Phibro Animal Health Corporation (PAHC) Q1 2027 Earnings Call November 5, 2026

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PHIBRO ANIMAL HEALTH CORPORATION
Q1 2027 Earnings Call

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Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to Phibro Animal Health Corporation to host webcast and conference call on first quarter results. [Operator Instructions] I will now hand the conference over to Glenn David, Chief Financial Officer. Glenn, please go ahead.

Glenn C. David
Chief Financial Officer

Thank you, Kendra. Good day, and welcome to the Phibro Animal Health Corporation Earnings Call for our fiscal first quarter ending September 30, 2026. My name is Glenn David, and I am the Chief Financial Officer of Phibro Animal Health Corporation. I'm joined on today's call by Dani Bendheim, President and Chief Executive Officer; and Larry Miller, Chief Operating Officer. Also on today's call is Patrick Rodriguez, our Treasurer and new Head of Investor Relations. Welcome, Patrick, to the call, and I'm going to turn things over to you.

Patrick Rodriguez
Vice President of Finance & Treasurer & Head of Investor Relations

Thank you, Glenn, and I look forward to interacting with all of you in the coming months. Today, we will cover financial performance for our first quarter and provide financial guidance for our fiscal year ending June 30, 2027. At the conclusion of our remarks, we will open the lines for your questions. I would also like to remind you that we're providing a simultaneous webcast of this call on our website, pahc.com.

Also, on the Investors section of our website, you will find copies of the earnings press release and quarterly Form 10-Q as well as the transcript and slides discussed and presented on this call. Our remarks today will include forward-looking statements, and actual results could differ materially from those projections. For a list and description of certain factors that would cause results to differ, I refer you to the forward-looking statements section in our earnings press release.

Our remarks include references to certain financial measures, which were not prepared in accordance with generally accepted accounting principles or U.S. GAAP. I refer you to the non-GAAP financial information section in our earnings press release for a discussion of these measures. Reconciliations of these non-GAAP financial measures to the most directly comparable U.S. GAAP measures are included in the financial tables that accompany the earnings press release. We present our results on a GAAP basis and on an adjusted basis.

Our adjusted results exclude acquisition-related items, unusual nonoperational or nonrecurring items, including stock-based compensation, other (income) expenses as separately reported in the consolidated statements of operations, including foreign currency losses (gains) net, income taxes related to pre-tax income adjustments and unusual or non-recurring income tax items.

Now let me introduce our President and Chief Executive Officer, Dani Bendheim, to share his opening remarks. Dani?

Daniel M. Bendheim
Chief Executive Officer & President

Thanks, Patrick, and good morning, everyone. Patrick, welcome to your first call. Fiscal 2027 is off to a good start. Sales grew 6% to $386.8 million and adjusted EBITDA grew 4% to $64.3 million. And we did that against a tough comparison coming off a very strong first quarter a year ago. Let me spend a few minutes on what drove the quarter and how we're thinking about the rest of the year.

Our two (2) non-Animal Health segments did a lot of the heavy lifting this quarter. Performance Products grew 16% and Mineral Nutrition grew 17%.

I want to spend a moment on Mineral Nutrition because I think it's part of our business that tends to get

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overlooked. Part of this quarter's growth reflects higher prices for zinc, copper and other underlying commodities, and those prices obviously move up and down. But over time, we've also been moving this business towards the higher margin, faster-growing parts of the market, including plant nutrition, dairy and pet food. Customers in these markets are asking for more on ingredient sourcing, quality, consistency and technical support. Those requirements play to our strengths because of the investments we've made in talent, facilities and processes. That's a credit to the Mineral Nutrition management team who have been patient in building those relationships and capabilities. We expect the business to continue growing in these higher-margin areas.

In Animal Health, sales grew 3%, about right where we planned. MFAs were up 6% with good demand in North America and Asia and continued growth in ethanol processing aids, and that's net of a $5.2 million decline in Virginiamycin in Brazil.

Nutritional specialties and vaccines were each down 2%, mostly on softer poultry purchases in North America and Brazil, plus some timing in Asia.

Now people are still buying chicken. The pressure is on the producer side. Based on reports from several large protein companies over the last couple of weeks, U.S. chicken supply was up a little over 2%, which outpaced demand and pushed prices down and producer margins have come off last year's unusually strong levels. In Brazil, exports have been strong, but the domestic market was soft.

The number of birds being raised is a healthy number, and that's ultimately what matters most for us. When margins tighten, customers look harder at every input cost they purchase. A producer counts cost per pound to see what our products return, but some customers trim spending and cut inventory, and we saw a bit of that in our poultry sales this quarter, particularly in nutritional specialties and vaccines. The underlying demand for chicken is there, and we do well when it is. We see this pullback as temporary, and we expect it to normalize over the course of this fiscal year. Our forecast still has both of these product lines growing in the mid- to high single digits for the year.

