

Company Name: Phibro Animal Health Corporation (PAHC)

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Analyst, Stifel

Good morning or getting in the late morning. Next up, we have Phibro Animal Health actually for the first time on the Jaws & Paws stage. So, thanks guys for coming and joining. Really appreciate it. Excited to have all you guys this year and as I mentioned earlier, hopefully many more years to come.

Welcome by the company's CFO, Glenn David; Larry Miller, Chief Operating Officer; and Daniel Bendheim, Director, and EVP of Corporate Strategy. I'm going to turn it over to the Phibro team. I certainly know more about you guys post the MFA announcement not too long ago, but they're going to go over a brief deck, get into some slides and hopefully leave some time at the end for some Q&A.

So again, guys, thanks for joining and over to you.

Larry L. Miller, Chief Operating Officer

Great. Thanks very much. First, I just need to draw your attention to our Safe Harbor statement. Text on this slide basically states that any forward-looking statements or projections are preliminary, subject to certain risks or uncertainty. And we just ask that you take note of this, particularly around non-GAAP financial measures.

So, let's – thanks for joining us this morning. We're excited to tell you a little bit about Phibro and then take some of your questions-and-answers. At a snapshot view, we have been in business since about 1946. We manufacture the vast majority about 70% of all the products that we sell comes through one of our facilities or one of our plants. We listed on the Nasdaq as a public company in 2014. We have just under 2,000 employees at about 14 production sites, and we sell in about 80 countries around the world. And we've been a company that has been growing and growing profitably.

So, at a bird's eye view, just give you a little bit more flavor about our company by segment, by region and specie, where our sales come from. So nearly 70% of our business comes from our Animal Health business. And I'll tell you a little bit about how we define Animal Health, but nearly 70%, Mineral Nutrition a quarter, and then we have under 10% on what we call our Performance Products. And these are some legacy businesses, including some fine chemicals and other products that go into industrial segment – customer segments.

By region, the U.S. is our largest segment by far. It's nearly 60% of our sales. Latin America is about a quarter of our sales. Europe, Middle East, and Africa are 12% and Asia-Pacific is 6%. By specie, poultry is our dominant specie at 34%, dairy 20%, beef cattle about 13%, swine 9%, and other, which includes some of the other segments is a quarter.

And I guess in particularly Glenn will talk a little bit more about our pending acquisition in the future. But two takeaways from this slide, areas that we would like to be stronger in and have better presence from a geographic standpoint is certainly have a stronger base in Europe as well as in Asia. And we also would

like to have a stronger presence in swine as well as a beef cattle market. So, we'll talk more about that in a few moments.

And a breakdown of our sales, so the Animal Health, as I said that was 70% of our sales. We break that into three categories. The first is Medicated Feed Additives and others. Medicated Feed Additives are antimicrobials, products that are used for coccidiosis in poultry primarily, but also could be used in other species, as well as Rumen Health Products, et cetera, that are all in the Medicated Feed Additives space. And that represents just under 60% of our Animal Health business.

Nutrition specialties, these are branded products. They are naturally occurring mineral based products or phytogetic type products, but again branded products that we sell, and those represent about – just about \$173 million. And then vaccines, we have vaccines on an international basis, outside of the U.S. in most countries and continents, for poultry vaccines. And we also have custom made vaccines in the United States and in Brazil. Those represent about \$100 million.

Mineral Nutrition, these are unbranded, these are bulk and in most cases custom, premixes that we make for feed companies, for livestock producers, et cetera. And then we have the Performance Products I spoke about earlier that represent rest of our sales.

And in a view, some of the brands that we market. So, the Medicated Feed Additives, as I mentioned earlier, components there are antimicrobials, anticoccidials, and other health products. In our nutrition specialties, we have products that are primarily used in ruminants. We have others that are used in monogastrics, poultry and swine, and some that are in diets for all livestock. And we have a nutritional supplement called Rejensa for Companion Animals. And in vaccines, we have the conventional, mostly poultry vaccines that we sell in most countries, and then again, the custom vaccines that we sell.

