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Michael Ryskin: Richard Johnson, CFO Phibro Animal Health. We'll do the same format that we did earlier, it will be a fireside chat for about half an hour and then open up to Q&A. If you've got any questions, raise your hand.

So, thank you for joining us, Richard.

Richard Johnson: You're welcome.

Michael Ryskin: Always appreciate you coming in. I guess maybe to start, same thing, you reported earnings a few weeks back. Give us an update on sort of the calendar year 2019, the last couple of months, sort of what were the major moving pieces in the story, what surprised you to the upside, what surprised you to the downside as the year went ahead?

Richard Johnson: Our December quarter was a decent quarter. I think we were encouraged by the results, certainly in our animal health business, which is really what we're going to be talking about today. It's $550 million out of the total company and we were encouraged by our vaccine progress and uptake demand for those products in a number of international markets and additional market penetration. We launched some new products recently and we're seeing good uptake on those products. We're also encouraged by the recovery, if you will, and growth in our nutritional specialty category that we're seeing in the dairy industry where we're mostly exposed in the United States; dairy products did well in the quarter.

We had the fairly recent launch of a gut health product, it's a living organism, a direct-fed microbial, for the poultry industry. That's seen some good initial acceptance and then we were pleasantly surprised to see the MFA business be relatively strong and part of that was the uptake of some additional product going to our customers in China which we had not anticipated earlier in the year. That was in anticipation of some regulatory changes that went into effect on January 1 but really a positive for the quarter.

I think looking forward for the second half of the year, we reaffirmed our guidance certainly on the profitability side and, we'll expect to see a number of these same trends continue and I think, strengthen, in the second half of our fiscal year. Probably on the downside our minerals business has been in a competitive market more than historically we've seen. It's been in that situation now for, oh, four, five, six quarters and so we're not seeing the profitability growth there that we might have hoped for but we're getting some offsets in other places. We still like that business, it's a good long-term business. It

touches the same customers as our animal health business touches and it's just something we have to work through and we'll find some answers to.

Michael Ryskin: Great, appreciate that overview. So maybe just to start on, from the top, you touched on, I think, the biggest theme when we've talked about for the last couple of quarters has been the dairy market and some of the challenges you've seen there, you know, some of the segments that were your biggest drivers of growth in the past are now seeing a lot of challenges with that market. So could you give us an update on what you're seeing in terms of overall dairy and maybe some of the moving pieces we've seen; the consolidation, the larger customers versus smaller customers and then how you're positioned?

Richard Johnson: We're encouraged that the dairy industry is seeing better prices and when your customer is seeing better prices for his products, he's more willing to open his wallet and add some other products to his mix. So, that's been a positive for us. I think the dairy industry is on an upswing; part of that as Mike mentioned is consolidation. Consolidation in the dairy industry has been going on, of course, for decades but it's really accelerated as we are in one of these periods of acceleration where the smaller producer is simply not economical anymore and production is going to larger and larger farms.

I saw a chart the other day which kind of surprised me. There are a little over nine million dairy cows in the United States. Over half of those cows are with producers who milk at least a thousand cows and there are producers who are milking 2,000, 5,000, 10,000 cows. That is just an illustration of where consolidation is heading and -- the old image of the red barn and the farmer and the green fields -- that's a nice image but that's not the dairy industry in the United States anymore.

Michael Ryskin: And what's your product portfolio and sort of what's your customer relationship with the large consolidators and the smaller farms. Are you better positioned for one or the other?

Richard Johnson: We've talked about this. One of our flagship products is a nutritional specialty product. What does that mean? That means it's not an FDA regulated drug. It's this sort of lightly regulated, some combination of natural ingredients that helps the animal's overall health. In this case, we've been able to show with markers that it really helps the animal's immune system and just to digress for a moment, when you have a dairy cow in production, her job is just to give as much milk as she can. And so, in your husbandry, you're pushing that cow by the feed you give, the high energy feed to produce. So that produces a lot of stress on the animal's body and this product has -- we've grown this product over ten years to -- from nothing to a very substantial product for us.

