Mike: Let's kick things off here. Thank you for joining us for our next session. We're excited to host Phibro Animal Health Corp. We're joined by Damian Finio, Chief Financial Officer. Damian, thank you.

Damian: Good to see you, Michael. Thanks for having us.

Mike: Thank you. And yes, I skipped that part. I'm Mike Ryskin on the BofA Life Science Tools and Diagnostics and also Animal Health team. I think we're just going to do a little bit of a fireside chat. So just a free-ranging conversation.

I guess to start, you reported your fiscal 3Q results very recently. Just to sort of like set the table, maybe you could walk through some of the key points?

Damian: We just hosted our earnings call last week, so hot off the presses. As you mentioned, it was end of our 3rd quarter. We're a June 30th year-end. So just six weeks from now we'll be ending our year and starting fiscal year '24. We had a decent 3rd quarter. Sales were $246 million, which is up 3%. For year to date we're up 5% in sales, so $723 million. To hit our guidance -- which we've kept since August 2022 – to hit the low end of guidance, we need to do $237 million in the 4th quarter. So, we feel pretty confident…fourth quarter, as you know, is typically our strongest quarter, primarily driven by seasonality. So, feel pretty good about the sales number and top line.

And on our EBITDA side, $27 million in EBITDA, which was 2% growth for the quarter, $80 million year to date, up 1%. -a little less growth on the bottom line, both for the quarter and year to date. And for the reasons that you've heard other companies say too, input costs are higher. We're also sitting on some inventory which I'm sure you and I will talk about.

So, to hit our guidance on the low end, we would need to do $33 million (of EBITDA (in the 4th quarter, which is about a $6 million bump (vs Q3). But on our call last week we talked about some opportunities in the 4th quarter. So, in addition to seasonality, which would help quarter-on-quarter comparisons, we launched some commercial vaccines in Brazil and also opened up a new autogenous vaccine facility in Brazil.

Between the seasonality, plus the incremental boost from the vaccines in South America, we feel pretty good about our guidance on the bottom line as well. So overall, good year to date results, but we've got to close out the year strong with six weeks to go.

Mike: Let's pick things off right there. You touched on sort of the bridge from the fiscal 3Q or trailing nine months, versus fiscal year. What sort of deviated from plan in

that fiscal 3Q? Because you identified a couple new challenges that you hadn't seen year to date. Can you talk through that a little bit?

Damian: Yes, so we disaggregate our revenues into three segments. There's animal health, mineral nutrition, and performance products. It's our mineral nutrition business that's lagging a little bit and where we're seeing some of the impacts of destocking, which I know some of our competition has talked about as well. So just as a reminder, mineral nutrition is about 25% of our company sales. It's a US business and has some exposure to the beef cattle feed lots. And I think with the destocking that we've seen and the lower size of the feed lots, that's where we're seeing this impact, in mineral nutrition.

But if you did take a step back and look at the last five years, part of the decline is just the year-on-year comparison. The last five years last year was a great year for mineral nutrition, So, when you look year on year, things are down; but if I look at five years, it's actually the second-best year in five years. it's still a good year. I think what we're seeing from our side, although the year-on-year comparisons aren't good, it's that the business or that part of our business is starting to normalize and inventory levels are coming back to what they were pre-COVID.

Mike: That was actually going to be exactly what I was going to ask next, was how quickly does that change? Is there a scenario where that's just a one quarter blip and suddenly you go into fiscal 4Q? Or maybe fiscal 1Q and things are back to normal there? Just talk us through the dynamics of those stocking issues, specifically within mineral nutrition.

Damian: Yes, and it's a trickier business, mineral nutrition vs. the animal health business, as far as inventory goes. As you know, we often say the sales run in parallel with the cost of the underlying raw materials. It's primarily because we buy minerals and vitamins, etcetera, and we sell them through the mineral nutrition business in the US. We typically stock up on inventory in the quarter ending September 30th, because our facility is based on the Mississippi River, and it's north enough on the Mississippi River that we need to load up on inventory before the river freezes to cover the next couple of quarters of demand.