So, with that, I'll turn it over to Dani.

Daniel M. Bendheim, Director and Executive Vice President, Corporate Strategy

All right. Thank you, guys. Daniel Bendheim, EVP of Corporate Strategy. I'm sure many of you memorized your S-1 10 years ago and saw the growth factors that we were listing, with this slide basically showing is that the things that we said we were going to do, we did. So, we had talked about seven key growth strategies. And as you can see on the green on the right, we have really hit on all of them. Some of them that I just would want to highlight. Our vaccine sales, which is a key part of our growth strategy have tripled over the last 10 years, from about \$29 million to \$100 million. We've grown in our direct sales and transitioned 17 countries from distribution to direct sales over this last decade. That's something else that will come into play as we move forward with the Zoetis MFA acquisition.

And we've enhanced our gross profit, right? Our gross profit has gone from about \$180 million to close to \$300 million over those 10 years. And then finally, we have delivered new products. I'd say the one thing that probably we were a little bit under leveraged when we went public was our – the money we spent on R&D. And over the last few years, we've been spending a lot more on that, if you want to flip to the next slide.

And we really have positioned ourselves to grow now. So, it obviously, if you are under spent on your R&D, it takes, there's a gap. There're a few years where you have to spend to start to see results. We have been spending the last few years, we continue to spend, but now, we're positioned, and we're

positioned both on the livestock side, which is obviously our biggest side. Everyone here is familiar with kind of the drivers for livestock. It's really population growth.

And within population growth, on the protein side, it's wealth growth. So as the world expands, you have a billion people more in the world, but you actually see a bigger growth from the lower class to the middle class, and people who are moving up on what they can eat in protein. And that's even a bigger driver. So, if you look over the last 10 years, we continue to grow. And if I look back at the IPO, the questions we had then were about organics, or maybe a little bit about. I don't even think beyond was out there.

There's room for all these different types of ways to get protein, right? So, I think now we see that, that there's room for organic, for conventional, for alternative proteins. Hopefully one day we'll see lab meats. The population needs all these things. There's only so much land out there. And we hope to continue to see investment across all these areas. But we're very confident of the role of livestock in this.

And then finally, with this, though, we – with our growth, we've been able to invest in a Companion Animal pipeline. We've launched our first product, and we are continuing to invest in it. As you see on this slide, we've gone from about \$29 million to \$35 million over the last three years in our R&D and projects. The bulk of that is now in Companion Animals that's our largest spent. Our lead product as far as our spend is an atopic dermatitis product. It won't be our lead product as far as getting out there. But we are excited about the future with Companion Animal, which is why we're finally at the Jaws & Paws.

So, with that, I think I'll hand it over to Glenn.

Glenn David, Chief Financial Officer

Okay, great. Thanks, Dani. I'm Glenn David. I'm the CFO of Phibro. I've been with Phibro for about four months now. Just going to cover some of the financial guidance as well as the announced acquisition that we announced on April 29. So just from a high level, Larry already reviewed the net sales of about \$980 million in 2023. Our guidance this year is for about \$980 million to \$1.20 billion, which at a mid-point would show about 2% growth. And a large driver of that growth will come from our Animal Health business, which is performing very well this year.

From an EBITDA perspective, we expect \$106 million to \$112 million in EBITDA. That is a decline from last year of about 3% or so. And a lot of that does come from the increase in strategic investments that Dani was referencing.

The other thing I'll point out here is, we are seeing an improvement in tax rate as well, year-over-year, last year, we had a tax rate of about 33%. The guidance this year is 28% to 30%, and that is something we'll look to continue to improve. In terms of the trending from the time of the IPO, you can see a nice growth in net sales were about \$650 million back in 2013. We look for this year at the mid-point to be about \$1 billion, so hitting a significant milestone, and that would put us again at the mid-point of growth of about 2%.

