Increase in operating income in the first half of 2022 reflecting the dynamism of our business

Press release issued on September 15, 2022 after market close

CONSOLIDATED FIGURES AS AT JUNE 30th in millions of €	2022	2021 restated [5]	2022/2021 Change
Revenue	**616.4**	**529.4**	**+16.4%**
Change at constant exchange rates			*+12.0%*
Change at constant exchange rates and scope [1]			*+12.0%*
Current operating income, before depreciation of assets from acquisitions [2]	**117.4**	**104.4**	**+12.4%**
as a % of revenue	*19.0%*	*19.7%*	
as a % of revenue at constant rates	*19.0%*		
Depreciation of intangible assets from acquisitions	1.9	2.2	
Current operating income	**115.5**	**102.2**	**+13.0%**
Non-recurring expenses and income	0.0	0.0	
Operating income	**115.5**	**102.2**	**+13.0%**
Consolidated net income	**77.6**	**73.7**	**+5.2%**
Including net income - Group share	77.5	72.0	
Shareholders' equity - Group Share	**819.7**	**697.0**	**+17.6%**
Net financial excess [3]	**19.6**	**54.5**	**-64.0%**
Operating cash flow before interest and taxes [4]	**138.3**	**122.7**	**12.8%**

[1] Change at constant exchange rates and scope corresponds to the organic growth of sales, excluding exchange rate variations, by calculating the indicator for the financial year in question and the indicator for the previous financial year on the basis of identical exchange rates (the exchange rate used is the one from the previous financial year), and excluding change 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 income, before depreciation of assets arising from acquisitions, reflects current income adjusted for the impact of allowances for depreciation of intangible assets resulting from acquisition transactions.
[3] Net financial excess corresponds to current (€53.6 million) and non-current (€64.4 million) financial liabilities as well as a lease obligation related to the application of IFRS 16 (€38.2 million), less the cash position and cash equivalents (€175.8 million) as published in the statement of financial position.
[4] Operating cash flow corresponds to operating income (€115.5 million) restated for items having no impact on the cash position and impacts related to transfers. The following items are restated: asset depreciation and impairments (€21.7 million), provisions for contingencies and charges (-€0.3 million), provisions related to employee benefits (€0.9 million), and the other expenses and income without any impact on cash position (€0.4 million), and the impacts related to transfers (€0.1 million).
[5] As a reminder, in March 2021, IFRS IC issued a final decision on accounting for the costs of configuring and customizing software used under a SaaS contract. As at June 30, 2021, the impacts were being analyzed, and the decision had not yet been applied when preparing the half-yearly accounts. The comparative information was therefore restated in the consolidated financial statements as at June 30, 2022.

The accounts were audited by the statutory auditors and reviewed by the board of directors on September 13, 2022. The report of the statutory auditors is in the process of being issued. The statements and detailed presentation of the half-year results are available on the corporate site at corporate.virbac.com.

Thanks to the Virbac teams' constant dedication to animal health, we posted revenue in the first half of the year of €616.4 million, an increase of +16.4% compared to 2021. Excluding the favorable impact of exchange rates, revenue shows growth of +12.0%. This growth benefited in part from a favorable baseline effect representing one point of growth in revenue, attributable to new products acquired starting in the second quarter of 2021.

All areas are growing organically at the end of June. It should be noted, however, that double-digit growth in Europe stalled in the last quarter, due to the slowdown in the market as anticipated in our annual outlook. Thus, the revenue in this area increased by +6.8% at real rates (+6.2% at constant rates), thanks mainly to the contribution of the United Kingdom, France and Italy. The area is supported by the strong dynamism of the pet ranges (in particular petfood, specialties, and vaccines), which compensated for the decline in the ranges for production animals. In Asia-Pacific, growth at real rates was +19.8% (+15% at constant exchange rates). Australia and India are driving growth in the region, generating more than 85% of this growth, in particular on products for cattle, which largely compensates for the decline in China, which was heavily impacted by lockdowns at the beginning of the year and which, despite a rebound since May, remains down at the end of June. In Latin America, business grew by +25.1% at real rates (+14.6% at constant exchange rates), thanks in particular to contributions from Brazil and Mexico. Lastly, in the United States, business grew by +32.2% (+19.9% at constant exchange rates). It benefited from strong sales of new products launched in 2021 (Clomicalm and Itrafungol) and those launched in early 2022 (petfood, and Tulissin for the production animals segment), as well as good performance on the dental and dermatology range.