If you look at our free cashflow over the last trailing 12 months, you'll see there was a negative dip in the 3rd quarter or what was the September 30th ending quarter last year. So, we're sitting on a little bit more inventory than we are normal. As we said on the call, about one-month worth of inventory. And we need to make sure that we balance our inventory with the needs of the customers in this next quarter, not the quarter ending June 30th, but in (the quarter ending) September 30th.

So, I think once we make that adjustment, we'll be closer to in line with customer demand and then that continue through the year, whether or not the feed lot placements take a little bit longer to increase or not, I think we're seeing it more as just destocking.

Mike: And what about – what's causing that decision from your customer base, customers to destock?

Damian: And I'd say I'm speculating here, but I have to imagine same thing that we would want – that's to lower our inventories. The cost of capital has just gone up and it's a fairly – it's a lower margin business relative to our animal health segment, where we've really seen the growth.

Mike: Okay. Is it based on where you exited fiscal 3Q and where you're sitting now in May, has it sort of like stabilized? Have they lowered it to a good stable point? Or is there risk they'll lower it again?

Damian: I think there's still some risk of more destocking, yes, but I guess we'll see as this quarter plays out.

Mike: And again, you're only seeing that really in mineral nutrition. You're not seeing that in animal health…

Damian: Yes, your question was about what we are seeing that surprised us a little bit relative to mineral nutrition. So, performance products are the other division which is about less than 10% of our revenue, it is on target. And I guess the surprise on the favorable side was the performance of our animal health segment, which we highlighted on last week's call.

Mike: Yep. And then pivoting to animal health segment, yeah, you saw really strong results in fiscal 3Q and year to date and MFAs and other in nutritional specialties and vaccines. Slightly different drivers in all three. Maybe you could just go through those one by one. Like what are the tailwinds that you're seeing?

Damian: So, animal health, which is our biggest segment, again, about two-thirds of our business, we further disaggregate revenues into three product categories. There's MFAs and other, as you mentioned, nutritional specialties and vaccines. I think we've highlighted this the last couple quarters, and that's that this last quarter was the 8th consecutive quarter-over-quarter prior year growth for each of those three categories. So, I guess the good news is I can't say it's just one of the three categories driving it, because it's really all three.

Year to date sales for the segment were up 10%, which we believe is above market. And if I look at the product categories within animal health, MFAs and other was up 9%, nutritional specialties are up 12% and vaccines were up 9%. MFAs and others we've highlighted a couple times. We did a small acquisition, of an ethanol company in Brazil, back in I think this was the quarter ending June 30th last year, last fiscal year. So that continues to drive the "other" part of MFA and other, but we still have strong demand for our medicated feed additives as well.

Nutritional specialties, it's really two drivers, I would say. Our companion animal product Rejensa is included in nutritional specialties. It continues to perform well. And then also our direct-fed microbial business, which started with the acquisition of Osprey Biotechnics in 2019; but we've continued to leverage the technologies and the products there are moving some of those technologies to Brazil and capturing the market in Brazil as well. So those two are driving nutritional specialties, again, up 12%.

And then vaccines are about what Jack mentioned on our call last week. We launched some commercial vaccines in Brazil that recently received regulatory approval. So, we're excited about that. Brazil is a big poultry market, as you know, being second only to the US. And we launched an autogenous vaccine facility.

That's a little bit of a different business. So rather than the commercial vaccines, autogenous are custom-made vaccines where we take a sample from the flock, bring it back to the lab, create a custom vaccine that's specific to that farm. So, it's smaller batch business, but it's higher margins. And we opened the facility in Brazil to capture that market as well.

So, what you see there are a lot of upsides we think in vaccines, particularly in the South America Region.

Mike: Maybe just sticking on the autologous vaccines. What's the opportunity there? Are you converting customers or animals that would have been on sort of a traditional vaccines and moving them onto autogenous, or is this sort of a new market for you?

Damian: Well, it's not new in that it's our second facility. So, we have the same business in the US based on our facility in Omaha, Nebraska. But what it does is open up a similar business, just in a different market that's also a big poultry market. It's some of the same customers that we call on for our other products, including the commercial vaccines. But it's just one more product to have in our portfolio and another option to keep their animals healthy.

Mike: Would you say that that market is outgrowing vax in general?

