Phibro Animal Health Corporation
March 13, 2025
9:00 a.m. ET

Balaji Prasad: Good morning, everyone. My name is Balaji Prasad. I'm the senior analyst for the specialty pharmaceutical sector for Barclays, part of which is also the privilege of covering animal health. So, I'm delighted to have Glenn David, the CFO of Phibro Animal Health with me. Glenn, thank you so much for joining us today, and welcome to the Barclays Healthcare Conference.

Glenn David: It's great to be here. Thanks for having me.

Balaji Prasad: Yes. So, Glenn, to maybe kick-start our proceedings, you recently reported your 2Q results. Can you walk us through some of the key highlights there? And how are things progressing now for the rest of the fiscal year?

Glenn David: I'd be glad to. And Q2 was a very busy quarter for us. We completed the acquisition of our Zoetis MFA portfolio, and we had a very successful initial start with the portfolio. We were able to take orders on day 1, which was essentially November 1 for us. We had our typical blackout periods as we'd expect, but we saw a nice acceleration of sales in the month of November to December. Also, we saw strong overall performance in Q2, very strong revenue growth. And that was on top of a very strong Q1.

So, when you look at the first half of the year, just on our legacy business alone, without even including the Zoetis MFA acquisition, our revenue grew 11%. When you add in Zoetis, on a year-to-date basis, we had revenue growth of over 18%. So, really strong performance for the first half of the year. And even more importantly, our income grew even more rapidly. And that's going to be an area of focus for us moving forward is to make sure that we're really driving EBITDA and income growth faster than revenue. So, really strong performance from a revenue perspective, really strong performance from an income perspective.

Also, strong performance was across all areas of our business. Within Animal Health, our Medicated Feed Additives business grew rapidly, our vaccine business grew rapidly, and our nutritional specialty business grew as well. And then also Mineral Nutrition and the Performance Products segments also grew. So just a really good start to the year for us, a very strong first half with very strong growth and setting up what was a raise to our guidance as well.

Balaji Prasad: Fantastic. I think we can clearly see the progress, and the stock momentum has also reflected or acknowledged some of the progress being made. Now that the Zoetis MFA acquisition is complete, can you walk us through your key priorities with regard to the acquisition for the rest of the year? And what should we be thinking about for future contribution?

Glenn David: Yes. So, the main part of the acquisition, as you said, was the closing of the deal. But there's still a lot of work to be done. As I said, we're able to take orders. We're able to fill customers' orders, which is always the #1 priority in any acquisition, and that's been going very well. But there's still additional things that we need to transition through sort of the end of this calendar year. We do have transitional service agreements in place with areas such as IT, with areas such as regulatory in terms of marketing authorizations. So those are areas that we're really focused on internally to make sure that we're able to operate 100% on our own by the end of the year. So that's sort of priority #1 for the company.

Outside of the Zoetis MFA acquisition, though, some of the other areas or key priorities are our Phibro Forward growth initiative, which is an initiative that is sort of in its early stages this year. We're starting to see some benefits in terms of income contribution this year. But we expect that to

accelerate as we move into fiscal year 2026. And then obviously, the focus on the legacy business and continuing to drive good performance in that business as well.

Balaji Prasad: Understood. Closing the acquisition and then getting orders on day 1, that was a good surprise. And as you own the portfolio -- MFA portfolio - and look through the portfolio or the businesses, were there anything else which came as a surprise for you, both a positive or negative surprise?

Glenn David: Yes. So, this is a business we knew pretty well. We are leaders in the MFA space. So, I wouldn't say that there were any surprises once the business came into our hands, but probably just confirmation of some of the key thesis we had going in. One, there was very limited overlap with our existing portfolio, so virtually no cannibalization of our existing sales, which was a positive and a confirmation of our thinking going in.

The other thing that's been very positive since the acquisition has been the reaction from our customers. We attend many conferences. There are a number of conferences in the last number of months. We had customers coming over to us saying how happy they were that we were the ones that acquired this portfolio based on the experiences they have with us as a company and the technical support that we're able to provide them based on our expertise in the medicated feed additives sector.

The other thing that's been a positive is our ability to recruit new employees. So, in certain areas and certain geographies, there are businesses that we weren't in before that Zoetis brought a new portfolio or a new geographic expansion. And we've been able to recruit really top talent from external as we are becoming a leader in the livestock space. So that's been progressing very positively as well. So, no real surprises, just a lot of confirmation of some of the positive aspects of the deal that we thought would occur.

