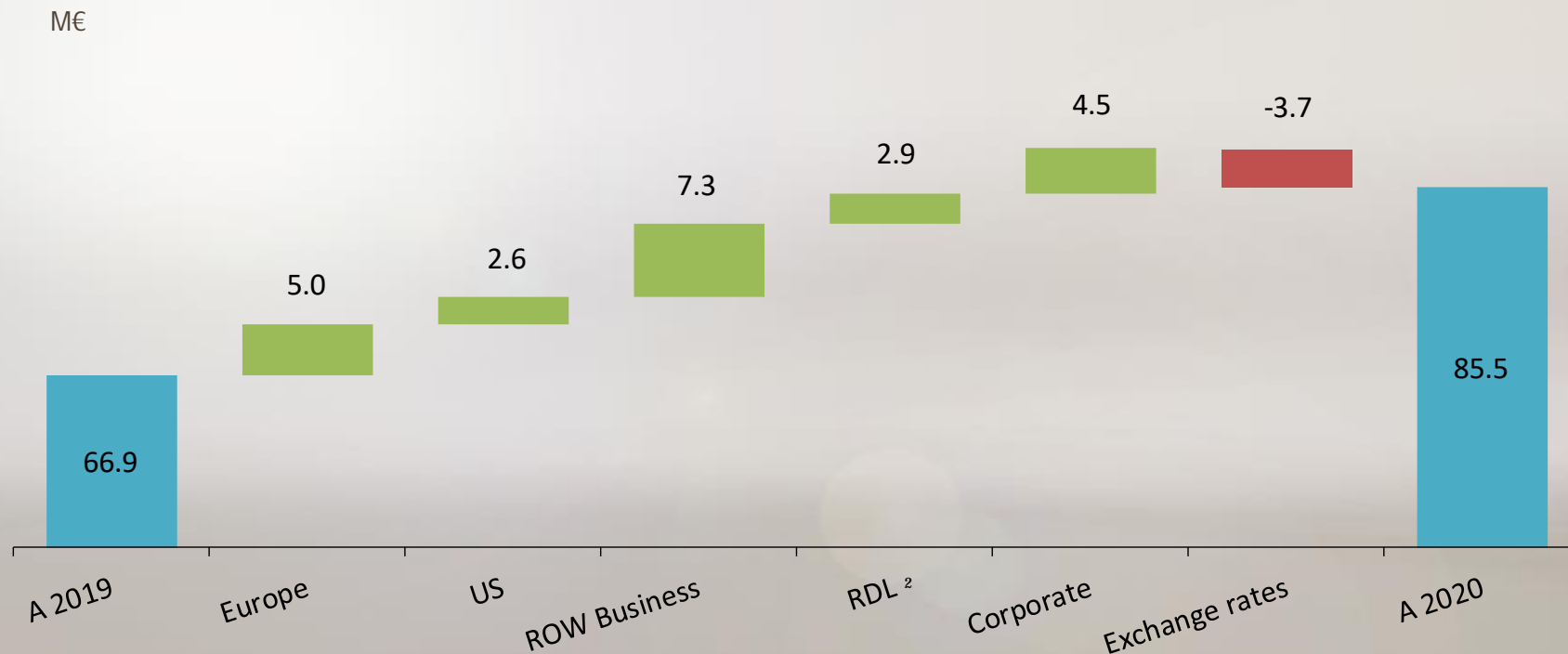
PROFIT & LOSS STATEMENT AT REAL RATES

H1 2020

<i>in M€</i>	2020	%	2019	%
Net sales	478.3	100.0	463.7	100.0
Gross margin on material cost	322.4	67.4	311.2	67.1
Net expenses	217.9	45.6	224.3	48.4
Amortizations, depreciations and provisions	19.0	4.0	20.0	4.3
Current operating profit before depreciation of assets arising from acquisitions	85.5	17.9	66.9	14.4
Amortization of intangible assets arising from acquisitions	6.3	1.3	7.5	1.6
Operating profit from ordinary activities	79.1	16.5	59.4	12.8
Profit (loss) on disposal of subsidiaries	-			
Other non-current income & expenses	5.4		9.4	
Operating profit	73.8	15.4	50.0	10.8
Net financial expenses	8.7	1.8	8.7	1.9
Profit before tax	65.1	13.6	41.3	8.9
Income tax expense	15.7		13.0	
<i>Including non-current tax expense (income)</i>	-1.4		-2.3	
Share in earnings - Equity method	-0.3		-0.1	
Net result from ordinary activities of consolidated entities	53.7	11.2	35.5	7.7
Net result of consolidated entities	49.7	10.4	28.4	6.1
Non-controlling interests	2.6		2.0	
Net result - Group's share	47.2	9.9	26.4	5.7