EBITDA has also grown nicely over that time, not quite as rapidly as to Dani's point, we've had made some strategic investments to drive longer-term growth, particularly with some of the investments that we've made in Companion Animal.

And this slide sort of summarizes that a little bit. When you normalize for the investments that we've made from a strategic perspective, you see the growth is a little more steady from an EBITDA perspective. So, one of the key things we also wanted to discuss today was the recent announcement that we had with our intention to acquire the Medicated Feed Additives business and certain water-soluble products from Zoetis.

We're incredibly excited about this acquisition. We acquired the business, or we will plan on acquiring business for \$350 million. It is a very strong strategic fit with our current business and Larry went over the presence that we currently have in the MFA business. But this really enhances and complements our presence. It makes us stronger in Europe, it makes us stronger in Asia, it makes us stronger in beef cattle as well in the U.S.

It was also very – comes with a very attractive financial profile. Last 12 months revenue was about \$400 million for this portfolio. Also, we'll be able to quickly deleverage. We will finance the acquisition, but based on the strong cash generation, we do expect to be able to quickly deleverage. I'll go over that on the next slide. And it also comes with significant adjusted EBITDA accretion. And we do expect the transaction to close in the second half of this calendar year.

So, when you look at some of the highlights to the transaction, it really does boost the overall Phibro scale, making us the number six global Animal Health player by revenue. And the MFA business, as Dani said, really does remain a critical component of meeting the growing demand for protein. It's a strong strategic fit and it also nicely complements our business in nutritional specialties, our vaccine growth, and other areas as well.

And combined, the last 12 months revenue of the businesses would be about \$1.4 billion with continued durable organic growth. When we look at the overall MFA business, we do expect it to grow in the low-single digits. If you look at Phibro's performance year-to-date, we've had very strong performance in our Animal Health business with growth of around 7% year-to-date, and MFA business has grown consistently with that at 7% year-to-date.

The deal is also very financially compelling, as I mentioned, with significant boost to our overall EBITDA margin. So, when you look at Phibro's business today, our margin is in the low teens. When you look at the business that we'll be acquiring, the margin is in the low-20%. So, you bring those two together and the business will be sort of in the mid-teens going forward.

Also, the deal is expected to be accretive on day one. So, from an adjusted EPS perspective, in the first 12 months post close, we expect greater than \$0.60 per share in terms of EBITDA accretion, which remains strong value retention for Phibro shareholders. We also think it's a very prudent way to allocate our capital, and it gives us the ability to continue to invest in our growth over time.

From a leverage perspective, we expect to be about 3.5 to 4 times net leverage at deal closing, but we expect to be able to quickly work that down. And by our fiscal year 2027, we expect to be below 3.0 in terms of our net leverage ratio. And the significant cash generation that we will have from the deal allows us to continue to invest in our business in areas such as nutritional, specialty, vaccine, and Companion Animal.

So, with that, I think we can open it up for questions. John?

Q&A

<Q>: Great. Thanks, guys. I'll kick things off. Let's just sort of stick with MFAs and the deal, current business is around \$400 million, you mentioned this is going to add an incremental \$350 million or so. Where does it take you guys from a market share perspective? Maybe if you could touch on that. And then also just talk about bundling opportunities that might now exist that you didn't previously have in front of you with the older portfolio.

<A> Glenn David: Sure. So, I'll take it from a market share perspective, and I'll have Larry cover the bundling opportunities. So, from a market share perspective, as I mentioned, overall, we think we'll be about the number six global Animal Health player. Specifically in MFAs, it's really hard to get the exact market share. There's not a lot of data that exists because a lot of these products are also served by generic players in many of the markets across the globe. So, it's hard to have an overall market share number, but globally, as a total Animal Health player will be around number six. And then livestock specifically, a little higher than that as well.