The last few years it's taken a downturn because we were more focused on kind of the midsized producer who is in some measure gone away or he's had such financial difficulty that he's not able to really afford the product anymore. And so we've refocused on the larger producer, refocused our sales force. We've reformulated the product, added more value, and repositioned the product to show the large producer a much more direct relationship between use our product, get more milk. There are a lot of technical words in between but that's the fundamental message.

We just re-launched the product within the last few weeks and we think this is going to have a nice benefit to us and bring us some additional sales as we move forward in the coming quarters. A good sized portion of our overall nutritional specialty sales is dairy-focused and most of that dairy focus today is in the United States, although we are

growing in a number of international markets -- the other major dairy producing markets around the world.

Michael Ryskin: And so the product you're talking about is OmniGen?

Richard Johnson: That's right.

Michael Ryskin: OmniGen and OmniGen Pro.

Richard Johnson: Yes.

Michael Ryskin: So are you expecting, you know, you mentioned that you've had some challenging conditions over the last couple of years. Are you expecting OmniGen Pro to return to growth in the second half?

Richard Johnson: Right.

Michael Ryskin: And go off that?

Richard Johnson: The product had been declining slightly, but declining, for a year and a half, two years, and then given the turnaround in the industry, we saw stability in the product recently and now we're definitely expecting growth as this new and improved better value product is offered to our customers.

Michael Ryskin: Okay. And then sticking on nutritional specialties just while we're in that segment. The other major event there is you had the Osprey acquisition a few months ago. Could you give us an update on sort of what's in that business? Why -- you know, why you're interested in making a transaction and how that's done since then?

Richard Johnson: The Osprey business is a microbials business. It's living organisms, bacillus and pseudomonas and other words that I don't really have a lot deeper understanding of than that. And it's in the animal health space, it's also in crop protection or plant protection where you'll coat; you'll use these organisms to coat seeds, to protect them as they're growing and planted -- which is agricultural related to our main line of business. We got to know this company as we were developing the direct-fed microbial, I mentioned it earlier, gut health for poultry and as we got to know them and they make the primary ingredients in the poultry product. We saw a good fit with Phibro and talked to them about combining our businesses and we ended up acquiring the company, I think it was in August, and moving forward.

We continue to be very encouraged about the prospects, I just sat in an internal review the other day of all of the prospects that are out there on the near-term horizon for the business. We've seen some short-term sales that are less than our initial expectations, just because of some customer order patterns, we view it as short-term and we think the business is still going to be a real nice contributor as we move forward.

Michael Ryskin: Great. I was going to ask you right on that point, so I'm glad you addressed it. I think the contribution from Osprey in Fiscal 2Q was a little bit lighter than expected but it sounds like that's just timing. And then your initial expectation was $20 million to $22 million for the fiscal year.

Richard Johnson: Yes.

Michael Ryskin: Okay, great. And then I guess turning to the other growth segment, vaccines, you've had a nice little rebound after a couple of challenging quarters. Could you give us an update of what you're seeing in that product class; whether it's by species or geography?

Richard Johnson: Most of the growth is in our poultry vaccine line. Most of the growth is in emerging markets, whether that's Southeast Asia, Eastern Europe, some of the Middle Eastern countries, other specific markets around the world. We have introduced some new products and when I say a new product, it's a vaccine against an existing well-known disease, I don't think there's any unknown poultry diseases but we've come out with an improved version which works better than other versions. So we've seen good additional penetration and very nice demand.

I don't remember the exact numbers. I think we grew around 10% in the second quarter and we're expecting continued and really solid growth moving forward.

Michael Ryskin: Sticking on the -- I'll throw on the vaccines and on the viral front and moving on to the end markets. I think the other big theme we've had in this space over the last year, year and a half, has been the African swine fever outbreak in China.

Richard Johnson: Yes.