Animal Health adjusted EBITDA in the quarter was down 1% from last year, though better than we had planned. Part of that reflects costs that moved from the first quarter into the second.

On Virginiamycin in Brazil, the transition period ended in October. Our conversations with regulators about therapeutic claims are ongoing, and now that the Brazilian election has passed, we're hopeful we'll see some movement. We haven't built any further Virginiamycin sales in Brazil into this year's numbers. If an approval comes, it's upside.

On the full year, we expect protein demand to continue growing, but producer profitability is likely to phase off in the near term and recent trade and disease disruptions in protein markets add to the pressure. That's reflected in our outlook. So, we're keeping our fiscal 2027 guidance where it was: net sales of $1.55 billion to $1.6 billion, adjusted EBITDA of $258 million to $268 million, and adjusted diluted EPS of $3.41 to $3.59.

Two other updates. First, the closure of our Chicago Heights plant remains on schedule. Production should wind down in the summer and the early fall of 2027 with those products moving to our other Phibro plants and the contract manufacturers. Second, cash. We were cash positive in the quarter, but I am not satisfied. We're carrying more inventory than we needed and bringing it down this year is a priority for me and for our whole team. Better cash conversion gives us more flexibility on debt, on investment and on returns to shareholders.

So, a good quarter with plenty of work still ahead.

With that, let me turn the call over to Glenn.

Glenn C. David
Chief Financial Officer

Thanks, Dani. Starting with our Q1 performance on Slide 4, consolidated net sales for the quarter ended September 30, 2026, were $386.8 million, reflecting an increase of $22.9 million or a 6% increase over the same quarter one (1) year ago. The Animal Health segment grew 3%, while Mineral Nutrition grew at

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17% and Performance Products grew at 16%.

Turning to the bottom line. Net income for the first quarter was $29.5 million. That's an increase of $3 million, or about 11% compared to $26.5 million in the same quarter last year.

Let me walk you through the key drivers. Operating income was down $1.6 million as higher SG&A more than offset the improvement we delivered in gross profit. Below the operating line, we saw several favorable items. First, net interest expense declined $0.8 million, reflecting lower interest rates and higher interest income, including interest received on our IEEPA tariff recoveries. Second, foreign currency was a $0.4 million gain this quarter compared to a $2.9 million loss a year ago, a favorable swing of $3.3 million. And third, income tax expense was $0.5 million lower. Taken together, these items more than offset the lower operating income and drove the $3 million improvement in net income for the quarter. After making our standard adjustments to GAAP results, including acquisition-related items, foreign currency losses and certain one-off items, the first quarter adjusted EBITDA increased $2.4 million, or 4% versus prior year.

Adjusted net income of $32.4 million increased $2.5 million, primarily due to higher gross profit, lower interest expense, and a lower adjusted effective income tax rate, partially offset by higher adjusted SG&A due to higher employee-related costs.

Moving to segment level financial performance on Slide 5. The Animal Health segment posted $293 million of net sales for the quarter, an increase of $9.6 million, or 3%, versus the same quarter prior year. Within the Animal Health segment, we reported MFAs and other net sales increase of $11.3 million, or an increase of 6% due to increased demand for certain of our MFAs in North America and Asia and higher sales of ethanol processing aids, partially offset by a decrease of $5.2 million in Virginiamycin sales in Brazil attributable to regulatory developments in the country.

Nutritional Specialty net sales decreased $1.1 million or 2% due to lower poultry demand in North America and decreased aquaculture demand in South America, partially offset by higher overall demand in China and higher companion animal sales.

Vaccine net sales decreased by $0.6 million, or 2%, due to lower demand for poultry products in Brazil and lower sales in Asia, partly due to timing, offset by higher swine demand in North America and higher sales of adjuvant products.

Animal Health adjusted EBITDA decreased $1 million due to higher SG&A, offsetting higher gross profit from increased sales.

Moving on to first quarter financial performance for our other business segments on Slide 6. Starting with Mineral Nutrition, net sales for the quarter were $73.6 million, an increase of $10.6 million, or 17%, due to an increase in demand and average selling prices for zinc oxide, copper, and trace minerals.

Looking at our Performance Products segment. Net sales of $20.2 million reflects an increase of $2.7 million, or 16%, as a result of an increase in demand for copper-based and fluoride products.

Mineral Nutrition and Performance Products adjusted EBITDA increased $1.6 million and $1.2 million, respectively.

Corporate expenses decreased $0.6 million, driven by lower consulting and business development costs.