BREAKDOWN OF EBIT ADJUSTED¹ EVOLUTION

H1 2020



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

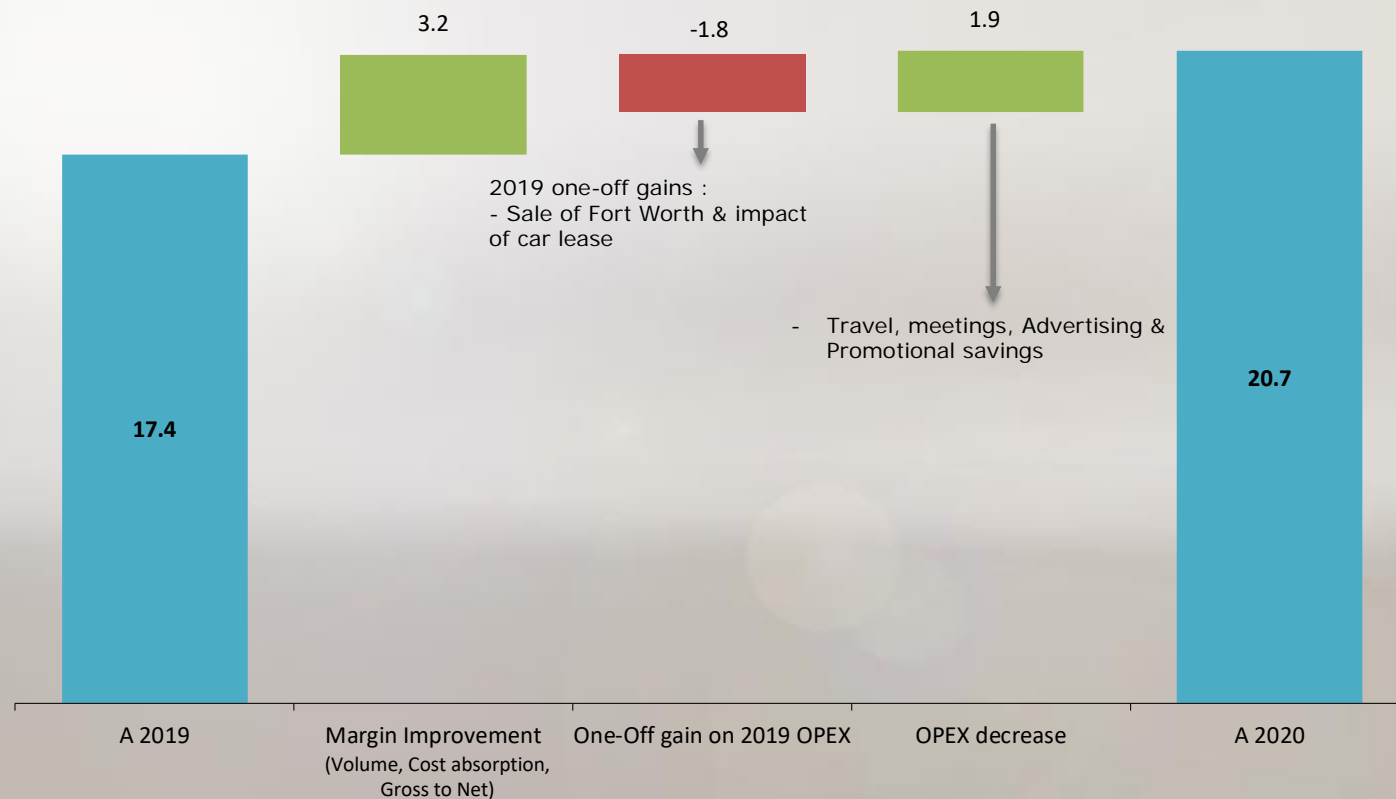
² RDL : Research, Development & Licensing