Michael Ryskin: It's been a disease that's been around for many, many decades but popped up in China, in I think, August 2018, and you saw the impact get worse as we went through the year. As you said, your initial outlook for China for Fiscal Year 2020 was you expect essentially zero revenues from that but saw a surprise upside in Fiscal 2Q. Could you give us an update on how the disease is unfolding based on what you've seen and sort of look to longer-term prospect. When we met in Vegas in May, you talked about a potential for a rebound from other markets producing more in Latin America, you know, is it still too early to see some of that or --

Richard Johnson: This disease left a big supply shortage in China. China prior to the disease produced and consumed something around 800 million pigs per year and depending on the numbers, we believe it's maybe 400 million pigs now, it's maybe 300 million. It is something very significantly less as the disease has really decimated the production industry.

In the shorter run, absolutely. There's a hole in the protein supply which is going to be filled by protein producers around the world and the big producers are the United States, Europe to a certain extent and certainly Brazil. And Brazil is probably the most agile to have begun to supply some of that need. There isn't enough swine in the rest of the world, really, to meet the demand, so a lot of the demand is going to be in poultry and then there will be some swine demand.

The United States gets a little more complicated and has been complicated with the trade wars and the tariffs which, given recent developments, seem to be loosening. Producers in China are attempting to restore production and bring production back. It's kind of a stop and start activity. If you put pigs back on and the disease reappears because the virus can remain dormant in the environment for some time and if it wipes you out again, then that's a problem. The government is very actively supporting the repopulation and then trying to do what they can to support additional local domestic production and that's where it stands. I think this is not going to be an easy and quick recovery. Until or if, somebody is able to come up with a vaccine that can control or eradicate the disease and it's going to be very difficult.

Michael Ryskin: So are you working on a vaccine and how's that going?

Richard Johnson: Yes, we, like I'm sure everyone else in the industry, are working on a vaccine. We think we've got some really smart partners and people we're working with and some novel ideas and we are spending money and one of the themes in our discussions have been, as an aside, that we're investing for the future on a number of initiatives. One of those is investing research dollars into this attempted development of a vaccine against African swine fever. We like what we're seeing so far. We're encouraged by early results. I can't tell you if it's going to be successful or not. Probably by the time we're talking about our year-end results, we'll probably be able to have a much better view of where we're at and what next steps might be.

Michael Ryskin: Okay. Oh, on that front, I mean, we've seen, as you've mentioned, we've seen some positive news elsewhere. I know the USDA Agricultural Research Service, ARS, had a couple of publications end of 2019, I'd say, that's some very early work of a vaccine but that was seen very positively as people were commenting that, oh, it's right around the corner and then kind of came back and said, well, realistically commercialization and three to four years away by the time you move it from macrophages to the other cell, etc.

Could you give us a sense of what the vaccine process is, just because it's someplace where people are debating, you know, is this a one-year, three-year, or five-year process sort of how quickly, given that it's an emergency, given that there should be a lot of ability to sort of expedite it, what's the timeline for something like this?

Richard Johnson: The standard timeline in normal circumstances would be at the longer end. I don't think there's any question, given the severity of the problem, if somebody came to the Chinese authorities and could show efficacy and a good safety profile, then the speculation is that the Chinese authorities would likely fast-track testing in the market. You will have to see when somebody gets there what really happens. But that's the thinking around it.

Michael Ryskin: And what about spread beyond China? We've also, I mean, it gets overlooked sometimes in places like Vietnam or the Philippines or South Korea are still major swine producing regions and you've got risk of it spreading into Europe where it's moving closer to the border with Germany, between Germany and Poland, what's your exposure there and what have you seen from some of those other areas where it's now becoming much more prevalent?

Richard Johnson: Our exposure in most of those markets where it's the neighboring markets or -- and the Eastern Europe, the Poland Germany border, some of those, and I think it's a little bit different, but our exposure from a sales point of view is minimal so that's not the issue. I would say the U.S. swine production industry, since this has come about, the industry and the USDA have been on high alert and are doing, and have been successful so far and they're doing everything in their power to make sure the disease doesn't show up in the U.S.
And I think I would say even if it did show up in the U.S., our biosecurity would keep it, very contained to wherever the outbreak happened to show up and it would be, in my view, probably an unscientific view but it would be unlikely to just spread like it spread in China where biosecurity is at a much more fundamental level.