Turning to key capitalization-related metrics on Slide 7. We generated $22 million of positive free cash flow for the 12 months ending September 30, 2026. We generated $86 million of operating cash flow and invested $64 million in capital expenditures. Cash and cash equivalents and short-term investments were $83 million at the end of the quarter. Our gross leverage ratio was 2.9x at the end of the first quarter based on $740 million of total debt and $257 million of trailing 12-month adjusted EBITDA.

Our net leverage ratio was 2.6x at the end of the first quarter based on $656 million of net debt and $257 million of trailing 12-month adjusted EBITDA. On interest rates, there are no changes to our current swap arrangement. Turning to dividends. Consistent with our history, we paid a quarterly dividend of $0.12 per share, or $4.9 million in aggregate.

Now let's turn to Slide 8, which lays out our guidance for fiscal year 2027. We are maintaining

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our previous guidance for fiscal year 2027 as follows: Net sales at $1.550 billion to $1.6 billion. This represents a growth range of 2% to 5% and a midpoint of approximately 4%. Total adjusted EBITDA of $258 million to $268 million. This represents a growth range of 1% to 5% and a midpoint of approximately 3%. Our adjusted effective income tax rate for fiscal year 2027 is estimated at approximately 20% and includes the benefit of the resolution of foreign tax audit expected in the future quarter. We do expect our adjusted effective income tax rate to be higher in fiscal year 2028.

Adjusted net income of $140 million to $147 million. This represents growth of 6% to 11% with a midpoint of approximately 9%. GAAP net income and EPS assumes constant currency and no additional gains or losses from FX movements.

As we look ahead to the second quarter, we want to highlight a comparability item. In the second quarter of fiscal year 2026, net sales were reduced by approximately $13 million of product returns related to the transition of certain Tier 3 markets, including Canada and Europe from Zoetis back to Phibro. Because this product was originally transferred at cost, the returns had no impact on gross profit. However, they lowered the prior year net sales base. As a result, reported second quarter net sales growth will benefit from an easier comparison. In addition, as Dani mentioned, certain costs have shifted from Q1 to Q2. Based on these two (2) dynamics, we expect revenue growth to be higher than EBITDA growth in Q2.

In closing, we are pleased with the performance in our first quarter and the momentum we are carrying into the rest of fiscal year 2027.

With that, Kendra, can you please open the lines for questions.

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Question and Answer

Operator

[Operator Instructions] Your first question from the line of Ekaterina Knyazkova from JPMorgan.

Ekaterina V. Knyazkova
JPMorgan Chase & Co, Research Division

So first, just on Virginiamycin in Brazil, you kind of mentioned this in the prepared remarks, but just maybe you can give a little bit more color on your thinking post elections. Have there been any recent communications from regulators or just anything else that kind of gives you more, like confidence as you kind of think about the timing of that potential label?

And then the next question I wanted to ask is just on your MFA portfolio. Can you just provide a little bit of some color in terms of like how much of the growth is coming from your legacy kind of portfolio versus the Zoetis portfolio? I know you're no longer kind of breaking those out, but just the flavor of how much of the growth was coming kind of from both pieces.

And then last question is just on livestock trends kind of more broadly and how you're thinking about the durability of growth for the industry and the trends that your kind of seeing both on the producer side and then also on the protein demand side of things. You mentioned some of the stuff that's happening on the poultry side, but maybe you can also talk about cattle and swine.

Glenn C. David
Chief Financial Officer

Thanks for the question, Ekaterina. I'll start with the MFA portfolio and growth and then turn it to Larry and Dani for Virginiamycin and some of the livestock trends. In terms of the overall growth, as you mentioned, we're not really breaking out between Zoetis and our legacy portfolio going forward. But just to give some context, obviously, we said that we expected the Zoetis portfolio to be one of our higher growth contributors for the year, and we definitely saw that in the quarter.

Zoetis was a major contributor to the overall MFA growth in the quarter. On the legacy side, we called out that our ethanol performance group had a very strong performance in the quarter as well. That helped offset the negative $5.2 million that we commented on Virginiamycin. So overall, legacy, call it, relatively flat because of the impact of Virginiamycin offset by EPG and then strong growth in our Zoetis portfolio.

And then I'll turn it to Dani to talk about Virginiamycin in Brazil.

Daniel M. Bendheim
Chief Executive Officer & President

Yes. So, post-election, we have not had any renewed contact yet with the regulators. We were not expecting to have in the week or two(2) afterwards any contact. We remain obviously overall bullish that eventually, we will get the VM approval as has happened basically in the rest of the world. But recognizing that things sometimes don't move as quickly as we'd like it to move. We still, as we've talked about, maintained our guidance that we have no VM sales in Brazil for the year. And obviously, if that changes, we will let you know. Larry?