<Q>: Okay.

<A> Larry L. Miller: And if I could talk a little bit about how we view this, it complements our business today. Basically, it does bring us some different products to offer to our customers, different classes of compounds within Medicated Feed Additives that we can offer to our customers to use, new choices in rotation programs for anticoccidials, for instance, et cetera. We really try and bring a solution-based approach to our customers.

Our customers are concerned about dealing with diseases and particularly caused by viruses or bacteria. And so, let's talk about bacteria. We can really bring programs that may include a Medicated Feed Additives, obviously prevention. So, the vaccines come in very important there as well as our – we talked about our Nutrition Specialties and keeping animals at a high health level. So, we really try and bring not just a product approach to it, but a solution approach from trying to help our customers solve their unique health challenges.

<Q>: And you talk about, look, is this a decent sized deal for the company, clearly. And so maybe if you could just talk about what else needs to get done upon closing the deal integration, how you can ensure that this is going to be as seamless as possible, considering the size of the deal relative to Phibro.

<A> – Glenn David: Yeah. So, from an integration perspective, really this is an asset-based deal. We're acquiring six plants for them- four in the U.S., one in China, one in Italy. But from a commercial perspective, it's going to be our colleagues really that are going to detail these products and we're going to be able to leverage the infrastructure that we already have. So, we are very well aware of the importance of integrating this effectively.

The focus really is from a manufacturing perspective as well as an IT perspective, making sure that we could operate on day one. And we have a significant amount of resources dedicated to effectively doing that. The other key component, obviously, is the financing of the deal. We have the underwriting in place for the deal, but we also intend to refinance our existing debt at the same period of time before closing. So, then that will be – we're in good stead to have that complete before deal closing.

<Q>: Guys, if you have any questions, just go ahead, and shout out, otherwise I'm going to – please. I'm sorry, they just want me to try to repeat the question. Any thoughts or color on potential regulatory issues for the deal to close?

<A> Glenn David: So, I mean, there are antitrust filings. We don't expect there to be issues, but it is not up to us. So, we do expect to close this deal in the second half of this calendar year.

<Q>: Maybe if we could just shift gears, guys, to the overall market. Is the farm animal market, I think coming into the year, coming into 2024, there were, I don't know, some tepid thoughts around the U.S. cattle market? What were your expectations going in and maybe bring us up to date on what you've experienced so far in 2024?

<A> Larry Miller: Yeah. So, as I mentioned, we had not been exposed to the U.S. beef market before, but after this acquisition closes, we will be. Our understanding or outlook, if you will, for the U.S. beef market is that as long as demand stays high and we have a good crop this year and looks like it's all getting planted, but again, as long as beef demand for beef stays high, that it's looking favorable, decent profitability same and it's in dairy, where we're seeing most people at selling above what the breakeven is.

Swine has been an area that is really challenged over the last couple of years. We've seen a large reduction of the sow herd, estimated to be about 11% reduction in sow. So, we're seeing that kind of move to a stabilization and they're projecting that they can be in profitable situation late in this calendar year and into 2025.

<Q>: Okay. And maybe just to continue down that road, we've heard about the shift away from the prior, no antibiotic ever programs that seems to be evolving. How does that impact Phibro, if it does, and think about that shift and what it means for Phibro's portfolio.

<A> Larry Miller: Yeah. So, the programs that you mentioned, we had not really had any impact on it. Post acquisition, we will gain access to ionophore products. So, it will allow us to offer those products...

<Q>: That will be a net benefit, arguably, for you...

<A> – Larry Miller: To customers that are producing according to that strategy.

<Q>: It's funny, that's a part of the industry that seemed to shift one way. No antibiotic ever might have overshoot. And then it's coming back to a certain extent. You mentioned you'll have the ionophores and you can benefit there. Another theme, and we had a link go up here earlier today, is farm animal sustainability. And obviously, sustainability is a big buzzword across a number of industries. Talk to us about livestock sustainability, what it means for you guys. And how are you going to position Phibro for the longer term to take advantage of that?

