Announcer: Ladies and gentlemen, the program is about to begin. Reminder that you can submit questions at any time via the ask-questions tab on the webcast page. At this time, it is my pleasure to turn the program over to your host, Michael Ryskin.

Mike: Thanks for joining us. My name is Mike Ryskin. I'm on the BofA Life Science Tools and Diagnostics team, also covering Animal Health. For our next session, we have Phibro Animal Health joining us. And we're pleased to host Damian Finio, Chief Financial Officer. Damian, thanks for being here.

Damian: Michael, good to see you as always.

Mike: Format of the session will be the same as prior ones, fireside chat. Feel free to ask questions either via chat or email or using the Veracast portal. So just to kick it off, Damian, you reported results just last week. Can you give us a brief recap of some of the key points from the print and the call?

Damian: Absolutely, and time flies Michael. It was February 9th. We are a June 30th year-end, so that was our 2nd quarter results call. And hopefully you heard on the call, and you'll hear today, we were really optimistic about our results for the 2nd quarter and our first half of our fiscal year 2023.

Our sales in the 2nd quarter were $245 million. That's a 5% increase over the same quarter prior year. Adjusted EBITDA was $31 million, a 6% increase over the prior year. And one of the things we wanted to highlight was in animal health, which is our biggest segment -it's about two-thirds of our sales, we have three product categories that we report on: MFAs and other, vaccines, and nutritional specialties.

Across those three product categories, for the seventh straight quarter, we've reported quarter versus same-quarter prior year growth. So, pretty nice string. Sales growth is across the board, so if you ask what products or what type of products are driving growth, it's really across the board; across regions and it's across products.

We did report a little bit of noise in our GAAP results. So, we had a $6.6 million non-operating, non-recurring charge related to some environmental costs at a site out in California that's a legacy site. It's part of our Performance Products segment. So, our GAAP results were a little bit down as a result of that. But overall, we're actually glad that's behind us now. That's been going on… I think since the '80s believe it or not, but the lawsuit first started in 2014. So, it's been an overhang for a while. We're glad to have settled out of court and that's now behind us.

We also reiterated our guidance for the second time. Our guidance for the year is $960 million to $1 billion in sales. You can imagine that internally, employees,

including myself, are pretty excited about the opportunity to work at a billion-dollar company. Not everybody can say that. So, we are striving for the upper end of our guidance and hopefully we'll hit that.

Adjusted EBITDA, we kept the same at $113 to $118 million. A little bit more of a challenge to hit the guidance on the bottom line. I'm sure we'll talk about it on this call. But Phibro, like everybody else, is seeing higher input costs and inflation, etcetera, which is a bit of a drag on earnings. But overall, we're feeling pretty good about the demand for our products and for our sales. And that's where we're at at the end of the half year.

Mike: Good. Yeah, earnings is one big blur. It does feel like yesterday, but I guess it has been three weeks. [inaudible things have there…just your comments on the bottom line, anything that you've done numbers]. Can you give us a little more color on supply chains, what's been going on there? Maybe how has that trended in recent weeks and months? And as you noted on the call, you're holding a little bit more inventory on hand to offset some of these disruptions. Just talk us through anything there.

Damian: Absolutely. I think the good news, the headline would be, I think we are starting to see things clear up a little bit. Shipping lanes are clearing up. We're starting to see freights costs come down. Still not back to normal, but I think headed in the right direction. So that's good.

I mean for us, for everybody else, it's been a drag on our margins for the past, gosh, it's got to be 12, 18, 24 months now. But we do expect things to improve going forward. Again, we're looking forward to the second half because there should be some margin expansion.

As you mentioned, we are carrying a bit more inventory and we tried to put a number on it roughly and said, usually we carry – again, this is across products and across countries – but about four months of inventory. Right now, we're carrying about five months of inventory, on average. And that extra month over the trailing 12 months is worth about $58 million.

And over that same trailing 12 month, our free cashflow was a negative $45 million that we reported. So, we're seeing it [the impact of higher input costs] in margin depression, as well as in the free cashflow. Now, over time, we hope to bring down inventories, which would free up cash. So, we hope that metric will improve and go back to being positive. But right now, where we're seeing it, the most is in that inventory build. It's hitting us in the free cashflow numbers and the margins.

Mike: Got it and that's real helpful and that makes sense. Other items to touch on really quick from the update, or the call. You talked about the change to the Board. You announced a new board member that you added, someone we're familiar with. But just talk us through the thinking there.