Michael Ryskin: Yeah. That has been one of the questions, sort of what's the doomsday scenario if it takes foothold in some of the other producing countries but we've heard the same thing in Western Europe and the U.S., the biosecurity is so much tougher and just the nature of the industry in terms of not having as many backyard farms, it's so different, that it would

be, you know, knock on wood, hopefully well contained. Hopefully we're not even there yet but -- sticking with the emerging markets, just to sort of wrap up the conversation there. One of the things that we've noticed is there's been a little bit of a change in practices in some of these regions as far as it goes to with medicated feed additives and cutting down on some of the antimicrobials. That's something that used to be only a U.S. and Western Europe phenomenon but you're starting to see it in some of these pockets in Southeast Asia. Could you talk about what you're seeing in there and how that's -- how that's -- and sort of how do you see that playing out?

Richard Johnson: Just to review what happened in the United States, probably five, six, seven years ago, eight years ago, the FDA along with the industry began working to eliminate what historically were known as growth promotion claims or labels, which meant that you would just use the product at a relatively low dose prophylactically. In the United States, the entire industry, the FDA changed the regulations; growth promotion is now gone, has been gone, for five years probably and there are only therapeutic applications permitted which means you can use the product to prevent, control or treat the disease and it has to be under the supervision of a veterinarian.

The rest of the world is moving in that same direction. They're eliminating the more general growth promotion sort of labels and they are moving to permitting the product to be used only one with therapeutic reasons. That's what the Chinese authorities are doing and we said one of the reasons we saw some sales in December into China was they were advance of some regulatory changes that took effect in January and then that's what we were talking about. We are in the process of obtaining these therapeutic claims and labels for our products. It's taken longer than we thought it would and somebody is going to ask me, how long will it take and we're not exactly sure. And part of the problem is, and now it's been doubled with all of the other priorities in China, the changing regulations have been pushed far back on the back burner to some of the other priorities that the agricultural ministry has.

Michael Ryskin: Whatever your -- I won't ask you how long it's going to take, because you just told me not to, but I will ask, what parts of your portfolio? Are you going to be able to transition everything to having the appropriate labels that's not growth promotion or --

Richard Johnson: We expect to. Yes.

Michael Ryskin: Okay, so over time --

Richard Johnson: Over time.

Michael Ryskin: However long it takes?

Richard Johnson: Yeah, it might take a year, it might take a year and a half, it might take two years but --

Michael Ryskin: But either way, on the backend it will be the -- everything will be --

Richard Johnson: Yes.

Michael Ryskin: And are you seeing the same in other countries besides China, other parts of South East Asia or --

Richard Johnson: Yes, and we're seeing -- I'd say we're seeing the same really around the world. The other thing I would point out is in the United States it was not the change in the regulatory

environment that really negatively affected our sales and I think a lot of sales across the animal health industry. It was consumer preferences. Consumers want to see the package in the grocery case that says raised without antibiotics or no antibiotics ever and that's what has driven the very substantial decrease and the use of a whole bunch of different antibiotics that fall within that general category.

What we've done, and I think done reasonably successful is, we've come out with some nutritional specialty products that, well they're not a replacement or they're not a substitute, they have some effect of offsetting what otherwise would be a continuing problem for the producer. Because as my boss likes to say, nobody told the bacteria that they shouldn't show up just because the consumer preferences change. So the producer has got the same disease pressures and the same production challenges that he's always had. He's now had a number of tried and true tools taken out of his tool bag and he's looking for other things. We've come up with certain things and so have others and that's where the industry is headed, especially in the United States.

Michael Ryskin: Are there any questions from the audience? All right, I'll keep going. Along that line then, so this continued pivot from feed additives, from growth promotion into nutritional specialties, vaccines, alternatives from these preferred products. This is where a lot of the investment in growth is coming from in the business both in R&D and in SG&A through beyond, you know, you talked about the direct-fed poultry microbial. You talked about OmniGen, are there any other products that we should be monitoring either that are -- that you're selling today or that you expect to be growth drivers or could come to market in the coming quarters?