Damian: I think we're seeing growth in both commercial and autogenous. But we like autogenous because, again, the margins are good.

Mike: What's driving the overall demand in the market? I mean like you said, feed lots of placements have been a little shaky. We're seeing somewhat softer HER numbers. Poultry has been impacted by a few infectious disease outbreaks, that we'll discuss later as well. You're still seeing really strong growth, again, all three segments, all species. So, what's driving that?

Damian: I think some of it's our new products that we've mentioned, so nutritional specialties I think, again, it's finding new ways for probiotics and direct fed microbials in our existing product line and extending our product line that we have right now. It's also the companion animal product, Rejensa, which continues to grow. These are both new product examples. And same with autogenous. It's the same technology, but again, it's opening a new market with products that we sell elsewhere.

So, it is a combination of things. And we've talked before about our R&D investments being split between companion animals, nutritional specialties, and vaccines. We're excited because we're seeing returns in the nutritional specialty and vaccine investments that we've been making the last couple of years.

Mike: Do you think for some of these products, I mean could you – are any of them blockbuster status or is any of them going to be? You talked about Rejensa individually obviously in the past; and we'll get into that later, but some of those other vaccines, are any of them alone…

Damian: Yeah, but how do they define blockbuster these days? Is that $100 million?

Mike: $100 million. I mean $50 million, a $100 million…

Damian: Yes, I think that would be…. I think that would be on the high side. Yeah, I think it depends. There is some disease outbreak in South America which one of our vaccines could address. Depending on the model you believe, it could be a very good size product for Phibro. I don't know if it quite hits blockbuster status, but a meaningful number for us, that we'll give guidance on during our August call.

Again, we only have six weeks of guidance which is different than some of other companies that are here this week that can talk all the way out to the end of the calendar year. We're only six weeks out from our year end. We'll give an update on those things at our next call in August.

Mike: Great. I mean maybe this is a great time to transition to some of the other market factors we're seeing. One I do want to touch on, just given focus on poultry is avian flu outbreak, obviously HPAI in the US and elsewhere in the world. How do you see that playing out near/medium term? It's not a new topic, not a new issue, but it seems like it's been a lot of noise here in the past year.

Damian: Yeah, so our business is fairly diverse. We sell in more than 80 countries. We sell across species. But if you were to look at where is our major concentration is, it is the US and it is poultry. So, it's a fair question. That said, within poultry, the avian flu impacts turkeys and layers primarily, and our business in the US is primarily broilers. So, we've actually seen very little impact and foresee very little impact specific to that disease on our business in the US.

Mike: Is there a risk it becomes an issue for boilers? What's the (reason why it's not)?

Damian: I think the difference is the life span of a broiler versus a layer or a turkey. It's a shorter lifecycle for broilers, so they're less exposed to some of the issues that cause the influenza. And that's sort of the biology of it, I guess. I'm sure the answer is it could, but it's less likely just given the lifecycle.

Mike: Makes sense. And on the flipside, is there any opportunity there in terms of vaccine development?

Damian: We have an active vaccine R&D effort, so there is potential, but nothing that would be baked into our guidance specifically. But we'll continue to look for that. So even though it's not our business right now doesn't mean it couldn't be in the future with the vaccine progress that we've made elsewhere.

Mike: All right. Sticking on the infectious disease front just because it's topical. Been a couple cases of BSC in cattle, particularly in Brazil. The latest we've heard is there's still some debate back and forth in terms of what imports or exports be banned to other countries, particularly China. You do have some exposure there. You just talked about some of your (inaudible)growth.

Damian: Yes, we talked about this you, and I, I think back in March. And we said at the time, I think, there was already an embargo, so they could not – Brazil could not export to China. And I think I answered that we thought for planning purposes, we said 30 to 60 days. I think it ended up being a little shorter than that, it was about three weeks. So, at the time we saw it more as a timing delay; and it would just push sales out to our 4th quarter, which ends June 30th. I think it ended earlier. I think March 23rd was the exact date. And so, it was a little less than what we thought.

I think, again, we think it's just a bit of a timing blip and we'll see the demand in the 4th quarter, which is typically our strongest quarter in the beef cattle markets in Brazil. Just, again, due to seasonality that's how it typically works. So, I think -- we're glad that's behind us and now we should have a strong end to the year.