Damian: Yeah, that's good to hear that you're familiar with him. So, Alejandro Bernal joined our Board in February. He joined our board meeting a couple of days before our earnings call and he was already making positive contributions. So, it was great to see a new face and hear a new perspective. He's an industry veteran. He's been a companion animal guy for a while. He worked at Mars, he worked at Zoetis and he just recently was appointed the CEO of PetDx. So, I'm sure you'll be seeing more of him.

We're excited and I think it just further emphasizes our intent to build the companion animal portfolio. We're happy to have him on the Board; he's up and running already.

Mike: And he's speaking later this afternoon. He's one of the speakers for PetDx.

Damian: I'll have to tune in.

Mike: Yeah. With that, I kind of want to pivot to some of the things that you're seeing in the market. and that's the livestock market which typically doesn't have as much volatility, as much upheaval. But certainly, during COVID and just in general the last two or three years there's been a lot of it for a while. I want to sort of dig into what you're seeing. First, let's start on cattle. A lot has been made in 2022 about cattle feedlot placement trends, what's expected to have in terms of growth size going forward. And what are you seeing? What's your exposure there? How do you think that plays out?

Damian: And I'm sure you're familiar with this since you cover animal health, but I think it's worth saying, when you talk about feedlots, there's beef cattle and there's dairy cattle. Feedlots relate to beef cattle. Feedlot inventories are low. I think I saw something earlier this week that said they're at a low since 1962. I don't know if you saw that, that article too, but they're awfully low.

But, when you look at our business globally, our revenues are about a third in cattle, now20 of those 33 points are on the dairy side. So, it's [revenues] only about 13% on the beef cattle side. And the majority of that volume and those sales are not in the US. They're outside the US, mostly in Brazil and Mexico. So, we have very little exposure to beef cattle in the US. So, when you see those articles about feedlot placements, they don't have a big impact on Phibro's business, which is good.

Our mineral nutrition segment -- so what I mentioned, that's on our animal health degment–mineral nutrition, our other segment, second biggest segment, it's about 25%, give or take, of our revenues, that's primarily– actually I think it is entirely – a US business. There is some exposure [to beef cattle feedlot placements] in Mineral Nutrition and in our 2nd, quarter results that we posted, we mentioned that Mineral Nutrition was down. That's partly because of the feedlot placements that I just mentioned. And it's also partly why our inventories were a little bit higher at the end of December.

We always talk on our 1st quarter calls that we build up inventory in our Mineral Nutrition business because it's located along the banks of the Mississippi River; and you need to get inventory there in advance of the river freezing so that's normal. But, what's not normal is weak demand in the 2nd quarter. And we had weak demand. So, we ended [the quarter] with higher inventory in Mineral Nutrition; and that's the reason why the free cashflow was a bit off, inventories are a bit high. And it's related partially, not entirely, to what we just talked about on the feedlot placements.

Mike: And then pivoting into the dairy, which was the other part of you calling out of your cattle exposure. What's customer activity like there? How is demand trending, obviously [inaudible] the feedlot dynamic still?

Damian: So, we're pretty happy with our dairy side of the business and our results. We believe there's still growth to be had this year and next. We haven't given guidance for fiscal year '24 yet, but the dairy business is doing pretty well in the US; and we think it will continue to grow in the 2nd quarter. And those assumptions are baked into the guidance that I mentioned earlier in this call and on our call on February 9th. Overall, we think dairy is doing pretty well right now.

Mike: How much of that is related to post-COVID, the reopening dynamics? Because a lot of dairy market go through different parts of the consumer chain, whether it's school lunches, restaurants versus at home. Is there post-COVID reopening dynamic there?

Damian: I'm sure there is. I don't know if it's hitting our first half results, given we're a June 30th year-end and so we're only talking since July 1st. I think most things were open by July 1st, 2022. So, probably not in our current year results. But you're right, that dynamic is happening. But for us, the annualization is a bit different on our side. But yeah, all these things are pointing towards positive growth.

Mike: OK. Next, I want to pivot. We're just going to keep going down the species line. I want to talk about poultry. The news in recent months and the past year has been about avian flu, HPAI, the outbreaks in the United States. Can you talk through

your exposure there? You've got a pretty decent poultry business, but obviously there's a difference between what we're seeing in broilers versus layers. What's the impact there?