Balaji Prasad: Got it. And probably just a minor point of clarification. The transitional service agreement would last until the end of the year. Is it the fiscal year or the calendar year?

Glenn David: So, sort of in between the fiscal and calendar year. They end sort of calendar year Q3, early Q4.

Balaji Prasad: Got it. Coming back to your updated 2025 guidance that you provided earlier this year. Help us understand, apart from the acquisition, the other major drivers, and also especially what the stock market or investors really like was also your updated EPS guidance, which was well received. So help us understand the drivers there.

Glenn David: Yes. So, if you look at the updated guidance, in Q2, this was the first time we fully incorporated the Zoetis Medicated Feed Additive portfolio into our guidance. If you go back to Q1, we gave some high-level estimates of what we thought the contributions would be, and we said we'd expect essentially about an incremental $200 million in revenue and about $0.25 in EPS. That's what we had said initially in Q1.

As we acquired the business and continued to learn more, we updated our revenue guidance by about the $200 million, if you look at the midpoint. However, when you look at EPS, the EPS raise was about $0.53, so a lot higher than the initial expectation of the $0.25.

There are a couple of things that drove that. A, we've seen that we've been able to leverage our global scale and infrastructure a little more greatly in terms of acquiring the MFA portfolio. So, we have higher profitability there. The other thing from an EPS perspective is the overall interest expense to fund the deal. Based on the final closing price after working capital adjustments and things like that, it was lower than initially anticipated. And we also entered into a number of swaps to really minimize the interest expense as well. So, you take some of the positive factors from the MFA portfolio. But then we also saw a strong performance in our legacy business as well, and that did contribute a little bit to the EPS raise being higher than initially expected.

Balaji Prasad: Understood. And especially the legacy business surprise was something unanticipated. Can you comment about the sustainability of this performance from the non-Zoetis MFA part of the business?

Glenn David: Yes. So, we're very pleased with how the legacy business is performing. And the growth in the first half has been very strong, both at a revenue and an EBITDA perspective. So, the legacy business in the first half of the year grew 11% revenue, 37% EBITDA. That was ahead of our expectations.

I think the one thing to note as we move into the second half of the year, and we talked about this throughout the year, is there are easier comps in the first half. Our business performed weaker in the first half of last year and then very strong in the second half. So, we would expect the growth in the legacy business to slow in the second half of the year, but we still do expect growth in the second half as well.

Balaji Prasad: Got it. You also spoke about the Phibro Forward growth initiative. I would love to dig a bit more into that and dig through some of the cost-saving opportunities that you've identified.

Glenn David: Yes. So, there are a number of areas related to the Phibro Forward growth initiative. And it's both cost and revenue growth as well. So, this is an initiative that really is cutting across all of our business units, all of our geographies, looking for areas where we could operate more efficiently and effectively. And there are a number of areas that we're focusing on, one being price. Are we effectively pricing all of our products? Do we have greater opportunity to drive more price? Also looking at our SKU mix, are -- is each SKU reaching a certain minimum threshold of profitability? Is there opportunities to shift to higher-priced SKUs as well? Or should SKUs just be eliminated so that we could operate more efficiently?

Another area is procurement. Are we fully looking across all of our purchasing across all of our business and really leveraging our buying power with our vendors? And we think there's significant opportunity there as well. And then we're also looking at geographic expansion for some of our existing SKUs and other areas that we could drive additional growth and income for the business.

Balaji Prasad: Got it. Could I maybe just dig into the pricing part of it? I think historically, the pricing power on the livestock side has been limited. Of course, it's not comparable to the companion animal side. But help us understand what kind of pricing opportunities do you see within this?

Glenn David: Yes. So, when you look historically, we've generally averaged, call it, around 1% to 2% in price. And to your point, in livestock, based on some of the competitive dynamics, some products losing exclusivity and then creating pressure on other branded products, pricing opportunity has been a little more limited.

The one thing I will point out, particularly for Phibro and one thing I think Phibro does very well is particularly in higher inflationary markets, we price in U.S. dollar. So, when we're saying that we have price of 1%, that is a reported price increase versus an operational impact price increase, and there is a difference. So that's net of any currency impacts or anything like that. It's a true price benefit. And that's something that we'll continue to do. And that eliminates some of the negative impact of the hyperinflationary markets and then translating that into U.S. dollar. But we do think there's opportunity to generate more than that 1% as we move forward.

Balaji Prasad: Understood. So, for example, last year, these would be markets like Argentina, where you had taken up price significantly.

Glenn David: Yes. Argentina, Brazil, other markets where we just set the price to U.S. dollar.