<A> Daniel M Bendheim: I guess I'll take that. First of all, we're incredibly excited for Elanco for the news that hit yesterday of the approval of their methane reducing product Bovaer. That's a whole new market, right? That's a market that does not exist today, will be based on what I've seen, over \$100 million opportunity down the road. But it's complicated. And anytime you're getting into carbon emissions, you have to kind of audit, it has to be a huge audit trail. It's not as if the cows will have methane monitors on them. Those do exist, but it's just not practical.

So, what's exciting for us as Phibro is Elanco has opened up this new market. I'm sure there'll be successes, but also, they'll stub their toe once or twice. But we do see this for ourselves and for the entire industry as a new way, as a new opportunity. And so, I think right now we're taking a little bit of a wait and see. Obviously, all of our products throughout the livestock side are there to make animals healthier and more efficient, right. So, it does feed into the fact that all those things lead to fewer greenhouse gases, the less. Just simply, if an animal has diarrhea, obviously, it's not converting its feed, it's requiring more feed. As humans, we know that, right, it's a great way to lose weight, but we don't want that for the animals.

So, any product that you give that keeps an animal healthy will in the end be environmentally friendly. So, you have that as the broader thing. And then we have the new markets that Elanco is leading that we see as an opportunity down the road once everything gets ironed out. And ultimately, it's the consumer that's going to have to pay for it. It's going to be Nestle or the known that's going to have to pay for the inset of the methane credit. But that's going to get passed on. So ultimately, we'll see if the consumer pays for it. If it does, we're going to be excited to enter into that market as well down the road. But we'll take a little bit of a wait and see specifically for that area.

<Q>: And so is a good way of sort of categorizing that might just be fast follower. I mean, there's going to be growing pains for Elanco. I think that they've been pretty transparent about that. To your point, you're building an entire market, right? There's a lot of moving parts. You'll sort of see how that might play out. If it does take hold, if we look down the road 12 or 24 months, is it a buy versus build strategy? How do you think you would enter and play in that market over time?

<A> Daniel M. Bendheim: I think we, specifically within the United States, especially in light of the acquisition, will be one of the few players that have the distribution network to reach both dairy and cattle, along with swine and poultry. But those would be less of an issue. So, I do think that if someone's looking for an address, if someone has a unique solution, we'll be one of the few people that they call, which is not to say that we're not looking at our own solutions, but I think there's a lot of smart people in the world, and this is an issue that's been identified throughout the world. And I'm pretty sure we have seen imbalance to date, and I'm sure we'll continue to see that.

<Q>: Maybe I'll get to earlier you mentioned I think it was strengthening in Europe and Asia. Talk to us about sort of the timelines associated with strengthening those regions. And then almost, maybe from a margin perspective, how do we think about those regions versus that of the U.S.?

<A> Glenn David: Do you want to talk about the strengthening, I'll talk about margins...

<A> Larry L. Miller: Yeah. So, as I mentioned, specifically due to facilities, but also product registrations, it's going to give us a much – it's going to give us presence, basically, stronger species presence in China particularly, but also in Southeast Asia, but also in Europe, where we've not really had a stronger footprint before. So, it's – from a geographically standpoint, that's two areas in particular that is going to be complementary to our business today.

<Q>: Margins.

<A> Glenn David: And I think when you look at it from a margin perspective, at the highest level, when you look at our existing animal health business, which we disclosed EBITDA margins on as well, they're

sort of in the low 20%, right. The business that we're acquiring from Zoetis, once we add the standalone cost that we're going to need to support the promotional efforts, when we add in these products, that will be in the low 20% as well.

When we look at it, geographically, it's pretty equivalent across many of the markets. So, I don't think that we anticipate with the additional presence in Europe or the additional presence that that will have an APAC, that it's going to delete those margins anyway. It's pretty consistent across the globe.