CONTRIBUTION OF THE US OPERATIONS TO THE EBIT ADJUSTED¹

H1 2020

M\$

Excluding R&D

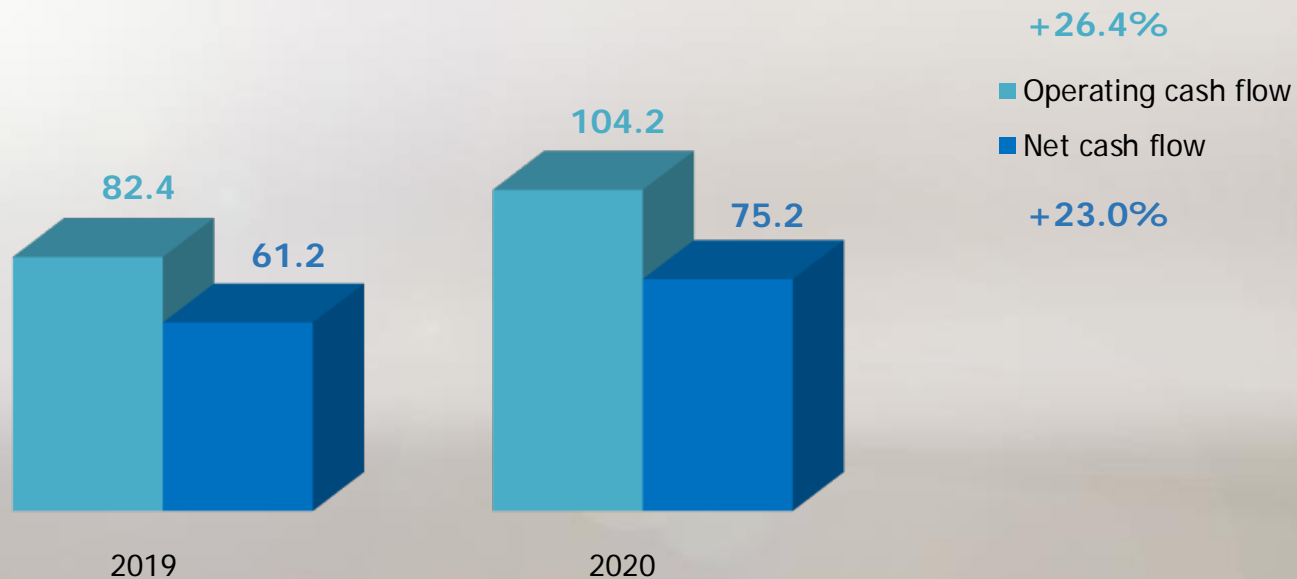


¹ Ebit adjusted: current operating profit before depreciations of assets arising from acquisitions