Damian: Yeah, we sell across species, and we sell in over 80 countries, but if you were to ask where's our concentration, we have a big concentration in the US and in poultry. So, fair statement. That said though, within the poultry section, avian flu has had an extreme impact on the US, but that impact is seen more on layers and the turkey industry whereas our business is more on the broiler side. So, it [avian flu] hasn't been seen on the broiler side.

I would say the impact of avian flu on Phibro, specifically, has been minimal, thankfully. And that's our assumption again as we go into the second half of the year, …that our business hasn't been impacted and won't be. So, we only have small exposure where avian flu is hitting and obviously it's hitting some farms harder than others. But overall, it's been extreme for the US, but not necessarily for Phibro.

Mike: Is there any reason it can't impact broilers in 2020(?), in the second half of the year and later next year? More geographically depending, right? Or…

Damian: I think it's geographical and I'm not the expert on this, but I think part of it has to do with just the lifecycle of a layer versus a broiler. Broilers don't have as long of a lifespan prior to harvest than a layer. They're on the farm more and on the feed more, etcetera. That's really the dynamic I think that's driving it more than anything.

Mike: That's right on. Yeah, I mean that's something we're monitoring closely; and there's a lot of interest because yes, there's been major impact on layers. But in terms of total number of broilers in the market in general, [inaudible] have opposed to broilers. That's the one that's really got to be protected. And so far, impact hasn't been as bad. And hopefully that stays the same.

[Inaudible] been on China, both as a geography and as a customer, but also on African swine fever. It's been really volatile the last couple of years even before COVID because of ASF. What's the latest on the ground that you're seeing there? How close are we to getting there to a model(?) there?

Damian: We had a decent business in China back in 2019, as you're aware, but regulators took some action against some products. We lost a good chunk of business, which was at a good margin, and we've been working to get back in China since then. I would say, unfortunately, I don't think we've made much progress, to be honest. Not only are relations between US and China strained, but they just recently lifted COVID-related restrictions.

We've said on our last several calls, we haven't been able to get over to China. So, technically we still have a program that's ongoing with a joint venture with a Chinese developer, but I would say progress is fairly slow. So haven't made much progress at all. Now we do have some business in China, it's small, but it's immaterial to our results I would say. That's African swine fever and I think China in a nutshell. For us, slow progress. We have some business, but not much.

Mike: Is there an opportunity to budge the regulators on those registrations?

Damian: I don't know. But that's a tricky one I would say. Generally speaking, it's hard to budge regulators, particularly in China. But obviously it's a market we'd like to get back into. There's an awful lot of people in China. But one of the things I would say too is – and I know Jack would say that if he was here too – we try to be geographically agnostic, as best as possible.

So even if you're not in China, obviously they're a big importer of animal protein, beef, swine, etcetera, so as long as we're selling in other countries, you can still get business that's indirectly related to China, even if you're not selling directly in China.

Mike: Fair enough. Maybe you can talk about another geography I want to touch on is Latin America. You touched on, firstly, on your exposure there earlier. What do you see in terms of demand for these markets? We're always wondering about global recession and the concerns and macroeconomic pressures [inaudible] hand and [inaudible] be recession resilient. Any early signs you're seeing of any change and sort of demand for proteins in some of these other parts of the world?

Damian: Yeah. I would say Brazil, and South America, was one of our regions, along with North America, that were up for the first half of the year. I think we'll see positive growth again in South America for the second half of our year. I'm sure you and others have read some of the headlines around what will hopefully be an atypical case of BSE or what people refer to as mad cow disease.

Our thought on that is that, overall, it won't impact demand in aggregate; but it may delay some shipments. So, there may be – it depends how long an embargo may or may not go. We went back to, I think it was 2019, there was a similar situation. I think the embargo was about 30 days. For us, we think it may delay some shipments, but hopefully not beyond maybe 30 to 60 days. And after that, the inventory in the channel would hopefully return to normal. So, we're keeping an eye on that, as are lots of people.

And in that same market, you have read too, there was a bird flu case at a broiler farm in Argentina. And exports to China were stopped from there as well. We do have some business in Argentina.

Both of these things overall, not good for us, because we have business in South America. And if our customers aren't exporting, they're going to lower production, etcetera. But again, I think we hope that both of those are temporary, those embargoes would be lifted; and it would just be a timing issue, rather than aggregate demand weakness.

