

Virbac :

Quarterly report as of March 31, 2015



This report is prepared in narrative form under the terms of implementation of article L451-1-2 of the Monetary and financial code issued by the French financial markets authority (AMF).

1. Key events of the quarter and perspectives

Virbac acquired two major parasiticides for dogs in the United States: SENTINEL® Flavor Tabs® and SENTINEL® SPECTRUM®, marketed up to now by Novartis Animal Health. The agreement signed on October 22, 2014 and finalised early 2015 covers a set of rights to the two products for the United States and on stocks of finished products, acquired for a total price of \$410 million, paid in a lump sum on January 2, 2015, following the lifting of the suspensive conditions. This agreement also allows Virbac to take over part of the sales workforce of Novartis Animal Health in the United States.

For Virbac, this acquisition is a major opportunity to transform its business and to become one of the main players in the veterinary market in the United States in the companion animal field. SENTINEL® Flavor Tabs® and SENTINEL® SPECTRUM® have generated sales of over \$90 million in the United States in 2014. This acquisition will also enable Virbac, by incorporating a part of the sales workforce of Novartis Animal Health in the United States, to consolidate its commercial strike force and its penetration into the veterinary clinics of the country, especially those that have a strong potential.

Firstly thanks to the contribution of these strong brands to its current product portfolio, and secondly to the support of a marketing and sales organisation that is twice as big, Virbac will benefit from key factors for strengthening its coverage and to better serve the needs of veterinary clinics and companion animal owners in the U.S. market. This acquisition will enable the Group both to strengthen its position in the major market segment of parasiticides for companion animals, and to benefit from an effective growth lever for other specialties of its product line, due to an enlarged direct presence regarding veterinary practitioners.

Toward the end of 2014, the production site for the Group's US subsidiary, located in St. Louis (Missouri), was inspected by the Food and Drug Administration (FDA) as part of a regular review. The issues raised by the FDA after its inspection essentially pertained to the quality system and, more specifically, to its quality assurance procedures.

In January, Virbac United States responded to the FDA's observations, submitting a series of corrective measures and explaining that those measures were part of the plan already initiated in early 2014. That plan stipulates the setting up of a new organisation and resources designed to improve manufacturing and quality control procedures. The plan's implementation is currently under way, and the necessary reinforcement measures have been taken. The company also made the decision to temporarily suspend production and distribution of products from the St. Louis site in order to perform an assessment of systemic risk to ensure that the batches released on the market and the quantities in stock have no defects in terms of efficacy or safety, in order to identify any products requiring

recall. This interruption also made possible the improvement certain manufacturing process validations and the setting up of certain still missing quality system processes more quickly.

These measures had an impact on Virbac United States' activity levels during the early months of the 2015 financial year. It should be noted that these measures do not concern the SENTINEL range acquired by Virbac from Eli Lilly and Company on January 2, 2015, whose deliveries have not been interrupted since the products are still currently being manufactured at the Lilly Group's industrial sites.

On March 2015, the assessment procedure described above was concluded for the main products, particularly the Iverhart range. Cases requiring a recall were limited, and no significant risks were detected in respect of the quality of the products on the market or in stock in St. Louis. The actions taken and progress realized made possible the release and shipment of Iverhart Plus on the last week of March and those of Iverhart Max mid-April. The production of some ranges resumes in April and is due to be gradually extended to the majority of the product portfolio in the second quarter.

2. Significant events after the closing date

No significant events have occurred after the closing date of March 31, 2015.

3. General overview of Virbac financial situation and profits

3.1. Activity

Virbac consolidated sales in the first quarter amounted to €211.4 million, a +17.1% growth compared to the same period of 2014.

This growth was driven by the acquisition of the Sentinel brands in the United States and favoured by a positive evolution of the exchange rates. Growth at constant parities has reached +7.0%.

Nevertheless the performance at constant exchange rates and perimeter has been negative, decreasing by 6.1%. As announced, two occasional events have indeed negatively impacted the sales. On the one hand, the interruption of the manufacturing and deliveries from the Saint Louis Missouri facility of the American affiliate (refer to key events of the quarter in chapter 1 of this report), and on the other hand, the impact on the sales in France of the decrease of distributors' inventories due to the occasional increase of sales of antibiotics in the fourth quarter of 2014 before the implementation of the new legislation on commercial discounts.

In the other regions the Group realised a good start of the year. Europe excluding France posted a high growth, + 9.8% at constant exchange rates, thanks to the recent launch of parasiticides products for companion animals. The growth has still been steady in emerging countries in particular in Mexico, in Colombia and to a lesser extent in India. The performance has also been good in large markets such as Australia, New Zealand and Japan

Consolidated figures (in € million)	1 st quarter
2014 Net sales	180.5
2015 provisional Net sales	211.4
Change	+17.1%
Change at constant exchange rate	+7.0%
Change at constant scope and exchange rate	-6.1%

3.2. Sales breakdown by activity

Consolidated figures	Change 3 months cumulative (actual rates & scope)	Change 3 months cumulative (constant rates & scope)
Companion animals	+20.2%	-12.4%*
Food producing animals	+16.1%	+4.6%
Other businesses	-49.5%	-53.2%
Total	+17.1%	-6.1%

*+4.9% excluding United States

- Companion animals

Sales in the companion animals segment have globally increased by 20.2% but are down by 12.4% at constant scope due to the difficulties faced in the United States. Excluding United States, organic growth in companion animals is close to 5% in particular thanks to the successful launches of Milpro and Effitix in Europe.

- Food producing animals

In the food producing animals segment, organic growth reached +4.6%, with a slightly positive growth in the ruminants and the industrial (swine and poultry) sectors.

- Other businesses

These activities, which represent less than 2% of revenues for the three months correspond to the markets of lesser strategic importance for the Group and mainly include contract manufacturing in the United States and Australia.

3.3. Debt

As of March 31, 2015, the Group's net debt amounted to €610.5 million, growing by + €413.9 million compared to December 2014. This evolution is mainly due to the debt incurred in connection with the acquisition of the Sentinel range in the United States and would be + €38.3 million without it. The evolution excluding Sentinel acquisition is mainly due to the seasonal increase of working capital generated by the payment in France of most of 2014 year-end rebates.