EVOLUTION OF CASH-FLOW

H1 2020

M€

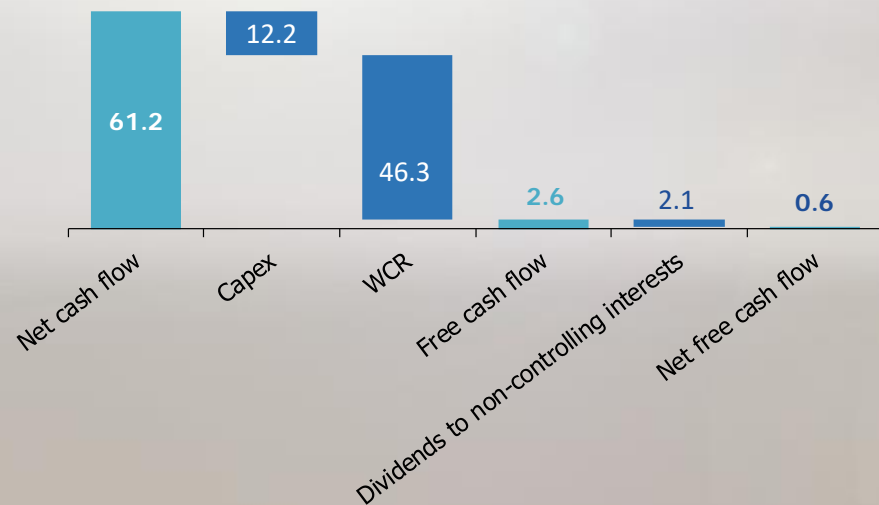


EVOLUTION OF FREE CASH-FLOW

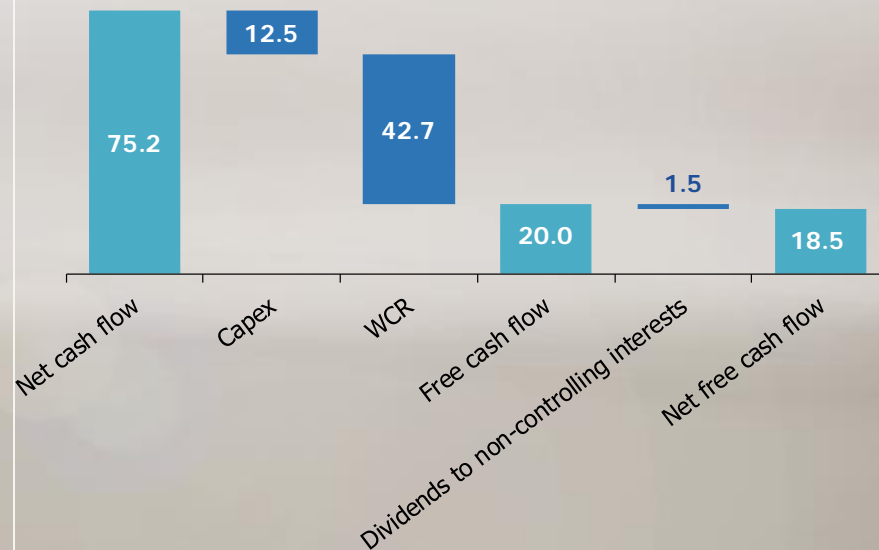
H1 2020

M€

2019.06



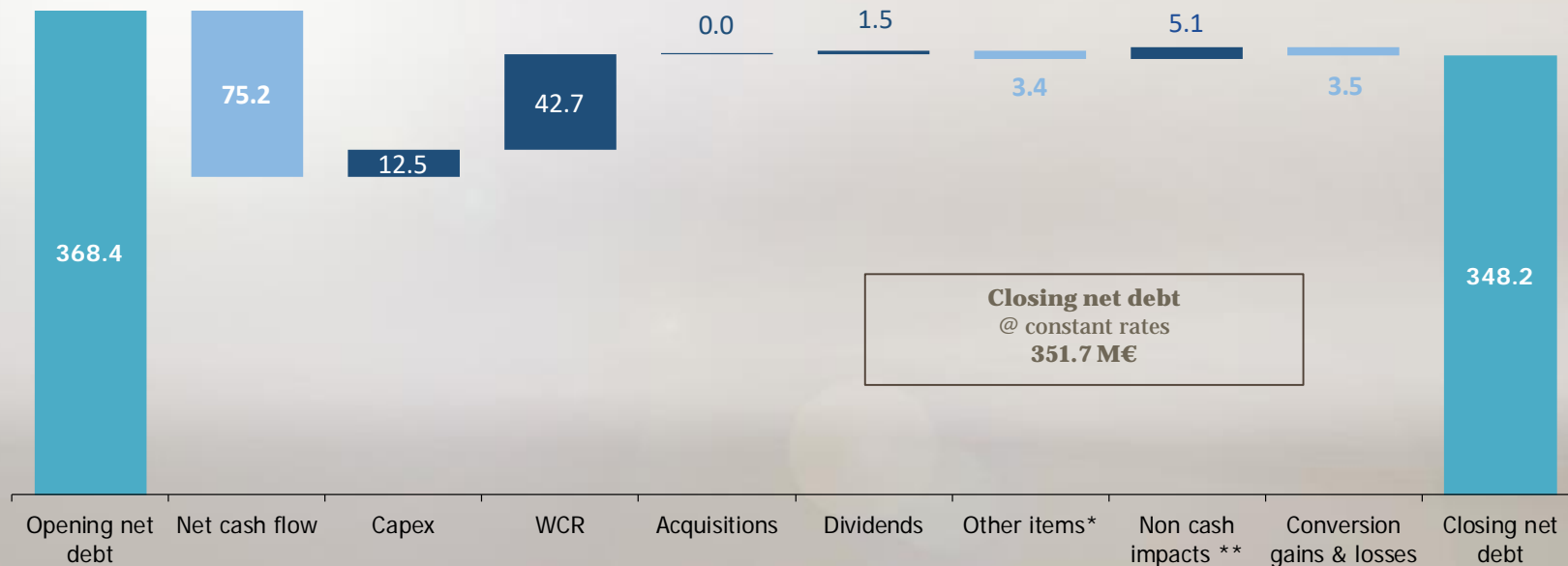
2020.06



EVOLUTION OF NET DEBT

H1 2020

M€

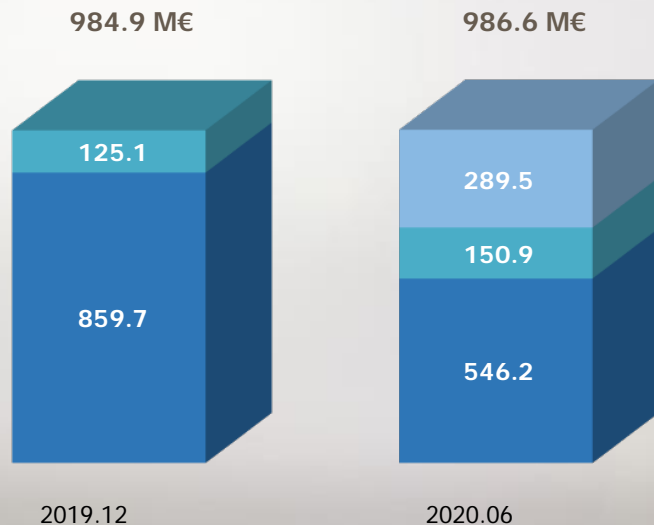


* whereas change in financial assets (mainly holdback amount)