Mike: Got it. Yeah, we saw BSE headlines and yeah, it was reported as an atypical case, not the first one they've had. Every couple of years it happens. Really depends on how long that suspension needs to come. What we saw was that sometimes it goes 30 days, sometimes it was longer; and people are trying to figure out how much of that is geopolitical in nature. Countries are trying to fire a shot across the bow for some other reason. We'll see how that plays out. At least it was atypical case, so it should be relatively contained, right?

Damian: Yeah. And I know I touched on it, but our strategy has been for years now to be geographically agnostic and species agnostic. So even if China is not importing beef from Brazil, there's a lot of people in China that want beef. So, they're going to import it from somewhere.

So, although we look at our customers obviously as the people we sell directly to, ultimately, it's the end consumer. There's 8 billion people in the world, I think 99% of them eat some form of animal protein. So, if we're selling products across species in more than 80 countries, when we are short in one country, we'll pick it up somewhere else. That's been the strategy. That's been the goal. We've continued to add countries since we went public back in 2014; and I think the strategy is working, as reflected in our topline sales growth.

Mike: Indeed. And it's something, I mean it's something we've seen in the industry before. And we've talked about just BSE, avian flu, African swine fever. Clearly this is the golden age of infectious diseases. But we'll keep struggling along because of that exposure and then go to your offset other species, other countries. Great.

Want to touch a little bit on going back to the macro environment and inflationary pressure. I want to talk a little bit about pricing power or the ability to offset some of those inflation impacts. And can you talk about what you have across the portfolio, go through it?

Damian: Sure. Plenty of headlines about inflation. Although we're starting to see some signs of improvement in the economy now, there's speculation the Fed is going to

increase rates again; and the markets have been a little unsteady the last week or two. For us, again, we've talked I think since, gosh, I think it was Fall of 2021 about starting to raise prices. We thought we were a little bit behind when we started, because we had a little slip in margins, so we've been increasing prices since then. But it [the price increases] wasn't necessarily covering our increased costs plus maintaining those margins so we saw a little bit of that. And we're still seeing some pressure on margins, like I mentioned.

Our sales though – and we looked at some numbers after some of our bigger competitors, like Elanco and Zoetis, reported their annual results, although we typically look at our results on a fiscal year, if you looked at our calendar year sales for 2022 versus calendar year 2020, we're up over 20%, about 21%, according to my calculations.

For the livestock or the farm animal portion of Zoetis and Elanco, again, per my calculations they're down like 5%. So, they're down 5%; we're up 21%, which I think shows strong demand for our products. It also shows that we've been able to raise prices. And I would say that increase, again, roughly speaking, it's about 75% price and about 25% volume. So, we're growing demand, but we're also increasing prices.

Whether or not those prices stick, if the economy starts to cool off a little bit, only time will tell. But I will say that the majority of our prices are not freight surcharges, which we had said before would be more temporary. They're price increases, which tend to be a bit stickier, again these will be different by product, by region, etcetera. But right now, that's what we're seeing. So, we're seeing strong sales and it's because we've been able to raise price.

Mike: Got it. Yeah, I mean that's really impressive because [inaudible] in livestock production and I know you don't see as much pricing [inaudible]. And how do you deal with [inaudible], so that's – and that's very impressive to be able to pass that on. I know you, you're opening a launch, but anything in particular to attribute that to. I mean is it really an entire portfolio? Is it something in terms of organization and I'm talking to your performance versus [inaudible] and go – for livestock performance.

Damian: Yeah, we like… [overlapping talk] yeah, I think we like explaining that as there's higher input costs, higher feed costs, etcetera. A farmer has got more money invested in his herd or in his or her flock and our products help to keep those animals healthy and get them to reach their peak performance. So, there's more of a need for our products; and we're hoping if they have to cut costs, we're not one that's first on their list. And maybe that's the case, again, probably partially speculation but that's what we like to think with our products.

Again, I think it's across species, across countries there's some puts and takes. But overall, I think that's how we position it to customers, etcetera. And I think too, I know Dani maybe mentioned this on a call maybe a year ago or so ago. We weren't the type of company that said "hey, it's January 1st, time to increase prices 3%." We've been around a long time, as you know, since the mid-1940s and have good relationships with our customers. I think they trust Phibro. We don't just take price increases because we can. And we collaborate and we're in it with them, and they know that we're seeing higher input costs too and so we can still offer products, we're going to need to take price, so we can keep our staff and do what we need to do. I think they understand that; and the relationships that we've had with customers over the years I'm sure has helped leverage that as well.

