September 9, 2021

Phibro Animal Health Corp at Morgan Stanley Global Healthcare Conference (Virtual)

EDITED TRANSCRIPT

CORPORATE PARTICIPANTS

Damian Finio Phibro Animal Health Corporation - CFO

Daniel M. Bendheim Phibro Animal Health Corporation - Executive VP of Corporate Strategy & Director

Jack Clifford Bendheim Phibro Animal Health Corporation - Chairman, President & CEO

CONFERENCE CALL PARTICIPANTS

Joseph Modisett

PRESENTATION

Joseph Modisett

Good morning, everyone. Thanks for joining the third session of the day, today. My name is Joe Modisett. I lead our health care banking effort in the U.S. I'm very glad to have Phibro Animal Health here today. With us, we have Jack Bendheim, Chairman, President and CEO; Damian Finio, CFO; and Daniel Bendheim, EVP of Corporate Strategy.

So very good to have the team here. I'm going to read a disclosure before we jump into a few opening comments and Q&A. So for important disclosures, please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please feel free to reach out to your Morgan Stanley sales representative.

QUESTIONS AND ANSWERS

Joseph Modisett

So with that, I think we're about 2 weeks after your year-end earnings call, given your June year-end. It'd be great just to hear from you based on that. What are some of the highlights that you thought would be good just to kind of introduce produce that you saw in 2021? And Damian, maybe you start.

Damian Finio - Phibro Animal Health Corporation - CFO

Yes, I'll start. I'm sure Jack or Dani will add some color. Good question, Joe. So as you said, we're a June 30 year-end. So keep in mind for the year ending June 30, 2021, we were 100% in COVID.. Our year-on-year sales were up 4% and our adjusted EBITDA was up 6%. Now we ended the quarter really strong, our fourth consecutive quarter of increasing sales. Fourth quarter sales were $220 million, adjusted EBITDA was $27 million.

We also reported some stronger GAAP results, so net income and earnings per share. A little bit of noise around tax, we had some one-time tax benefits in the fourth quarter that were unanticipated, partially related to lower GILTI taxes than expected and other release of some tax reserves on uncertain tax positions outside the U.S. So we don't expect those to repeat. So when we get into 2022 guidance, I'll probably talk a little bit more about that.

So really strong in terms of numbers, if I go outside the numbers we're excited about our product Rejensa that we launched in 2020, it's a companion animal product. I'm sure Dani y will talk a little bit more about that. And our companion animal pipeline progresses.

And last but not least, we are now fully SOX-compliant. I'm very proud of the Finance and IT teams around the world and the business for supporting that. So that was a big accomplishment as well. Overall, a strong year, a really, really strong quarter.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Joseph Modisett

Congrats on the results in a dynamic market to say the least. I think you also provided -- or you did also provide fiscal 2022 guidance. Maybe you could talk a little bit about both on the top line and the bottom line. What are some of the key drivers for 2022 as we sit here?

Damian Finio - Phibro Animal Health Corporation - CFO

Yes. So we projected and gave guidance for the full year sales growth of 1% to 4%, adjusted EBITDA growth of 2% to 6%. Now we also mentioned though that we're reinvesting incrementally about another $10 million in the business on some investments for the future. About half of that is in companion animals. If we were to put that $10 million back into the -- not back into the business, but rather let it fall to the bottom line, our adjusted EBITDA growth would be closer to about 10% or 11%, which I think is better than market.

We mentioned what the key drivers are -- we have 3 segments: Animal Health, Mineral Nutrition and Performance Products. It's really driven across all 3 whichare going to grow next year, but it's primarily driven by Animal Health. And within Animal Health, we have 3 product lines, MFAs and others, nutritional
specialties and vaccines. The growth is driven by nutritional specialties and vaccines. We expect MFAs and other to grow in line
with the market. So overall, next year, we're projecting continued growth into 2022.

Joseph Modisett

Okay. Now obviously, you have a very diversified business, both across geographies and different animal species. It'd be great just to get your perspective on kind of what you're seeing in the regions and potentially by species, as we've had a very dynamic market here from a COVID perspective.

And then also, if you see any of these kind of near-term impacts having a major structural change. So it'd just be great to hear kind of how are you seeing the world these days, and where you're seeing very different trends because we are seeing kind of a different return to normalcy in different parts of the world?

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

So -- that's a great question. So I think we can learn from what we've seen in the states where the recovery from COVID has been pretty strong, I would say, back to normal. And it's back to the normal we've had before. So I don't think restaurants are full yet, but all the changes we saw in COVID in the United States that people are just shopping the supermarkets, not going to restaurants. It puts some pressure on the producers to change how they present their animals. It's sort of returned. And I think we can expect that in the rest of the world.