** whereas fair value of derivatives (+1.3 M€) and non cash IFRS 16 variations (+3.8 M€)

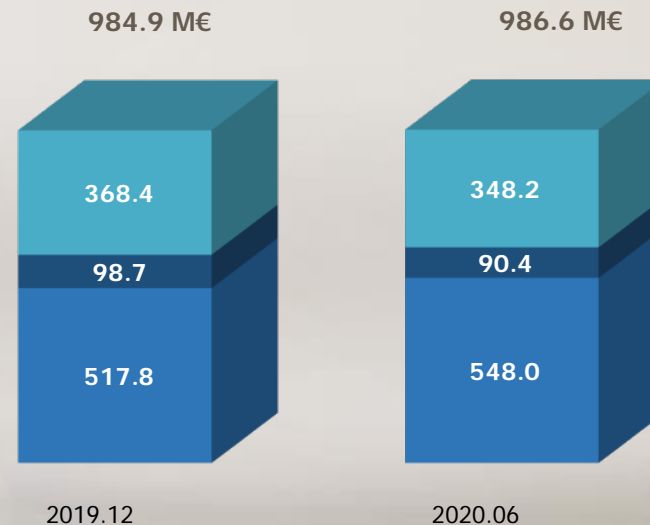
BALANCE SHEET ANALYSIS

H1 2020



- Fixed assets
- Working capital
- Assets held for sale

INVESTED CAPITAL

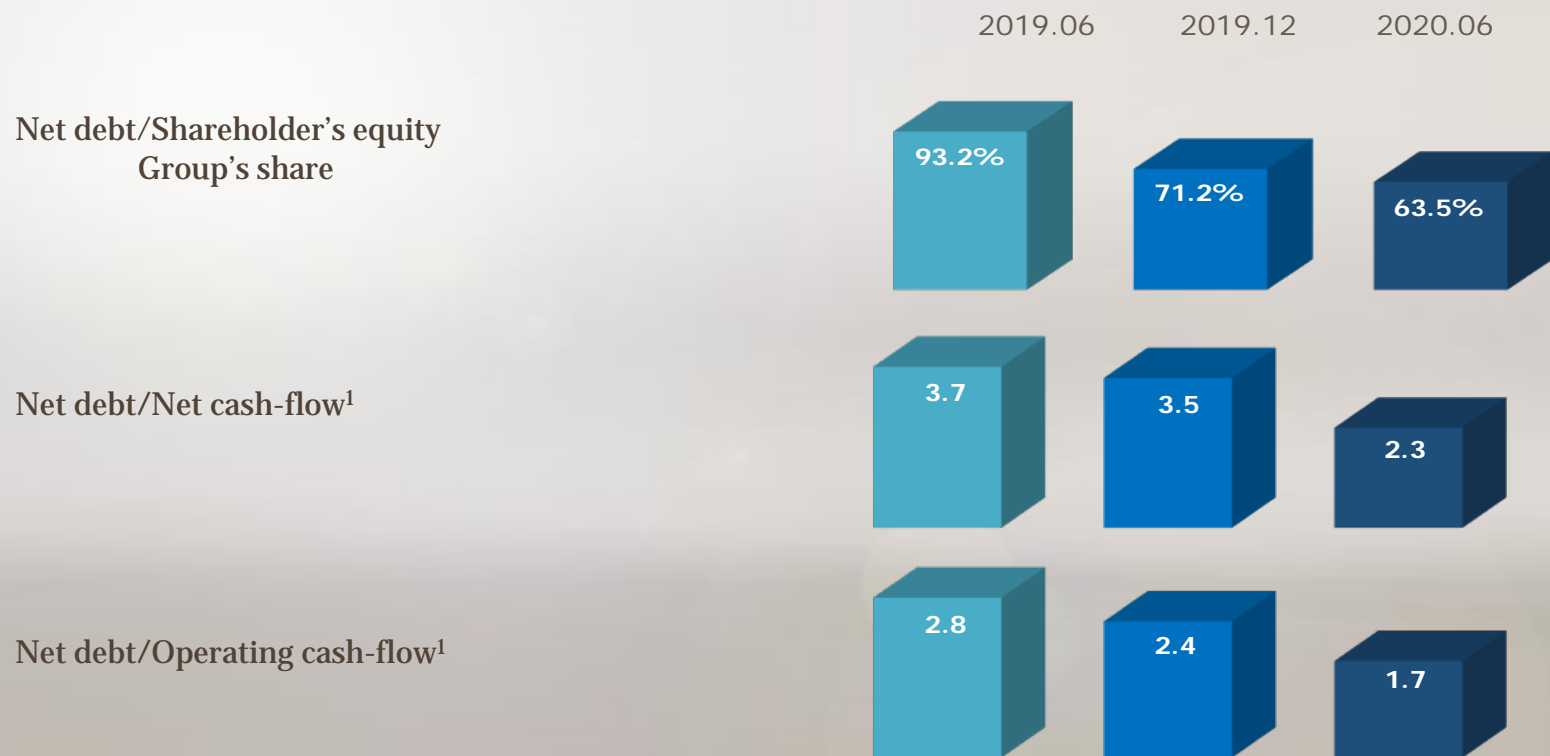


- Net financial debt
- Non controlling interests + LT reserves
- Shareholder's equity

CAPITAL EMPLOYED

BALANCE SHEET – FINANCIAL RATIOS

H1 2020

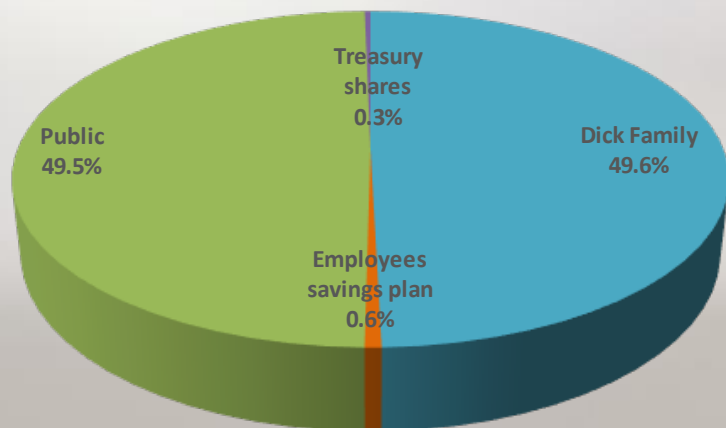


¹ For the calculation as at end of June, net cash flow and operating cash flow are multiplied by 2

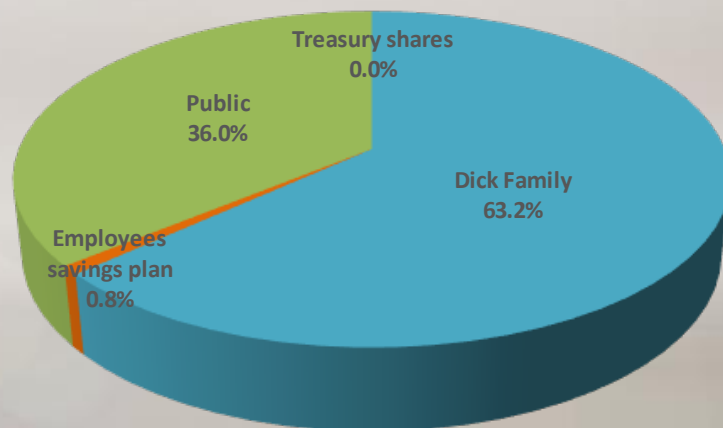
SHAREHOLDING

Number of shares: 8 458 000

In shares



In Voting Rights



AGENDA

2020 half year results

Strategy execution & perspectives

Appendix : 2020 agenda



« CHOOSING SUSTAINABILITY »: ROADMAP TO SUSTAINABLE GROWTH

**Come-back
2018-2019**

Focus on organic growth
above market / Gaining MS%

Launch of new products

Product margin improvement

Costs optimization,
profitability improvement,
debt reduction

**Transition
2020-2022**

Divestment of Sentinel (loss of
~ 55M\$ and 3 points of EBITA)

Significant investments in
manufacturing & informatic
systems (ERP, MES, LIMS, HRIS,...)*

Significant investments in new
areas (market entries: Petfood,
FPA USA)

**Run
2023-2025**

Focus on organic growth
above market / Gaining MS%

Boost US performance
(Petfood, FPA)

Leverage commercial investment

**Set a timing for going back to 15% EBITA
Programmatic M&A**

* Enterprise Resource Planning, Manufacturing Execution System, Laboratory Information Management System, Human Resource Information System, etc.