Balaji Prasad: Got it. So, combining the Phibro Forward initiative plus the completion of the Zoetis MFA deal, how does it influence or change your focus or strategy at all around the companion animal segment?

Glenn David: Yes. So, I don't think it changes our strategy at all around the companion animal segment. I mean, obviously, MFAs are now a bigger portion of our overall business. But we think with the addition of the Zoetis MFA portfolio, the fact that it's immediately EPS accretive and will generate additional cash for us as well as the additional EBITDA and cash we expect to get from the Phibro Forward initiative, we think it just increases our ability to go look either internally or externally for new opportunities of growth. So, if anything, it enhances our ability to focus on some of the higher growth areas, whether that be vaccines, whether that be aqua vaccines, whether that be companion animal as well, we'll have more operating flexibility, more operating cash to look at some of those opportunities.

Balaji Prasad: Understood. Can I dig into that a bit more, especially around the companion animal part? So, what are the pockets that you think you could operate with a distinct competitive advantage maybe versus other larger established peers within this segment?

Glenn David: Yes. So just to give a little history on companion animals, what we currently have within the companion animal space is a nutritional specialty product called Rejensa, which is for joint pain. It's a very small product. We manage it through distributors. And it was sort of our entry into the companion animal. We also had a -product in dermatology. That product unfortunately didn't meet its endpoints, and we had to cancel that product. But there are a number of other products that we have that are licensing opportunities where the expense base will not be that significant until the product hits certain milestones. So, as those products progress, we'll then evaluate what the best go-to-market approach is for that. We currently do not have a large companion animal field force. That's not where our capabilities currently lie. Depending on the size of the product and we think the potential that will determine, is this something we do through distributors? Or do we want to expand the field force that we currently have for Rejensa and do that more in-house? So those are things that we'll determine over the coming years based on the potential and the success of some of the products that are currently in development.

Balaji Prasad: Understood. Maybe changing gears slightly higher up around the industry trends. And there's a question that I've been asking almost every pharmaceutical management over the last couple of days around tariffs and impact on supply chain and how do companies manage to navigate this. It's a fairly volatile environment.

Glenn David: Yes, so in terms of the overall underlying dynamics of the industry, I'll talk to that first and then talk about tariffs a little bit as well. In animal health, the underlying dynamics of the industry right now are very positive. When we look across beef, when we look across dairy, poultry, swine, the majority of our producers are profitable. Prices for meat are very high, and the inputs are reasonable. So, we're seeing most of our customers in a profitable position, which is very good for our industry in terms of our support for them.

We also -- we get a sort of a dashboard internally, which highlights profitability across all sectors. And for the most part, we see a lot of green and a little yellow. There may be one or two areas of red, but much less than we would typically see. So, the overall dynamics for the livestock industry right now are very positive.

As you mentioned, tariffs bring a lot of uncertainty right now, and it changes every day. The good news for us is a lot of our production is within the U.S. We do have some plants in Brazil. As part of the Zoetis acquisition, we acquired a small site in Italy, and we also have a site in China as well. Probably our biggest exposure to tariffs is in our Mineral Nutrition business. But when you look at the dynamics of that business, that is mostly a pass-through business. So, we would expect that if

there are significant tariff impacts and we're not able to source from other markets where there might be lower tariffs, that additional cost will be passed on to the customer.

Balaji Prasad: Understood. Maybe on the overall food protein segments, help us understand the underlying demand trends across these different species that you're exposed to and maybe also some of the geographies that you're present, especially focusing on Brazil or China.

Glenn David: Yes. So, the largest geography for us is the U.S. with the second being Brazil. And then from a species perspective, our largest portfolio is within poultry, then beef and cattle combined, and then swine. So, U.S. poultry has been performing very well, particularly in the broiler section, and beef and dairy have been performing well in addition.

And when you look at Brazil, beef cattle has been doing very well. Poultry has been doing very well as well. And also in Brazil, we've seen very limited impact from avian influenza. So, like I said, when we look at our key markets in the key areas, the underlying dynamics and trends in the industry are very positive.

Balaji Prasad: Got it. And how should we think about the impact of avian influenza, especially, I mean, we saw news last year, probably around 100 million poultries being culled, not a lot from the larger scheme of things with poultry where we are looking at billions of chickens per year. But how should we think about the impact of avian influenza?