Mike: Got it. That's helpful. Want to touch a little bit again on some of your products going forward, you talk about in the past Mecadox and the discussion with the FDA. Just have to ask, any updates there? So, what's your base assumption for the resolution?

Damian: Yeah, so the product continues to have demand. We report this as part of our SEC filings, on a trailing 12-month basis. It's always about – it's been about, since I've been here, which is about 2.5 years now – it's been about $20 million, give or take, of trailing 12-month sales, at pretty decent margins. and it's still about that. We have not heard anything back from the FDA, so fortunately/unfortunately no news to report on the Mecadox/carbadox front.

Mike: And there's no timelines for resolution there? I mean you could take – it's a set-away(?) game?

Damian: There is not, yeah. The ball is in their court, so we're waiting to hear back.

Mike: And [inaudible] we talk about, I had explained to you that earlier we've had some conversations with you in the past regarding the potential for vaccine. There's some work being done here. But it's always tough to say where the development cycle of that is. Is there anything that we could be looking(?) for the next couple of years, any updates you can give us there?

Damian: Specific to African swine fever or…?

Mike: Yeah.

Damian: OK, and I think as I mentioned, we're still pursuing a global solution. But the initial focus I would say would be on Asia and Eastern Europe. But I would say there's nothing likely within the next say 18 months. I would say we're at least seeing these as18/24 months out, if not a little bit longer, depending on some of the things I talked about earlier with China and US relations, etcetera.

Mike: Okay. And just diseases like that, how should we think about commercialization opportunities? Because that's something where – is there a build on market strategy different than what it is for a typical product, because there is this food security, food supply component? Would you anticipate that governments would get involved with purchase the vaccine from you? How does that work in the market?

Damian: Yeah, I think that that could be the case at some point. Whether or not we're the manufacturer at that point or not I guess will be seen. But yeah, that's I think how it would work, in general. And when I look at our growth drivers, I know we've said this before, in the short term it's really two product categories, where we're putting some money. So, there's nutritional specialties. We bought Osprey back in 2019, so direct fed microbials or probiotics. But vaccines as well. So, vaccines continue to grow.

We have a new facility that will have a soft opening, I would say, later this month, actually, in Brazil, an autogenous facility. And we continue to put money into vaccines. So back to the comment about avian flu, there's several strains of avian flu. So, we are looking at developing vaccines for some of those strains, because avian flu is causing high death rates globally. So even if right now we're not necessarily exposed because we're more on the broiler side than the layer and turkey side, it doesn't mean we're not looking at vaccines that may help to solve the issue.

Mike: And my next question was going to be investment in future growth, where is the incremental dollar coming? Talk about nutritional specialties, that's been a case for a while. You talk about vaccines, that's been a case for a while. And I also want to talk about companion expansion. Dare I say there's roughly target areas we're looking at going forward?

Damian: Yeah. When we gave guidance for fiscal year '23, we said that we'd spend about $37 million, that was our number in strategic investments. And that was up about $8 million, or 25%, from the year before. And roughly speaking, the split of that spend across those three that you just mentioned; vaccines, nutritional specialties and companion animals, was roughly equal. That was our plan. So that's where we put our chips on the table.

I mentioned already about vaccines. On Nutritional specialties, we continue to find opportunities to drive growth in Osprey and are some of the manufacturing out of the site that we acquired and moving on to other sites where we have capacity outside of the Us. And so, they continue to make ingredients for other products that we sell. So, we feel pretty good about the Osprey acquisition.

On companion animals, development continues. We have, I could go through, I could go through the different projects that we have. We have five projects that we've called out, specifically. I'll just go through each one. And the good news is they're all in big markets. And we felt like – I forget the term we use; I think we said maybe we're happy with where we're at with the portfolio because we've made a couple of investments; and we're going to focus on these projects that we have right now. Not that we're not open to another licensing deal coming our way, etcetera; but right now, we're pretty happy with where we're at.

So, we have a novel early-stage approach for oral care for cats and dogs that's in the pipeline. That's about a $1 billion market. We licensed in a pain management products that was in development for dogs. So that's about a billion dollar plus market. And there's an early-stage atopic dermatitis compound for dogs, that's another billion-dollar market.

