

Virbac: 2015 annual results

heavily impacted by the United States

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CONSOLIDATED DATA AS OF DECEMBER 31 st , 2015 in million Euros			
	2015	2014	% change 2015/2014
Revenue from ordinary activities	852.6	773.1	+10.3%
<i>Evolution at constant exchange rates</i>			+3.9%
<i>Evolution at constant scope and exchange rates</i>			-5.4%
Current operating profit - adjusted (excluding amortization of intangibles from acquisitions)	57.5	114.8	-50%
<i>As a % of sales</i>	6.7%	14.8%	
Amortization of intangibles from acquisitions	19.2	5.8	
Operating profit from ordinary activities	38.3	109.0	-65%
Non-recurring expenses and revenues	3.8	-	
Operating profit	34.5	109.1	-68%
Net consolidated profit	12.7	70.5	-82%
Of which net profit – Group share	9.4	63.6	-85%
Shareholder's equity	438.4	431.3	+2%
Net financial debt	605.0	196.6	+208%
Operating cash-flow before interest and tax	86.4	140.2	-38%

The financial statements have been audited; issuance of the auditors' report is ongoing.
Financial statements are available on www.virbac.com

Annual net revenue reached 852.6 M€, a +10.3% growth, thanks in particular to the integration of the Sentinel range acquired early 2015 in the United States and to the favourable evolution of exchange rates. Conversely, the temporary interruption of operations in the St. Louis manufacturing facility in the U.S. heavily impacted the organic growth, which stands globally at -5.4% but has reached a good level outside of the United States: +4.0% in Europe (excluding France, with a -8% decrease due to the drop of antibiotics sales) and +6.3% in the rest of the world.

The current operating profit –adjusted (before amortization of intangibles from acquisitions) has increased only slightly in the second half (30.1 M€ compared to 27.4 M€ in the first half), as announced in January. Consequently it amounted to 57.5 million € for the whole year, a strong decrease (-50%) compared to last year. In the United States, the positive contribution of Sentinel (31.4 M€), could only partially offset the impact of the drop of the legacy business, as well as the remediation costs incurred in connection with the implementation of the quality systems improvement plan in St. Louis. In total, the U.S. subsidiary recorded a negative operating contribution (excluding R&D) of -15.4 M€ in 2015 compared to +31.4 M€ in 2014. Outside of the United States, the current operating profit – adjusted is decreasing by -3.9 million € (excluding R&D); this is due to an exceptional expense of +3.5 M€ following the resolution of a litigation related to a trademark used by the Group and to a provision for credit risk in Venezuela.

Outside of these factors, Europe and Asia-Pacific generated good results, compensating difficulties encountered in Latin America (especially Brazil), and the continuous increase in quality costs in Europe. Finally, the Group continued to devote important resources to R&D, which increased by +6.5 million € compared to 2014.

The net profit - Group share amounts to 9.4 M€, a -85% decrease compared to 2014, higher than the decrease of current operating profit-adjusted. It includes, on one hand, a much higher amortization expense of intangibles assets related to acquisitions (19.2 million € compared to 5.8 million € in 2014), due to Sentinel; on the other hand non-recurring expenses of purely accounting nature, resulting from the application of IFRS principles related to Business combinations (such as the revaluation of finished goods inventories from acquisitions); and lastly the increase of financial expenses due to the increase of indebtedness.

From a financial standpoint, Virbac's net debt increase as compared to 2014, comes essentially from the acquisition of Sentinel and from the situation of the U.S. subsidiary. As planned, the level of debt started to decrease in the second half (-27.4 M€) and amounts to 605 million € at the end of December.

2016 Perspectives

The Group organic growth could reach around 7% in 2016. In the United States, Sentinel should grow modestly while the

legacy business should rebound substantially, yet without reaching the level of 2014. Actually, some products will not be reintroduced and others need to go through registration variations, which will occur only after a satisfactory new inspection of the St. Louis site. In Europe, growth should be moderate, in line with the market trend. Activity in the rest of the world (Asia-Pacific, Latin America) should continue to be well oriented, with an improvement expected in Brazil despite the economic crisis. Reversely, perspectives in the Aquaculture business in Chile are more reserved, the salmon industry being disrupted by economic and sanitary challenges.

The rebound expected in the United States should materialize in a significant improvement of margin, both locally as well as at Group level. R&D spending should remain stable as a ratio on sales. Consequently, the Group anticipates that its operating profit - adjusted ratio on sales will return to more than 10%. The profitability should continue to increase substantially in the United States in the coming years, thanks to the return to market of the majority of the legacy ranges and to the launch of new products. From a financial standpoint, the profitability recovery and a strict control on invested capital should enable a decrease of indebtedness of around 50 million € in 2016 - which will occur in the second part of the year due to the seasonality of working capital needs -.