Larry L. Miller
Chief Operating Officer

Okay. I'll talk a little bit about some of the protein profitability factors that we see. First, what we've seen so far and then kind of what we expect to see and what some of the projections are going forward as we finish out -- as the industry finishes out 2026 and into 2027. So as Dani mentioned, we do see squeezed producer margins in both our poultry segments as well as the swine industry.

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This is a factor of higher supply versus the demand, which has reduced wholesale prices for both chicken meat as well as pork prices. They've also -- our customers have also experienced higher input costs, certainly with grain, primarily corn, but also in fuel and some of the other inflationary increases that they've seen, and this has caused the pricing pressure there.

In the dairy segment, milk prices are hovering at farm gate around $20 per hundredweight. This is about breakeven for many dairy producers. One of the areas that the producers have seen as far as profitability of their farm is the sale of day-old calves, which is still over $1,000 per calf, anywhere from $1,000 to maybe up to $1,500 per calf.

So that's giving them some relief and some margin and profit opportunity. In the beef steak feedlot sector, we've -- the industry is seeing right now some on closeouts that happened between October and probably February, they'll see negative margins on those. And that's a factor that they had higher-priced feeder cattle coming in. The corn price was very high, and I'll talk about that in a minute. And so that combination with the fat cattle price is going to have some negative closeouts for feedlots in the next few months. We believe that that's going to reverse as we get into 2027. One of the things that's really changed, as you know, 75% of producer protein cost -- production cost is in feed, and corn is the main source of feed.

If you look back over the last 5 weeks, corn was trading at that time, cash corn is trading at about $5.50 per bushel. That has now decreased to under $4.5. So, we've taken $1 of feed cost per bushel out of that. In USDA's forecast in October, their corn report, basically, they reported a little higher inventory. So, pre-harvest inventory of corn stocks were a little bit higher, but also the yields as we are well into the harvest season now and we'll finish in the next few weeks, yields are higher than what they projected.

So, it looks like the profitability -- the pressure for profitability from corn, which is the main input cost will be lower than what it has been and should be affordable for livestock production as we get into -- finish 2026, but particularly as we get into 2027.

Operator

Your next question is from the line of Curtis Moiles with BNP Paribas.

Curtis Moiles
BNP Paribas, Research Division

I just have a couple here. So first, I wanted to start on the adjusted EBITDA. It looks like that's kind of progressed ahead of expectations in the first quarter. So, I wanted to get a sense of why you decided not to raise guidance on that metric. Is it just because expenses were pushed a bit? Or are you also kind of baking in a little bit of conservatism on that front?

And then secondly, I wanted to see if you could share any color on the impact seen to date from the USDA's phased reopening of the Southern imports for livestock. Has that trended as expected? And maybe any color on what you're thinking for 2027 on that?

Glenn C. David
Chief Financial Officer

Thanks, Curtis, for the question. Regarding EBITDA, we did perform a little better in the quarter than expected, having EBITDA growth of 4%. And as Dani mentioned in his remarks, some of that was driven by Performance Products and Mineral Nutrition, but a good part was also driven by the fact that we did have some of the expenses shift from Q1 to future quarters.

Also, we're only one (1) quarter into the year. We just gave guidance about two (2) months ago, and the forecast still shows us within the guidance range. So those factors are what's contributing to us holding the EBITDA guidance at this point. Larry, do you want to talk about the USDA and the border?

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Larry L. Miller
Chief Operating Officer

Sure. So, the border -- the importation of live Mexican cattle coming across the border. There are currently three (3) ports that are open now, three (3) stations, two (2) in New Mexico and one (1) in Arizona. They are bringing across average about 700 animals per day. They are projecting that in 2026; they will have imported 200,000 head of cattle. And the projection for 2027 is just over one (1) million head of cattle that will be brought across the border for finishing in the United States.

So, it is helping the supply into feed yards. Again, one (1) million head if that happens next year, over 27 million heads that are fed for slaughter in feedlots is a little under 4%. So, it is making some impact. The other area that we're seeing that is helping feedlot supply and beef supply is the amount of animals that are coming off, the beef on dairy, coming off dairies, as I mentioned earlier. It is about 5.5 million head that are being purpose bred, if you will, and supplied into the beef chain. So that's about 20% of, again, the 27 million head that we feed per year. So that's a little bit of outlook what we see currently and also into 2027 for incoming feeder cattle supply.

Operator

There are no further questions at this time. I will now turn the call back to Glenn David for closing remarks.

Glenn C. David
Chief Financial Officer

Thank you, Kendra, and thank you, everyone, for listening in on today's call. We appreciate your time, attention, interest and support of Phibro Animal Health Corporation. We hope you have a great day. Thank you.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.

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