Phibro Animal Health Corporation



Third Quarter – March 31, 2019
Webcast and Conference Call
May 7, 2019

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Conference ID: **5679217**

Cautionary Statements

Forward-Looking Statements

This communication contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical or current fact included in this report are forward-looking statements. Forward-looking statements discuss our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “aim,” “anticipate,” “believe,” “estimate,” “expect,” “forecast,” “outlook,” “potential,” “project,” “projection,” “plan,” “intend,” “seek,” “believe,” “may,” “could,” “would,” “will,” “should,” “can,” “can have,” “likely,” the negatives thereof and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. These statements are not guarantees of future performance or actions. If one or more of these risks or uncertainties materialize, or if management’s underlying assumptions prove to be incorrect, actual results may differ materially from those contemplated by a forward-looking statement. Forward-looking statements speak only as of the date on which they are made. Phibro expressly disclaims any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. A further list and description of risks, uncertainties and other matters can be found in our Quarterly Report on Form 10-Q and Annual Report on Form 10-K, including in the sections thereof captioned “Forward-Looking Statements” and “Risk Factors.” These filings and subsequent filings are available online at www.sec.gov, www.pahc.com, or on request from Phibro.

Non-GAAP Financial Information

We use non-GAAP financial measures, such as adjusted EBITDA and adjusted net income, to assess and analyze our operational results and trends and to make financial and operational decisions. Management uses adjusted EBITDA as its primary operating measure. We report adjusted net income to portray the results of our operations prior to considering certain income statement elements. We believe these non-GAAP financial measures are also useful to investors because they provide greater transparency regarding our operating performance. The non-GAAP financial measures included in this communication should not be considered alternatives to measurements required by GAAP, such as net income, operating income, and earnings per share, and should not be considered measures of liquidity. These non-GAAP financial measures are unlikely to be comparable with non-GAAP information provided by other companies. Reconciliation of non-GAAP financial measures and GAAP financial measures are included in the tables accompanying this communication and/or our Quarterly Report on Form 10-Q and Annual Report on Form 10-K.

Internet Posting of Information

We routinely post information that may be important to investors in the “Investors” section of our website at www.pahc.com. We encourage investors and potential investors to consult our website regularly for important information about us.

Opening Remarks and Financial Review

- Jack Bendheim

  Chairman, President, Chief Executive Officer

- Richard Johnson

  Chief Financial Officer

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GAAP and Non-GAAP Financial Information

- *Reported* results are presented in accordance with GAAP
- *Adjusted* results are GAAP results adjusted to exclude
  - Acquisition-related items, including intangible amortization, cost of goods sold, accrued compensation costs, transaction costs and accrued interest
  - Unusual, non-operational or non-recurring items, including stock-based compensation
  - Other (income) expense as separately reported in the consolidated statements of operations, including foreign currency (gains) losses, net
  - Income tax effects related to pre-tax adjustments and unusual or non-recurring income tax items

Highlights

Q3 – March 2019

For the three months ended March 31	2019	2018	Change	
	(in millions, except per share amounts and percentages)			
Net sales	**$ 205.7**	$ 208.9	$ (3.2)	*(2)%*
Net income	**14.8**	19.8	(5.0)	*(25)%*
Diluted EPS	**$ 0.37**	$ 0.49	$ (0.12)	*(24)%*
Adjusted EBITDA	**$ 30.0**	$ 33.4	$ (3.4)	*(10)%*
Adjusted net income	**16.0**	18.6	(2.6)	*(14)%*
Adjusted diluted EPS	**$ 0.39**	$ 0.46	$ (0.07)	*(15)%*

- Net sales decrease due to volume declines in Animal Health and Mineral Nutrition, offset by growth in Performance Products
- Net income decline driven by lower gross profit and increase in the effective tax rate
- Adjusted EBITDA decline driven by Animal Health segment

Selected Line Items

Q3 – March 2019

For the three months ended March 31	2019	2018	Change	
	(in millions, except per share amounts and percentages)			
Net sales	**$ 205.7**	$ 208.9	$ (3.2)	*(2)%*
Adjusted gross profit	**66.2**	70.4	(4.2)	*(6)%*
Adjusted SG&A	**41.5**	42.2	(0.7)	*(2)%*
Adjusted EBITDA	**30.0**	33.4	$ (3.4)	*(10)%*
Depreciation expense	**5.3**	5.3	0.1	*1%*
Adjusted interest expense, net	**2.9**	2.8	0.2	*6%*
Adjusted income before income taxes	**21.7**	25.4	(3.6)	*(14)%*
Adjusted provision for income taxes	**5.7**	6.8	(1.1)	*(16)%*
Adjusted net income	**$ 16.0**	$ 18.6	$ (2.6)	*(14)%*
Adjusted diluted EPS	**$ 0.39**	$ 0.46	$ (0.07)	*(15)%*