Mike: Okay. And then last, but not least on the infectious disease front. We've covered poultry; we've covered beef. What about swine, African swine fever?

Damian: Right. I think we all know there was a surge of ASF in China in March. We still don't have a product on the market in China to address African swine fever, as does anyone else. We continue to work with another company on trying to find a vaccine. I think I mentioned last time progress had been slow, partially due to COVID, partially due to just the strained relationship between China and the US. And nothing has really changed in the last three months.

So, we've read about some speculation of whether it will mean production goes down and you start to see prices shift up or down. I've actually read both sides, so I'm not sure what you've heard. But right now, that doesn't impact us, on our side. But just curious to look at the market and see where it lands. But right now, there's a bit of an outbreak that they're trying to address.

Mike: Are you seeing any impact from any other regional outbreaks? There's small flareups across Europe. There's flareups in Vietnam, and that's been going on for a couple of years. There's some flareups in the Caribbean, but really, the one you're still monitoring is China?

Damian: Yes, and the ones that you mentioned aren't real big markets for us to begin with. So not enough to have a material impact.

Mike: All right, noted. On that front, let's touch on the companion animal portfolio. You touched on Rejensa a couple times previously. I want to make sure we spend a decent amount of time on that. Yeah, can you give us an update on growth trends? It's been multiple quarters now with that product on the market, so what are your learnings?

Damian: So Rejensa continues to do well. We had said when we put out our guidance back in August that we thought sales would double over the prior year if you recall. I think we'll come up a little bit short of that target, but still really strong growth…won't quite be doubling, but again, really strong year-over-year growth. So that product continues to do well. We're picking up new vet clinics and we're seeing a good percentage of reorders as well so, all good signs on that product.

We're excited about the companion animal development pipeline. So, no products have dropped out since we last spoke. We have a couple of different projects that

we're looking after. I'll just review a couple of them. Oral care, cats, and dogs, it's a big market, about a $2 billion market. For a company our size, even a modest 5% market share, quick math, 5% of $2 billion, $100 million in sales, good margins. When our guidance is $113 to $118 million of EBITDA this year, it could really move the needle for us. Again, in the medium term, but it's a big market and we're happy with the progress we've made on the product that we're developing there.

Then we've got pain and dermatology both for canines, both about a billion-dollar market. Again, happy with the progress that our projects made there. You and I talked before; we haven't given a lot of detail beyond medium term. But they continue to be medium term and continue to progress.

The other one we're excited about, which is the nearest term relative to the other products I just mentioned that are in development, is our gene therapy for mitral valve disease. 8% of the dogs in the United States at some point in their life will get mitral valve disease. That percentage is even higher in certain breeds of dogs, particularly smaller ones. We're working with a company called Rejuvenate Bio to progress this drug. At one point they had mentioned conditional approval, or conditional submission to the FDA, or I should say submission for a conditional approval -- sorry – to the FDA by the end of the calendar year.

They haven't press release anything different than that. It's probably a little bit of an aggressive deadline, but somewhere around there, so that the nearest term (opportunity). That's a smaller market, about $200 million market. So, we have a deal with them where they're developing the drug and we'd be the commercial arm. We're excited about that.

And then there's a smaller Lyme disease drug in the pipeline as well. It's about $100 million market. So overall, we're happy with those five projects. They continue to progress and for us, that would become the fourth product category under animal health at some point in the medium term. So, it would be right alongside vaccines, nutritional specialties, and MFAs and other. But right now, since we only have one product, Rejensa, is part of nutritional specialties.

Mike: Really appreciate that comment, that's really helpful. One thing we've discussed in the past when you talk about your companion animal buildout and future investment is commercialization strategy. And just going through some of the ones you hit on, gene therapy versus derm versus pain versus oral care versus Rejensa, you can see different strategies you want to pursue to go to market. What are you thinking there in terms of as you add to that portfolio, 2nd, 3rd, 4th, how that impacts your go-to-market, your commercial organization?