The rest of the world is staying the same, it's still fighting COVID, not that we're not in the United States, but they are more affected. And so the recovery will be slower. I mean I just saw something in the Financial Times over the weekend, talking in some of these markets that they're not going to expect to fully come back till '24.

We've invested over the last couple of years and putting feet on the ground in some of the developing countries in the world. Bangladesh, Indonesia, other parts of the world though in the Far East. And those countries have not come back. The economy is still slower. So people's available cash to invest in more expensive protein than they were used to is not there. So that's going to be a slower recovery. But eventually, the recovery will be like this was just a blip.

©2021Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Joseph Modisett

Okay. And you had mentioned that a lot of your growth is going to be coming from nutritional specialties and vaccines, in the Animal Health area. Maybe start with the nutritional specialty side. What's driving that growth? And I know you did an acquisition back in 2019 of Osprey. Just be great to hear how that's going. And how you see that growth playing out over time?

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

The major driver for nutritional specialties is the movement away from antibiotics. And that has been started in Europe, but took very dramatic moves in the States. And now it's accepted around the rest of the world. So people are still looking for -- I wouldn't say the magic bullet, people are trying to still look for that nutritional product that can perform as well. No one has come up with anything. We haven't come up with anything. But you can put nutritionals into the feed that will help in terms of antibacterial, will help in terms of protecting the animal. And so that's been the driver for nutritional specialties, a driver for this growth.

The Osprey acquisition... We had come across Osprey, I think we said this a few times, as a supplier to us, and one of the key ingredients for one of our products called Provia Prime. And we've been quite successful with that product. And we are developing an additional amount of different kinds of microbials to continue to supply the growing demand. And so we've been very satisfied with the Osprey acquisition, and we'll keep rolling our products over the foreseeable future.

Joseph Modisett

And within this -- within nutritional specialties, if you think about the different species, I think you were initially focused on dairy. And are you kind of expanding past that? Or how should we think about it from that perspective?

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

Right. So dairy has been -- was how we got into the business in many ways on nutritional specialties. And with our major products, Animate, OmniGen. But now I think we're concentrating a lot on the poultry market, also looking at the swine market. And I think we've been quite successful. So I think it will be across all species. And we're looking at some potential products for bovine as well.

Joseph Modisett

Okay. Maybe turning to vaccines for a minute. As you think about your growth projections there, just give us an update of how you see vaccines playing out over time, another big growth driver. And also, if you could touch on kind of the -- I know you're developing a vaccine for African swine fever, which obviously has had a big impact and continues to have an impact in China. If you could just touch on those 2 things, that would be great.

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

So we started in the vaccine business by acquiring a division from Teva, and concentration is on poultry vaccines. We continued to expand that space, initially. We continue to expand that facility. We are building out a sort of assisted facility to those vaccines in Ireland to market the products in countries where we have some marketing difficulties on coming out of Israel. And we expect to be licensed -- fully licensed at the end of this fiscal year in that facility.

And the growth is in those markets. So a little held up by COVID because it goes into the same markets as you can imagine, poultry is very strong in parts. And then to further our entry into the vaccine business, we acquired a company in the United States a few years ago, there was a base of swine business on autogenous. Autogenous vaccines is not one vaccine fits all. But you go into the farms, you take out the blood,

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

you pick up the viruses that are affecting that farm and neighborhood -- neighboring farms, and you create sort of a custom-built vaccine. That business is growing nicely as some of the viruses have become sort of immune to the existing vaccines.

That business is growing, and that's becoming a solid part of the vaccine strategy. African swine fever, we've taken a totally different approach. We all know how devastated the swine market was in China in '19 -- '18. Our approach there is to not work with viruses, but work clinically which would make this product safe because you'd not be spreading the virus around. And it's been slowed down with all the problems China has faced with COVID and in ability to send people in to run some of the tests that we need to run.

We're proceeding slowly. So we're behind the schedule we thought we'd be. But my guess would be sometime at the end of this -- again, the fiscal year, we will have see the products]that we have. We've seen some initial successes can really be part of the vaccines to fight after the swine fever.

Joseph Modisett

Okay. And maybe just while on that, how do you see China as you think about China now, what do you see happening in that market, just given that they have had the impact of African swine fever here?

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

I think they've done a very good job in controlling it. I mean they made huge investments in new farms with higher biosecurity than they ever had before. So they've made progress. They've had some outbreaks of the disease. So they are continuing to be major importers of swine from around the world, especially in the United States. They're living up to their commitments. And even going beyondAnd so China, like in everything, with a market of 1.4 billion people, and huge consumers of protein will continue to remain a very, very strong import order of all kinds of protein and important to the United States.

Joseph Modisett

Maybe switching gears a little bit. Any update on the FDA situation with carbadox?