Richard Johnson: As Mike accurately said, our investments are behind the faster growing parts of our portfolio, which are vaccines where we continue to develop and introduce new and improved products and it's getting kind of cliché but that's what they are. In nutritional specialties, the most recent products we've added, that we've talked about, it's the gut health product for poultry, and it’s the enhanced reformulated OmniGen dairy product for dairy producers, so I think we've called out most of the major products.

Michael Ryskin: And so any other investments, you've talked about for a couple of quarters now, is the opportunity to move into companion animal, it's something that you've thought about for a while, you know, occasionally there's some M&A targets that float around but you've also invested in the organically -- you've got the canine joint health product. Could you give us an update on how that's going and if there's any other opportunities in companion animal?

Richard Johnson: We've taken a page from how we've developed our nutritional specialty portfolio in the livestock or production animal market. There are a lot of good ideas out there with smart people who don’t have a way to really understand if that good idea can become a commercial product and then get it to market.

So, we took that model overall and are experimenting on the companion animal side. As Mike said, we've got a canine joint supplement product that's in test market, it's in a number of markets and a whole bunch of vet clinics around the United States. Good initial acceptance, some good reorders and uptake and we're hearing anecdotally that the customer is liking the product. So, we're still in test mode, we're still investing in developing the product or developing the market overall and bringing the product to market.

So we'll see where that develops but we're encouraged by what we're seeing so far.

Michael Ryskin: And is there an opportunity for some follow-on products? Are you going to try to build out a broad portfolio here of targeting some of the --

Richard Johnson: We are, we've got several other products sort of earlier in development. We're always looking at some other things and so I think there's the possibility of having a portfolio of a few products that could be a nice contributor to the overall growth and profitability of the company as we move forward.

Michael Ryskin: And what about complimenting some of those organic moves with M&A? I mean, you did the Osprey deal and nutritional specialty.

Richard Johnson: Right.

Michael Ryskin: Between the growth segments and the nutritional specialties; vaccines and companion animal, sort of could you give us the lay of the land in terms of what the opportunities are, where evaluations are tracking? Sort of what's your appetite there?

Richard Johnson: There's not a lot of opportunities really in any of those spaces, and when they do come about they tend to be fairly expensive. We're routinely evaluating opportunities. We obviously don't comment on acquisitions but if the right transaction of the right asset, something that makes sense financially were to come along, we definitely will give it a good hard look, good strong look.

Michael Ryskin: And if we look at sort of the rest of the investments that you're making organically, SG&A and R&D in 2020, you know, we thought of this as more of a little bit of a catch up year and a reposition year sort of fit the adapting markets that you talked about, the dairy markets to readapt the product portfolio. Is this -- what's the longer-term P&L structure and investment structure as you go a couple of years out?

Is this a big jump in spend that's going to fade over time or is this going to be a multiyear runway of, you know, you've got an investment business to grow it?

Richard Johnson: I think we'll see continued spend over time. This was a major step-up in spend this year which I don't believe we're going to see that same step change or really major increment next year, but I don't see the spending fading for a couple, three, years anyway.

Michael Ryskin: Are there any questions from the audience? Yep, one in the back.

Unidentified Audience Member: (Inaudible) -- channel for some of the, sorry, companion animals. Who are the competitors that are on the -- that you're seeing in the vet channel, I suppose?

Richard Johnson: The question is, I guess, who are our competitors, who are the competitive products in the vet channel --

Unidentified Audience Member: Right, competitive.

Richard Johnson: This is a canine joint health product. I'm sorry, I don't remember the name. It's a good sized privately held company that has something similar. We think the sales are substantial around the U.S. and we think there's a lot of room in the market for this kind of a product and, of course, we believe that our product, is better than the existing one out there, so we think we've got a competitive advantage that's based on the product.

Michael Ryskin: All right, and I don’t know if there's anymore questions. I think we're running up the end of our time allotment so I want to thank you very much. Thanks for coming in.

Richard Johnson: Yes, thank you everyone.