Damian: Fair question. There's some overlap and some differences in the customer base of those, vet clinic versus more like a specialist. As you know, I think with Rejensa we took a unique approach I think in that although it's an over-the-counter product, you can only get it through the vet clinic. And we have an exclusive deal with one of the bigger distributors in the US. We haven't named who it is, but it's one of the bigger ones.

And right now, our sales force is a contract sales force through them. And they get a portion of the revenue that we collect on Rejensa. That was a way for us to get in front of vets and for them to get to know the Phibro brand by being able to keep that revenue stream within their clinic, knowing that they're not competing with the Chewy's of the world to sell that product. So that's been pretty helpful.

I think as we hit some of these bigger markets, that strategy, I'm sure at some point, will change. Going back to my pharma days, it usually goes from contract sales force to a mix of contract and internal, until you get to the point where there's economies of scale and you bring it all in-house. So those are all decisions we'll have to make as we approach the market, and we see how this pipeline progresses. But for right now, we're really happy with the distribution agreement we have for Rejensa, and it will evolve over time I would say.

Mike: Your comments on Rejensa ramp, you touched on new clinics, reorders. Anything you can say in terms of market penetration? I don't know if there's any stats you'd have, you can think about in terms of pets, you can think about in terms of clinics, geography. How should we…

Damian: I don't have any fun metrics to quote. I just say it continues; we continue to expand the number of clinics where the product is offered. And so that growth has continued. I think we're covering, and we continue to add reps to cover more clinics. and we're finding the more clinics we bring on, the higher the volume and the more demand that we have. It's been nice growth since the launch.

Mike: And what's the bottleneck for med expanding faster? Is it just you want to have like a measured approach with that distributor or?

Damian: Yeah, I think we've been doing our – we try to keep it cashflow positive, really, more or better than breakeven as a standalone business and not be funded by the rest of the portfolio. That's been the goal to keep it self-funding and keep it growing.

And again, it's also it's our first product in companion animal, so that relationship (with the vet) we think is really important in getting the Phibro name out there. So, in addition to the dollars and cents, it's just the relationship and getting to know the market and build out our companion animal team.

I mentioned to you last time too we added a new board member, Alejandro Bernal, who is the CEO of PetDx. So again, he brings that companion animal expertise to the board now.

Mike: Great. Any questions from the audience? All right, we'll keep going. Just dovetailing that from your comments on investment in the companion animal. Let's talk about the P&L and the opex in general. You talked about what you're seeing in mineral nutrition. You touched on what you're seeing from a demand about – broadly in animal health and companion specifically. Can you talk about your investment priorities? Yeah, there's only six weeks left in the quarter and you're not going to guide to the next fiscal year, but still, maybe just take a step back and give us some broad stroke.

Damian: Yes, I think the investments that we're making in the three areas I mentioned, nutritional specialties, vaccines and companion animals will continue in the fiscal year '24. We also, we're talking about R&D projects at the moment, but there's also capital investment in our facilities as we manufacture more than 70% of our products right now and some of those are more capital intensive than others. In addition to maintenance capex, we're adding more manufacturing capacity at our facility in Quincy, Illinois, we have a project ongoing in Israel as well, and we just added the autogenous facility in Brazil.

So, we continue to make capital investments as well, to expand capacity as the topline and volume and continues to grow. I think that will continue in the fiscal year '24. Exactly how much, we'll talk about it in August and maybe go through a little bit more detail (in regard to) where that money is going in terms of capital allocation, but I think it's fair to say that we'll continue on the same path for next year.

Mike: What about from a commercial organization, SG&A type of footprint? Any particular areas?

Damian: No, our major driver has been the strategic investments, that's been the intentional increase in SG&A. I mean, the other biggest line item we have is labor. And obvious there's labor increases – we have people, boots on the ground in I think 37 countries. There are different macroeconomic pressures in each of those, although some are global, not all are. There's hyperinflation in Argentina, as an example, and there's been issues with the economy in Turkey as well, those continue to monitor.

So, we continue to invest in our people. I think our headcount growth, if you could look, we just issued our ESG report – what's today, Tuesday? It was yesterday actually. Just issued it yesterday. Our headcount I think year on year is up maybe 2 or 3%. So, there's been a little bit of headcount growth. Part of that is with the acquisition of the company I mentioned in Brazil; and some of it is just regular growth and filling some vacancies that were hard to fill during COVID.