The current operating income before depreciation of assets from acquisitions amounts to €117.4 million, a significant growth compared to the first half of 2021 (€104.4 million). This improvement is mainly due to the strong growth in our revenue, driven by strong performance in all areas, despite the slowdown in market dynamics seen since the beginning of the year. This was partially offset by a deterioration in the margin in relative terms, due to the impacts of inflation on raw material costs and operational expenses such as transport and energy. We are also seeing a rebound in business expenses (travel expenses, seminars, etc.), post-Covid-19, as well as an increase in our R&D expenses as a result of our desire to increase our spending in this area. It should also be noted that the half-yearly result at the end of June 2022 benefits from the recognition of income of €3 million, the last compensation tranche for the continuation of R&D projects acquired from Elanco in 2021. As a reminder, the current operating income before depreciation of assets from acquisitions from the first half of 2021 benefited from the recognition of non-recurring items in the amount of €6.6 million (€4 million in compensation for the continuation of R&D projects from Elanco, €1 million in additional margin on the Clomicalm and Itrafungol products which benefited from a zero cost of sales in connection with the acquisition, and €1.6 million from a reversal of a provision for disputes). After restating the positive impact of these items over the two periods, the ratio of "current operating income before depreciation of assets from acquisitions" to "revenue" at the end of June 2022 is 18.6%, slightly up compared to the same period of 2021 (18.5%).

Consolidated net income was €77.6 million, up 5.2% compared to the first half of 2021. This improvement in our net income is explained by the reasons given above, in particular the growth of our business and the good control of our operating expenses, which remain contained as a proportion of our revenue, despite the inflationary pressure observed in the first half of 2022. It should be noted that our financial result corresponds to a charge of €8.1 million, which is significantly up from the first half of 2021 (charge of €1.6 million). This is explained by the drop in foreign exchange income (unrealized loss), due to the depreciation of the Chilean peso against the euro and the US dollar in the first half of 2022 compared to the same period in 2021. This is only partially offset by the decrease in the cost of net debt of €2.5 million, resulting from the reduction in interest on rate hedges that matured in the second half of 2021 and in January 2022.

Net income - Group share amounted to €77.5 million, i.e. an increase of 7.7% compared to the first half of the previous year (€72 million), driven by operational performance, the elements shared above, and the decrease in the share of non-controlling interests as of June 30, 2022, following the acquisition of 100% of Centrovet in the second half of 2021.

On the financial side, our net financial excess amounts to €19.6 million at the end of June 2022, compared to €73.8 million at the end of December 2021. This deterioration over the first six months of the year is mainly due to the cyclical nature of our cash generation model, with cash generation occurring more in the second half of the year. This situation was exacerbated over the period by higher working capital requirements in the first half of 2022, due to the strong growth in our revenue, a reduction in the amount of factored receivables, higher capital expenditure, and finally the increase in dividends paid in respect of the results for 2021.
It should be noted that on September 12, 2022, Virbac unanimously obtained from its banks a one-year extension of the maturity of its €200 million syndicated financing contract, which is now fixed at October 2027.

Outlook

Revenue growth at constant exchange rates and scope is still expected to be in the range of 5% to 10% and will be refined when the third quarter revenues are published. The ratio of "current operating income before depreciation of assets from acquisitions" to "revenue" should consolidate at 15% at constant exchange rates, despite impacts from inflation. Finally, our debt relief should be around €30 million excluding dividends, at constant scope and exchange rates. The increase in our working capital requirements due to the growth in our activity, inflation, and management decisions (safety stock, for example) has led us to adjust our debt reduction forecasts for 2022 downwards.

ANALYSTS' PRESENTATION - VIRBAC

We will hold a virtual analyst meeting on Friday, September 16, 2022 at 2:30 p.m. (Paris time - *CEST*).

Information for participants:

Webcast access link: **https://bit.ly/3IUnx0t**

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