SITUATION UPDATE, SEPTEMBER 2020

➤ Sentinel divestment

- To **capture maximum financial value** before brand erosion (combos); no strategic value anymore
- To reduce debt and gain in M&A and strategic flexibility to accelerate **portfolio diversification in the USA**
- To prepare **petfood entry** in the USA (long term) and progressive **FPA entry** in the USA

➤ Covid crisis

- To **preserve our teams and ability to supply** through a **fast, collective and adaptative** answer
- **Reduction of operating expenses as much as possible** (H1 2020: 1.5 point of opex reduction on net revenue vs. H1 2019). **However, significant rebound expected from H1-2021 onwards**
- **We anticipate some mid-term negative impacts:**
 - on offer: **delays in many R&D programs** (for at least 3 to 9 months)
 - on demand: difficult to estimate at this stage but we see impacts on « long cycle productions » such as Cattle and Salmons (- 20% of smolts > 2021 impact)

➤ Vaccine manufacturing disruption and backorders

MAIN 2020 HALF YEAR ACHIEVEMENTS (1/2)

Strong hands-on management and positive performance at the end of June

(4.5% at constant rates and 2.3% at real rates without Sentinel;
Sentinel performance +11% at constant rate)

EBITA at 18.3% @ cst rates, with profit improving double-digit due to

- **Sales growth with favorable country and product mix** (in particular Sentinel flavored tabs following February 1st price increase) contributing for around 1/3 of the total EBITA improvement
- **Operational costs reduction** (no travelling, congress, event, meeting, marketing reduction, staff expenses reduction, etc.) generating more than 1/3 of the total improvement (but not recurrent and this positive « one off » effect will create a very negative base effect for next year)
- **R&D delays and postponing of trials** generating almost 1/3 of the total improvement (not recurrent, expenses will strongly increase in near future)

Debt reduction of 20 M€ versus end of December 2019

Financial covenants respected

Net debt / EBITDA ratio improved at 1.90

(return to historical covenant ratio & financial conditions)

Half year main focus

- **Covid-19 management:** priority given to the health and safety of people (strict implementation of sanitary measures, home office for all eligible positions, sharing of best practices, high level of communication, monitoring of local and worldwide WHO and local government guidances and daily, country-by-country adjustments accordingly etc...)
- **Business continuity:** remote communication channels strengthened to better communicate with veterinarians and farmers as well as with employees, all to ensure continuity of the activity and our commitments to customers in the animal care and feeding chain
- **Sale of our US Sentinel brands @ US \$410 million**, and 10 years Sentinel Spectrum supply agreement
- **Corporate Social Responsibility:** pursuing the many recently launched initiatives
- **Great Place To Work:** many initiatives postponed due to sanitary situation but the vision and ambition remain unchanged
- **Investments** in wetlab in Vietnam progressing well
- **Acceleration of our digital transformation** to benefit from the market digitalisation, home delivery and autoships programs
- **« Competitiveness review »** of main manufacturing sites progressing well

MAIN 2020 HALF YEAR COMMERCIAL ACHIEVEMENTS (2/2)

Geographies

- **26 out of 34 geographies are growing.** Among decreasing countries: UK (-10.1%), Italy (-11.4%) and India (-5.1%)
- **13 zones growing double-digit** of which China, Brazil, Benelux, Scandinavia, Poland, Export Europe, OTC Europe...

Products ranges

- **Busters commercial programs remain resilient:**
 - **Petfood (+27%)**
 - **Dentals (+5%)**
 - **Suprelorin (+14%) implant for dog reversible sterilization**
- **Several product launches delayed due to Covid-19**

- **Ex-Virbac performance: +3.1% @ constant rate (-2.8% excluding Sentinel)**
 - **84.8 MU\$** in 2020 **vs. 82.2 MU\$** in 2019
- **Major dynamics within our US portfolio**
 - **Higher Sentinel sales** following price increase effective February 1st
 - Good performance of the dermatology range thanks to the **relaunch of Easotic**
 - Dental and Antibiotics more **affected by Covid-19 situation**

FOCUS USA – SENTINEL DIVESTMENT (2/2)

- 
- **Sales of Sentinel 2020 first half: US \$39 million**
(vs. US \$35 million in H1-2019)
 - **Full year pro forma impacts of Sentinel divestment at group level**
 - Decrease in sales of around **US \$55 million**
 - Decrease in EBITA's group profitability of around **-3 points**
 - **2020 full year estimated impact around -1 point in ratio of EBITA/Sales due to good sales in 2020 first half**

GEOGRAPHIES: FOCUS CHINA

➤ China growth plans delayed

- Pet food launch postponed (due to African Swine Fever and pork meat)
- Suprelorin launch postponed (due to Covid-19)

➤ Execution of our “Think very big” plan:

➤ **+21.4% in H1 2020 @ cst rates**

➤ **Digital growth +42%** at the end of June 2020 vs. end of June 2019



GEOGRAPHIES: FOCUS CHILE

- **Good growth (+7.6% in H1-2020 at constant rates)** however with a **different dynamic** versus previous year **due to Covid-19 impact & new product launch (Veterin 80)**
 - Growth mainly driven by aqua parasiticides and antibiotics while vaccines decreasing
- **Continuous R&D investments** with a **primary focus on obtaining new registrations of existing vaccines** by 2022 **to comply with new regulations**
- **Ability to renew major current third party distribution agreements** (representing ~25% of turnover)
- **On going risk analysis of new DirecteMar regulations published in June** (preliminary assessment indicates 3 M€ of net sales possibly at risk)



Minority shares acquisition (49%): decision to be made in 2021 based on risk/opportunity assessment



UPDATE COVID-19: CURRENT SITUATION SEPTEMBER 2020 (1/2)

- **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
- **Uncertainties** related to the current health situation **in certain countries that entered into the crisis/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
- **Supply: limited impact on the first half of the year, however possible pressures** across the world on the supply of certain components and even certain products **in the second half of the year could arise** (e.g supply disruptions in India during the second 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 a few months)

UPDATE COVID-19: CURRENT SITUATION SEPTEMBER 2020 (2/2)

- **Production:** All the industrial sites operate at almost normal levels, with the exception of Chile (still operating at around 80%) due to Covid-19 prevention plan requiring to slow down production
- **With regard to inventories, production activity levels during the second quarter did not allow to maintain safety inventories for all the products, and will generate backorders in H2-2020**
- **The stoppage for more than two months of the worldwide production of our dog and cat vaccines, led to important shortages in the third quarter which will last for the second half of the year**
- **Innovation: delayed R&D programs and launch postponements**

KEY ISSUES AND OPPORTUNITIES IN A POST COVID-19 WORLD

- **Covid pandemic hasn't structurally altered key dynamics in Animal Health**, sector which has proved to be highly resilient to the Covid-19 crisis
- **It has helped accelerate some trends** (e.g., **home office**, **consolidation**, **digitalization**, shift in distribution channels from traditional retail to **e-commerce**, necessity of having multichannel strategies for manufacturers, increase of **home delivery** and **auto-ship programs**, increase of **bio-security measures** in food production animals, etc.)
- **Virbac is well positioned with a strong balance sheet to invest**, develop itself and take advantage of any interesting opportunity in M&A

ESTIMATED PEAK SALES POTENTIAL OF MAIN R&D PROJECTS

(September, 2020)

Launch Year	Companion Animals	M €	Food Producing Animals	M €
2020	<ul style="list-style-type: none"> Parasiticides (<i>Evicto*</i>) Vaccines Non pharma products Dermatology 	21*	<ul style="list-style-type: none"> Parasiticides (<i>Kryptazen*</i>) Minerals Vaccines 	14*
2021	<ul style="list-style-type: none"> Parasiticides (**) Vaccines (** Delayed to 2022) Specialities (** Delayed to 2022) 	3	<ul style="list-style-type: none"> Parasiticides Anti-infectives 	18
2022	<ul style="list-style-type: none"> Vaccines (**) Specialities (**) Parasiticides Non pharma products 	31	<ul style="list-style-type: none"> Parasiticides Anti-infectives 	7
2023	<ul style="list-style-type: none"> Specialities (** Delayed > 2023) Petfood Non pharma products 	11	<ul style="list-style-type: none"> Vaccines Miscellaneous (**) 	22

* Launches initially planned in 2020 but finally the launches have taken place in late 2019

** Delayed launches partly due to the Covid-19 crisis

2020 PERSPECTIVES – SUMMARY

	2020 Guidance	Notes
Total Revenue	A the high end of the range –3% to 0% @ constant rates	Including Sentinel sales of US \$39 million in H1-2020 Forex impact should be negative by approx. €25-30 million at mid-July rates
Ebit adjusted¹ ratio to revenue	Between 12% to 13% @ constant rates	After taking into account the negative EBITA impact of around 1 point of the divestment of Sentinel as of July 1 st , 2020
Debt	Cash positive balance at year-end Financings kept with initial maturities (~2022)	

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

AGENDA

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Appendix : 2020 agenda



2020 AGENDA

April 15*

Q1 sales

June 22

Annual shareholders' meeting

July 20*

Q2 - H1 sales

September 16*

Half-year financial results

September 17

SFAF meeting - 1st half 2020 financial & strategic information

October 14*

Q3 sales

January 19, 2021*

Q4 - Full year sales

* After market close

Shaping the future of animal health

Virbac