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

So that's always like a long story, as you know. You've been around that with us a few times. So far, we've responded. The FDA basically came to us and said, "All right, we're not going to look at the science of this whole thing, but we want it off the market, and we're going to make some moves that will say that the way you've tested it for the last 40 years, the way we've approved your testing for finding carbadox in the pig, we're going to say, we don't like it." We've gone back and say, "That's not how the game is played. That's not according to the regulations." And we put our response in over 6 months ago, we haven't heard anything back from them.

So we continue marketing the product in the United States. It's an extremely important product. It's used by over 70% of the hog producers in the United States. It saves the U.S. producers $300 million, $400 million a year in costs. And if they took it out, that's what the craziest thing is. If we removed carbadox from the market, the substitutes are antibiotics, and medically important antibiotics. So all the work we've done with the FDA for the last 7, 8 years about removing antibiotics in the United States, with this 1 move that makes no sense. They'd be putting tons and tons of antibiotics back in.

So it doesn't make sense to us. It doesn't make sense to the growers, the big growers in the United States. It doesn't make sense to many senators we speak to about this. So I'm not sure where this goes. But logically, it'll go nowhere.

©2021Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Joseph Modisett

Okay. Then maybe shifting from livestock to kind of a new area for you. You're very excited about -- you mentioned your companion animal product earlier. Can you just give us an update? I think you launched it last year or this -- yes, last year. If you could just give us a little update on how that's going kind of what you've learned, as you've kind of been in this new market for you? Obviously, a very attractive tailwinds in the companion animal market broadly, and kind of how you see your companion animal business developing over time?

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

Dani?

Daniel M. Bendheim - Phibro Animal Health Corporation - Executive VP of Corporate Strategy & Director

I'll take that. So as you mentioned, Rejensa is our product. We -- it's an over-the-counter product. We actually sell it exclusively through the vet channel with an exclusive distributor. We haven't named that distributor, but it's one of the larger distributors out there. It's going really well. It's been a difficult time, as you mentioned, it's been out there for the last year or a little bit more than a year. Obviously, launching more or less with COVID, it's -- COVID has been great for the pet market in general, but it's been also great for pet vets.

But if you're the incumbent, there's a lot of value there because it's hard to get to the vet. It's hard to pitch a new product. Despite that, this product is growing. I think we've mentioned in recent calls that 6 months -- over 6 months, it's been doubling. That's a rate that won't stay forever, obviously. But I think this year, we anticipate it doubling year-over-year, again. And we're a little circumspect in talking give more details because it's our only real product out there. We don't want to give specifics. It's a very competitive market.

But it's a product we're proud of. And we're taking the opportunity while we're working with a distributor, we are starting to build out our own sales force. By the end of this year, we'll have 10 people calling directly on clinics with the distributors just detailing the product. And we see this as laying the foundation for our pipeline going forward.

So it's a great entry. And behind it, we are building a pipeline, and frankly one of the frustrations I think we have as a company is maybe not getting enough credit for that pipeline. But we're building a pipeline. Our lead product is an atopic dermatitis product. It's years away, but it's a huge market. On paper, the product that we're developing is as good as anything else that's out there, if not better. But it's obviously -- there's a number of hurdles to get through. But if we do reach the finish line on that, that will be a game changer for Phibro and perhaps even for the industry. It's that big of a product.

We also have a number of oral care products that we're working on, which are probably something that we can get to market sooner than our atopic dermatitis product, 1 for dogs and 1 for cats. And we're excited about the progress we've made on that. And then finally, we -- actually, our first product that we license is a product -- a unique delivery system for Lyme that has taken longer to get out of the lab into the clinic. We're still hopeful that, that will eventually get there. But that more or less rounds out our current pipeline, but we are getting incoming opportunities all the time.

And I think what we've managed to do is we've managed to be somewhat selective on those products that we see, and I think pretty smart on the way that we've set up these in-licensing deals to develop these products that we have in our pipeline here.

Joseph Modisett

And can you just remind people where within your 3 divisions, the companion animal sits at the moment just as that grows? What part of the business that will be in?

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Daniel M. Bendheim - Phibro Animal Health Corporation - Executive VP of Corporate Strategy & Director

So right now, it's in -- it's reported as part of nutritional specialties. We talk about wanting to develop a fourth leg to our stool. MFAs, nutritional specialties, vaccines and companion animals. So our goal is definitely for this to be a subsegment, the product area of at least $100 million in the midterm, I'd say.

Joseph Modisett

Okay. So just maybe as we kind of start to wrap this up a little bit, you've talked about the growth in nutritional specialties. You talked about the growth in vaccines. I think you actually started, Damian, with a little bit about the investments you're making. Can you just talk a little bit more in detail about where you're targeting those investments, and which ones are going to see more near-term returns, and which terms maybe like companion animal are a little bit behind that? And just think about how the cadence of those investments and the returns on those investments over time would be great.