Then, we mentioned a few months back that we're in collaboration with Rejuvenate Bio for a first of its kind gene therapy product in mitral valve disease in dogs, primarily smaller dogs. That's about a $200 million market. And we mentioned that Rejuvenate Bio intended – this was their announcement – they intended to file for conditional approval with the FDA before the end of this calendar year, so in the next 9/10 months.

And lastly, smaller market, less than $100 million, but we have a novel Lyme vaccine as well. So, amongst those, those are big markets. Keep in mind, if our guidance is $113 or $118 million, even a small portion or a small market share in any of these markets could be meaningful to our bottom line. And that's what we're hoping.

Now we've called it out a little bit and said none of this is short term. These are medium-term opportunities. We haven't disclosed a lot about where these projects are in their development lifecycle. But we also haven't reported that anything has dropped out. So that implies that things are progressing as expected.

Mike: Got it. That's really helpful and there's a lot of interesting potential products there. I guess the first question I would say, I mean you just said they're not imminent, so medium term. Next question I'll say is, you talked a little bit about your commercialization strategy and maybe what you've done with Rejensa and your experience there, what – just because you've got a great channel. You've got a great history. And last, like a production animal, obviously very different approach, just with [inaudible] and how sort of – how discover(?) fragmented the market is so…

And for some of these whether they go on for oral care or the Rejuvenate Bio project or different, they're different ones. Talk about what you're thinking about commercialization and go-to-market here.

Damian: I was a pharmaceutical guy most of my career, so in animal health only the last couple of years. But you can think of some of those bigger markets almost like a primary care drug for a human where you've got a lot to cover. So, what a smaller company would maybe do on the pharma side is similar to what we are doing on the animal health side, and that is we have an exclusive deal with one of the larger distributors; and we're very happy with that arrangement.

So right now, the salesforce for Rejensa is external. It's a contract salesforce and we have an exclusive deal with them [the distributor]. Now, as the product has grown, we have more coverage, and more clinics started to open up over the last 12 to 18 months, so we've worked with them to add more reps and internally we're trying to get Rejensa to fund itself. Not fund the development of future companion animal products, but as a standalone P&L. We're adding reps, layering on reps to add revenue and add margin. And we're doing that sort of lockstep as the product grows.

At some point when we have another product on the market, and then another product after that, another product after that, you start to evolve, and you can start to bring some sales reps in-house and you have them complemented by a contract salesforce. And eventually you get big enough, when it makes sense, you bring it all in-house. That's years away, I would say, for Phibro. So right now, we're happy with our arrangement for Rejensa; and I think we'll make those decisions when products are ready to launch, as part of the commercial strategy. And at some point, there'll start to be a hybrid and eventually go to full in-house.

But we've decided – not that we've decided, but we've talked about it; but we're not at that stage yet where we have to make those decisions and we're happy with what we're doing right now.

Mike: Great. That's really helpful. Any thoughts for partnership for commercialization with an external or another companion animal player or someone in the early-stage bio side that they have to bring additional products in?

Damian: Yeah, we're not opposed to any of these ideas right now. We're new to this market. I think if the math makes sense, it may be something that we do. So, I'll say we haven't closed off any of those types of ideas. I think we're open to ideas. These are the types of things, that Alejandro who's coming onto the board and has had some experience in; and Dani, as you know, he's not on today's call, but Dani's been working with his team on the companion animal side. We have some experienced people there too. So, I think we're open to all these ideas, but the

math has to work. So, I think there will be decisions as those opportunities present themselves.

Mike: That makes sense. And for Rejensa specifically, you talk about doubling sales year over year. Again, do you feel relatively early in the life cycle of that product? Anything you can say about the longer-term goals for Rejensa? Have you seen that as a sole product?

Damian: As you mentioned, and in our guidance a couple calls ago, we said that it implied that we would double sales of Rejensa in fiscal year ’23 over fiscal year ’22. The product continues to do really well. I would say we’ll probably fall a little bit short of that goal, of doubling, but it’ll be pretty close. And again, that’s baked into our guidance.

We haven’t disclosed any dollar amounts for Rejensa. And I think I’ve mentioned before, too, right now externally it’s reported as part of nutritional specialties. That’s where Rejensa sits. Because we do not have a companion animal product category, because just for transparency here, we don’t want to disclose the numbers because it would be just one product.

So, as we add more products and/or the product gets – we have more products and that line item gets bigger, our plan is to pull it [companion animal sales]out of the nutritional specialties product category that sits in animal health; and companion animals would become our fourth product category. So that’s the strategy. That’s the goal, to grow that category to the point where it’s big enough to pull it out and has enough products to pull it out as the fourth leg to the stool, if you want to call it that, of animal health.