<Q>: And then maybe we can spend a couple of minutes on the Companion Animal strategy. I think you mentioned Rejensa. How is that product resonating in the market? And more importantly, where do you see this portfolio going? And is this distribution or do you have some direct reps, if you could elaborate on that as well?

<A> Daniel M. Bendheim: So, Rejensa, we introduced a few years ago over the counter joint care supplement glucosamine, but we are selling it exclusively through one exclusive distributor, through the vet market. So, it's a vet only product. You had some panel that I caught the last few minutes of, and they talked about Chewy and things like that. Vets really like Rejensa because it's not available on any other...

<Q>: I'm going to bring that revenue stream back to the veterinarian...

<A> Daniel M. Bendheim: Just the vet and no one's checking on Chewy or no one's able to check on Chewy and say, okay, distance remediation that you talked about earlier of having to rebrand – rework their practices, they're able to capture the full margin through it. So, within Rejensa, it's worked well. We don't – we report as far as nutritional specialties line, I think, once we get our second or third product out there, we will be in a position to report separately as far as our Companion Animal. But being that we're a one product show right now, it doesn't make sense to do that. As far as our pipeline, we have four or five products in our pipeline.

As you're aware, there's no clinicalgovs.com, so there's no – we do not, for strategic reasons, give a lot of guidance about our pipeline. Suffice to say, as I mentioned before, our atopic dermatitis product is our number one spend product. It won't be our first product out there, but we are really excited about the opportunity there if it reaches the finish line. We do have a surgical pain product, which we believe will be the first product that hits the market for us. Not this next fiscal year, but hopefully soon thereafter.

<Q>: I'm sorry, not in 2025, but hopefully in 2027.

<A> –Daniel M. Bendheim: Well, our fiscal year starts in a month, so not in our fiscal year 2025.

<Q>: Okay, got you.

<A> Daniel M. Bendheim: And beyond that, just to circle back to the rep. So, we're working with a distributor. What we've done is we are working to in each region that the distributor has of each of its larger geographic regions. We're looking to put our own agent in there or salesperson, with the understanding being that A, we can detail the product a little better, but B, when we do finally come out with our own products, we will hit the ground. We're not going to be a 300-person sales force, but we

won't be at zero. So, we'll be able to glide a little bit more easily into being a full-service provider once we have those other products.

<Q> And, Glenn, maybe back over to you. When we think about some of the – your competitors in Zoetis and Elanco, you sort of have the accretive gross margin and Companion Animal side. I mean, obviously those are more scaled organizations relative to your initiative. But how do we think about the margin contribution for the current Companion Animal? And then more importantly, looking forward, when you have a more robust portfolio, will that be margin accretive to Phibro?

<A> Glenn David: It should be over time margin accretive to your point, John, right. I think in the initial years, as we're investing in R&D, to the extent that we're successful in R&D and building a field force, building marketing capabilities as well. On an EBITDA margin, it's going to take a little time for that to be significantly accretive. But over time, these are going to be higher gross margin products. There'll be higher EBITDA margin products that will add significant accretion over time.

<Q> Okay. And one last one in the 30 seconds left, levered up to do the deal, but very good cash flow that you have as an organization, your ability or freedom to do additional deals tuck-ins, obviously, much smaller scale going forward. How do you feel about that over the next couple of years?

<A> Glenn David: Yeah. So, from my perspective, obviously, our key priority right now is to successfully integrate the Zoetis business post closing and to generate the additional cash and EBITDA accretion. But that being said, we'll continue to be active in looking to your point at smaller deals, things that could complement our R&D portfolio and things that could complement our overall livestock portfolio as well.

Analyst, Stifel

Great, guys. We're at time. We're going to have to stop there. Phibro, thanks very much for joining us. Appreciate it.

Larry L. Miller, Chief Operating Officer

Thank you for having us.