Damian Finio - Phibro Animal Health Corporation - CFO

Yes. So some of those investments roll up into SG&A in our public filings, right? So our SG&A year-over-year is going up about $20 million. Half of that is the investments in the future. So -- and half of that is about $5 million-ish which is around the companion animal pipeline that Dani just talked about. The other half, I would say, is split evenly across the facility in Sligo, Ireland, which is a vaccine facility we mentioned earlier, not all those costs to stand up that facility are capitalized, so some run through the P&L.

Some other costs are allocated towards African swine fever in development with our partner. And then there's ongoing product registrations, which as we continue to execute our strategy to expand geographically and move into new countries, the ongoing product registration costs continue to escalate to keep those products on the market. So that's that half.

The other $10 million is primarily driven by 2 factors. So one is what I just mentioned, is when you move into new markets, there's an infrastructure you have to build and head count you have to bring on board to set it up. So there's a cost associated with that. And the other is labor - our labor force. We've continued to add people, grow the labor force year-over-year. And as you know, it's a competitive labor market in the U.S. and really everywhere. So a lot of movement in the job market. So that's the other half.

But overall, that's where the $20 million is going. Now if I look at the investments in the future, you talked about return time on horizon. So Sligo facility is probably in the next -- you guys correct me if I'm wrong, probably 1 to 2 years. The ongoing product registration is an ongoing thing. The companion animal is probably behind that. It's more medium term, so not short term.

Joseph Modisett

Okay. As you think about even with these investments, how your margin profile is going to play out over time? I think in your guidance, you talked your EBITDA growth, even with these investments was exceeding your top line. Can you talk about the drivers of that margin improvement over time?

Damian Finio - Phibro Animal Health Corporation - CFO

Yes. There's a lot of puts and takes in the margin. It's primarily driven by 2 things; one we take price where possible and where there's opportunities to take price, we'll do that, which, as you know, drops right to the bottom line. The other is, as our top line continues to grow and volumes continue to grow. We're getting better per unit costs at our facilities. I think Jack mentioned earlier, we manufacture 70% of our products. The more product we can put through those facilities, the better per unit cost and the margin expansion. So it's primarily price and more volume through our existing facilities.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Joseph Modisett

Okay. Maybe as we're wrapping up, I'll just open it up to you, is there any other topics we haven't discussed that you've been -- that you think are kind of underappreciated by the investment community that you just wanted to highlight a bit more that we haven't touched on.

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

Well, I think Dani mentioned these investments in these interesting pipeline products, but let's spend a little time talking about, maybe Dani can, about the unique approach we've taken to get into the companion animal business.

Daniel M. Bendheim - Phibro Animal Health Corporation - Executive VP of Corporate Strategy & Director

So as I touched upon a little bit earlier, I think there's been various methods of getting in. Obviously, you can buy a big business. There's been a number of biotech startups within our space that have spent an awful lot of money developing their own pipeline. I think we've looked at this and said that we're trying to find a middle way. We are the largest multinational out there that does not really have a pet business which allows us to take advantage of certain in-house capabilities that we have on the regulatory side, the product development side and spread it out.

But what we've done is that we've got incomings. About half the work that we're doing, we have set up product milestones where the R&D is actually being done by the companies that had come to us with the product and its milestone-based payments, and really none of that risk is on us. It's all on the company that we're partnering with. There might be a little bit of upfront payment, but for the most part, it matches with achievements.

And then I guess at the other half, and I look chiefly at the atopic dermatitis product, we have taken -- we've licensed the product, we've taken the R&D risk on ourselves. And the outlay for the R&D belongs to Phibro, we are ourselves working with leading third parties, CROs, CDMOs, every contract, every C out there. And it's a big job. And again, the addressable market, the Zoetis products alone, atopic dermatitis, have reached $1 billion of annual sales. The market is growing really fast, pretty much very uncrowded at this point. It's going to get a little more crowded by the time we get out there.

But still compared to the parasiticide market, which may be twice as big or 3x as big, but has 15x more competition. We see this as a huge opportunity. And that's why we decided to take a little bit more risk on our own P&L and balance sheet because it will allow us to get a bigger share of that opportunity.

Joseph Modisett

So maybe in conclusion, in kind of the near term, you've got a diversified business, you've got growth drivers in nutritional specialties and vaccines that are driving that growth. You've got kind of a toehold in the companion animal market in Rejensa, then you've got these bigger opportunities coming behind it as you head into that market. And obviously, Animal Health now, just given what we've seen is obviously dynamic and getting a lot of investor attention.

So appreciate you joining us here today. And I think with that, we'll conclude today's session. So thanks, everyone, for joining.

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

Thank you, Joe.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Daniel M. Bendheim - Phibro Animal Health Corporation - Executive VP of Corporate Strategy & Director

Thank you.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2021, Refinitiv. All Rights Reserved.

©2021Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.