- Adjusted gross profit decline
  - Animal Health volume declines and unfavorable mix
  - Mineral Nutrition lower volume
  - Performance Products favorable mix and manufacturing efficiencies
- Adjusted SG&A
  - Strategic investments for future growth
  - Controlled spend in other operating expenses
- Adjusted interest expense
  - Increased rates and debt levels
- Adjusted effective income tax rate
  - 27.8% effective tax rate for the nine months

Animal Health

Q3 – March 2019

Animal Health

For the three months ended March 31	2019	2018	Change	
	(in millions, except percentages)			
MFAs and other	**$ 84.1**	$ 82.9	$ 1.2	*1%*
Nutritional specialties	**28.2**	31.4	(3.1)	*(10)%*
Vaccines	**16.9**	18.0	(1.1)	*(6)%*
Net sales	**$ 129.2**	$ 132.3	$ (3.1)	*(2)%*
Adjusted EBITDA	**$ 33.2**	$ 36.3	$ (3.1)	*(8)%*
% of segment net sales	*25.7%*	*27.4%*		*-170bps*

- MFAs and other
  - International sales volume growth in Asia Pacific
  - Lower domestic demand in poultry and swine sectors
- Nutritional specialties
  - Continued decline in dairy sector due to weak industry conditions
  - Lower poultry demand
- Vaccines
  - Negatively affected by turbulent economic conditions in certain international countries and loss of domestic distribution agreement
- Adjusted EBITDA
  - Due to gross profit decline, partially offset by reduced operating expenses
  - Gross profit decline due to lower overall volume from nutritional specialties and vaccine products
  - Close control of operating expenses and reduced incentive compensation

Other Segments

Q3 – March 2019

For the three months ended March 31	2019	2018	Change	
		(in millions, except percentages)		
Mineral Nutrition				
Net sales	**$ 60.7**	$ 62.9	$ (2.3)	*(4)%*
Adjusted EBITDA	**$ 5.3**	$ 5.4	$ (0.1)	*(2)%*
% of segment net sales	*8.7%*	*8.5%*		*+20bps*
Performance Products				
Net sales	**$ 15.9**	$ 13.7	$ 2.2	*16%*
Adjusted EBITDA	**$ 1.3**	$ 0.4	$ 0.9	*245%*
% of segment net sales	*8.4%*	*2.8%*		*+560bps*
Corporate				
Adjusted EBITDA	**$ (9.9)**	$ (8.7)	$ (1.2)	*

** Calculation not meaningful*

- **Mineral Nutrition**
  - Sales decrease due to lower volume, partially offset by a modest increase in selling prices
  - Adjusted EBITDA even with last year
- **Performance Products**
  - Volume growth in personal care products
- **Corporate**
  - Increased business development expenses
  - Costs of strengthening and testing controls over financial reporting

Capitalization and Capital Allocation

March 31, 2019

- 2.7x leverage ratio at March 31, 2019
  - $330 million total debt
  - $125 million LTM Adjusted EBITDA
- $85 million cash and short-term investments on hand at March 31, 2019
- $8 million source of cash before financing for the March 2019 quarter
- Quarterly dividend of $0.12 per share
  - $4.8 million paid March 2019
  - $4.8 million to be paid June 2019

Updated Guidance

Phibro Animal Health Corporation

Updated Guidance for fiscal year 2019

For the year ending June 30	2019	2018	Change from 2018	Change from Previous Guidance
	(in millions, except per share amounts and percentages)			
Net sales - Animal Health segment	**$ 529 - $ 532**	$ 532	*(1)% - 0%*	$ (21) - $ (33)
Net sales	**$ 828 - $ 833**	$ 820	*1% - 2%*	$ (22) - $ (42)
Adjusted EBITDA	**$ 118 - $ 120**	$ 129	*(8)% - (7)%*	$ (11) - $ (11)
Adjusted net income per share - diluted	**$ 1.50 - $ 1.55**	$ 1.74	*(14)% - (11)%*	$ (0.18) - $ (0.17)

Updated Guidance

- Domestic poultry – seasonal programs reduced demand
- Continued decline in domestic dairy
- China Q3 sales strong on programmed deliveries, but forward sales expected to be weaker on African Swine Fever
- Uncertain as to timing, but global production response could be positive

Q&A Session

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