I think we're doing a good job managing our cost base and saving the incremental growth in SG&A for strategic investments rather than just opex.

Mike: Good enough. The other part of the cost equation, pricing power, and obviously inflation from a COGs perspective. But on price, a lot of moving pieces over the last couple of years, both from sort of actual product to ASP, but also freight surcharges, things like that. Are we seeing a period where that's really normalizing post COVID?

Damian: Yes. I think our topline growth reflects the fact we've had the ability to raise price and done a pretty decent job of that. But as I mentioned in my percentages I gave you in opening comments, our percentage growth on the bottom line is less than topline. So, we've been able to cover some of those costs and have a little bit of growth, but not all of that price increase is dropping to the bottom line. If I looked at the sales growth and said how much is price and how much is volume, it's roughly like 75% price, 25% volume. So, we've got volume growth, but we also have price.

The freight, you're correct. I think we are seeing some of those lanes clear up and freight costs starting to come down. They were really at a height maybe this time a year ago. Some of those we were passing through, so you actually won't see any impact on the P&L, because it had a net-neutral impact when we were passing it through anyway. So even if it goes down and we stop passing it through, so that increment was being passed through anyway.

But overall, I think freight is a big part of our bottom line. But a good portion of that, again, is intercompany freight as well, which wasn't being passed through. So, we'll see some margin improvement as – if I just was to isolate internal freight between our manufacturing facilities and where we sell. So that obviously was not being passed through. As those costs come down, that will help.

Mike: All right. And I think we've also seen a few assets exchange hands in the animal health space in recent weeks, recent months. Whenever that happens, there's the opportunity to maybe bite off a product here and there. You've looked at that in the past. I know you've – both for the traditional lifecycle business, but also for companion. Anything you want to comment there in terms of opportunity bolster via M&A?

Damian: Yes, I think there's a couple of concepts there. One is that maybe there is an opportunity to pick up a product or two, as you said, and we'll see when the time comes. I think the other thing is maybe from a market perspective, maybe there's less options now to invest in animal health public companies. It's one more reason to invest in Phibro.

And then, as far as does it change our view on companion animal, the incremental investment, and the products that we have in the pipeline, I would say no. And given it's a medium-term opportunity, between now and then I think the market will continue to evolve, which often happens when there's an industry that's got good CAGRs versus the rest. I think there'll be more consolidation and more change; and we'll just continue to monitor and decide how that impacts, if at all, our launch plan for any of the drugs I mentioned. I think from that perspective, nothing has changed from our strategic standpoint, and maybe it could be upside for Phibro.

Mike: And whenever any of this consolidation does take place, does it result in any disruption, meaning if an asset changes hands in that six-month, year while that's happening, is there an opportunity for you to maybe gain a little bit of market share in any specific products?

Damian: Yeah, I think there's always an opportunity for that. I think when you look at our portfolio though, it's so diverse. We're not heavily reliant on say one or two products. We have over 800 products, 80 countries. Although yes, would we see that, and would it move the needle enough to mention? Probably not, I would say. So that's – yeah, that's the pro, the diversity of our portfolio, I would say.

Mike: Any questions from the audience, last poll? All right, with that we'll close with our standard question, sort of what do you think is underappreciated? What do you think is misunderstood? What's sort of the take-home message you'd like to leave people with?

Damian: Yeah, thank you. I would say we know we trade at a discount versus our competition. We often say internally it's our pipeline that is not being valued properly. It's not reflected in the share price. Part of that is because we haven't said a lot about the pipeline, other than what you heard me say today. So, I think as we get more confident in the timing of some of those products and the potential market value of some of those products, we're hoping that will work its way into the share price as that anticipation builds.

For right now, I would say that's probably the primary reason why we feel that we trade at a discount, because the company has been pretty stable, been able to grow sales, grow the bottom line. But we need to start building the excitement, I think, in the portfolio externally that we have internally.

Mike: Yeah, that's really interesting, great. With that, thank you so much Damian, appreciate it.

Damian: Thank you Michael. Thank you everybody.

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