So that’s the plan. I think we’ll fall a little short, but still, really amazing growth for the product. And again, we’re happy with our arrangement with the distributor.

Mike: Got it. And you had talked about over time – previously when you talk about companion animal and how you expect that to grow, you talk about it getting eventually to the same size as nutritional specialties on its own. Never really set a specific timeline for that; but – and I don’t know before some of these newer products were incorporated into the pipeline. So, is that still a general goal? Is that a worth ballpark and how you think demand and scale for it?

Damian: Yeah, that’s still the general goal and probably not in a position today to be any more specific than that. But it’s a medium-term opportunity and eventually grow it to the point where it’s bit enough to pull it out.

Mike: That's fair. Maybe and we're coming up at the end of our allowed time. So, inventory and cashflow. You talked about it earlier, about some factors and connecting these to free cashflow in fiscal 2Q. Any thoughts on how that improves through vested yield and how you think about the balance sheet as you're exiting fiscal '23?

Damian: Yeah, thank you, yeah. Our goal is to try to improve those metrics by the end of the year. So, there's a couple of things to mention. So, as I said, I mentioned that trailing 12-month free cashflow was a minus $45 million, driven by a $58 million inventory build over those same 12 months.

Where you see that impacting the balance sheet, is we do have higher debt, which means a higher leverage ratio, at the moment; I wanted to remind everybody though and we do say this part of the webcast, back in I think it was March of 2020 – so it was before I joined. I'd love to take credit for this, Michael, but I can't. It was the guy before me.

He entered into an interest rate swap on $300 million of our debt. So, although we have, call it 485-ish million I think it is of debt at the end of December, $300 million of it doesn't float with the market. It's at a .61%, what was a Libor rate which we eventually converted now to SOFR. So, this is not fluctuating, this $300 million is at a fixed interest rate, so we're not getting hit with higher interest expense for that. So that's good, that helps that.

We also have some cash on the balance sheet and not all of that is needed to fund working capital so we're getting some really good interest income on some of our short-term investments that also offsets the part of the debt that does float with the market.

So overall, goal is that these should improve by the end of the year. But it's going to depend on whether or not we can hit our guidance numbers in the second half, which I said at the beginning of the call we're pretty confident on the sales number both have got some challenges in the adjusted EBITDA numbers; but we feel like we can get there.

So, all in all, I think if all these things work and the economy starts to get a little bit better, some of these other things we talked about, like around mad cow disease, etcetera, don't exacerbate or stay around longer than anybody wants, we should be able to turn these metrics around as we start to bring inventory levels down. That's the goal.

Mike: And we've got you sitting at about 3.5 times 3, 4, 5 times net debt, a trailing 12-month EBITDA. Generally, your kind of historically have been in that 3-ish

range. Is that a reasonable target going forward, 3, 3.5 times? And what are your cash uses if you're going to draw that down?

Damian: Yeah, I'd say that 3 to 3.5x is probably about right. And keep in mind, too, with our covenant agreement, there are other add-backs that aren't disclosed necessarily so what we use for pricing purposes on the debt is a different number than what you just quoted. And we don't disclose those numbers. But there are some other things that help those numbers from the covenant compliance perspective.

If we are to have more free cashflow, we will continue to pay a dividend, it's about $5 million in aggregate per quarter in terms of dollars, but it's 12 cents per share and has been for several quarters. It's going to continue to fund the dividend. We continue to invest in the future in the form of those projects that we talked about across nutritional specialties, vaccines, and companion animals.

But we also have some capex projects which are adding manufacturing capacity. I mentioned a new plant coming online in Brazil for autogenous vaccines. So, we're continuing to do that. We continue to invest in Sligo and ramp up the facility there as the products get registered in more countries. So, we'll continue to invest in capex and the development projects, funding the dividend and pay down debt, all those things.

Mike: Got it. No, that makes sense. We are at the top of the hour now. We're at the end of our session either way. But I just want to say thank you so much Damian, thanks for joining us. Really appreciate the discussion and always great to chat.

Damian: Alright Michael, good to talk. I think we'll see each other hopefully in May in person.

Mike: We'll see you in Vegas, yeah.

Damian: Perfect.

Mike: It'll be here before we know it.

Damian: Thanks a lot. Thanks for having us today.

Mike: Cheers.

END