Glenn David: Yes. So avian influenza hasn't had a big negative impact for Phibro this year. When you look at our portfolio, it's mostly used in broilers. And because of the life cycle of a broiler, producers are able to pretty rapidly react if they do have an avian influenza outbreak in their herd. So, we've seen very limited negative impact to our business in poultry driven by avian influenza, and we wouldn't expect a significant impact.

Balaji Prasad: Got it. Shifting to the vaccine side of things. Again, historically a pretty strong segment for you, and you're still seeing pretty strong momentum, too. How sustainable is this? And two, are there any innovations that -- upcoming innovations potentially that you would want to call out?

Glenn David: Sure. So, our vaccines segment has been one of our highest growth segments. We've seen very good performance, not only last year, but this year as well on a year-to-date basis. Our vaccine business is growing about 17%. A lot of that growth is driven by South America and a particular product we have called IB VAR that treats bronchitis. And we have a product on the market that treats a certain strain that there's no real competition for at this point in time.

As you know, understanding where competitors are and coming out with products, there's not a lot of visibility to that. So, we do believe that others are working on a similar product. We don't know when they'll be on the market, but we do feel very confident in the efficacy and the safety profile of our product, and we've had significant penetration, particularly in Brazil, with this product, and we'd expect to have continued good performance as we move forward.

Balaji Prasad: Got it. And continuing the vaccine trend, looking at swine and the impact African swine fever had five, six years ago. Is that something that you would want to partner and work in conjunction with anyone on the vaccines front?

Glenn David: Yeah, so right now, our vaccine portfolio is primarily focused on poultry. We don't really have significant offerings in the swine space. One of the areas from a development perspective that we are focused on for vaccines is aqua vaccines, and that's something that we do have a number of products under development. But from a swine perspective, it's not currently an area of focus for us.

Balaji Prasad: Got it. Coming towards the end of the questions, a couple of minutes left. I would really want to think about Phibro -- a major transformative acquisition is completed. What next in terms of your long-term priorities over the next three to five years, Glenn?

Glenn David: Yes. So, I think when you look at Phibro, and if you're just looking at the next three to five years, I think it's always helpful also to look back a little bit at sort of the previous three to five years. So, when you look at the previous three years or so, I think Phibro has done a very strong job of growing revenue very rapidly in a livestock market that was growing sort of in the low single digits. And while Phibro was able to drive significant revenue growth, the EBITDA didn't quite follow, or the income didn't follow at the same pace as there were strong strategic decisions made to invest in certain other areas. And we've sort of leveled the level of spend. And with Phibro Forward growth initiative, we're looking at how we could continue to grow income faster than revenue.

So, when I look at the next three to five years, particularly as we look at fiscal year '26, I think there are a number of exciting opportunities as we look at fiscal year '26. First of all, in fiscal year '25, we have about eight months of the Zoetis acquisition. And the reality is it's even a little less than that because of inventory impacts and transition timing. So, as we move into fiscal year '26, a big growth driver will be the fact that we have a full 12 months of the Zoetis acquisition.

The other component is additional contributions from the Phibro Forward growth initiative. We've mentioned that we're sort of in the early stages of that in fiscal year '25. We expect the growth contribution from that to accelerate as we move into fiscal year '26, and then we would expect continued growth just from the legacy business.

But as we move beyond that into fiscal year '27 and beyond, I think you'll see a continued focus from us on how do we not only drive revenue, but how do we continue to make sure that we're driving income at a faster pace than revenue? And I think with the broader portfolio, with the diversity of the portfolio, both geographically as well as therapeutically, we'll have opportunities to do that.

Balaji Prasad: That's extremely helpful. And maybe a question probably slightly on the personal side. So I had the privilege of hosting you last year at the same time. You were just 1 month into Phibro, and now it's one year, one month. So, I would love to see what were the surprises that you found at Phibro, hopefully more positive.

Glenn David: Yes. No, it's been a very positive year and obviously, a very busy year with the -- doing sort of the largest acquisition in the company's history. But I think one of the things that has just been a really positive surprise at Phibro is the quality of the colleagues that work at Phibro and the deep expertise, particularly in the livestock area. You see that every day as you interact with people who really understand the business, have come from a number of different companies with varied backgrounds, just a very strong management team with deep expertise in the livestock business. And you also see that as you begin to interact with customers, their appreciation for the technical expertise and how we're able to support them in operating the business. So, it's been a really good one year and one month start to the job.

Balaji Prasad: Fantastic. I think that will be a great spot to leave this conversation at. I look forward to hearing more updates from you on the business. And thank you for joining us at the Barclays conference.

Glenn David: Thank you so much, Balaji. Appreciate it.