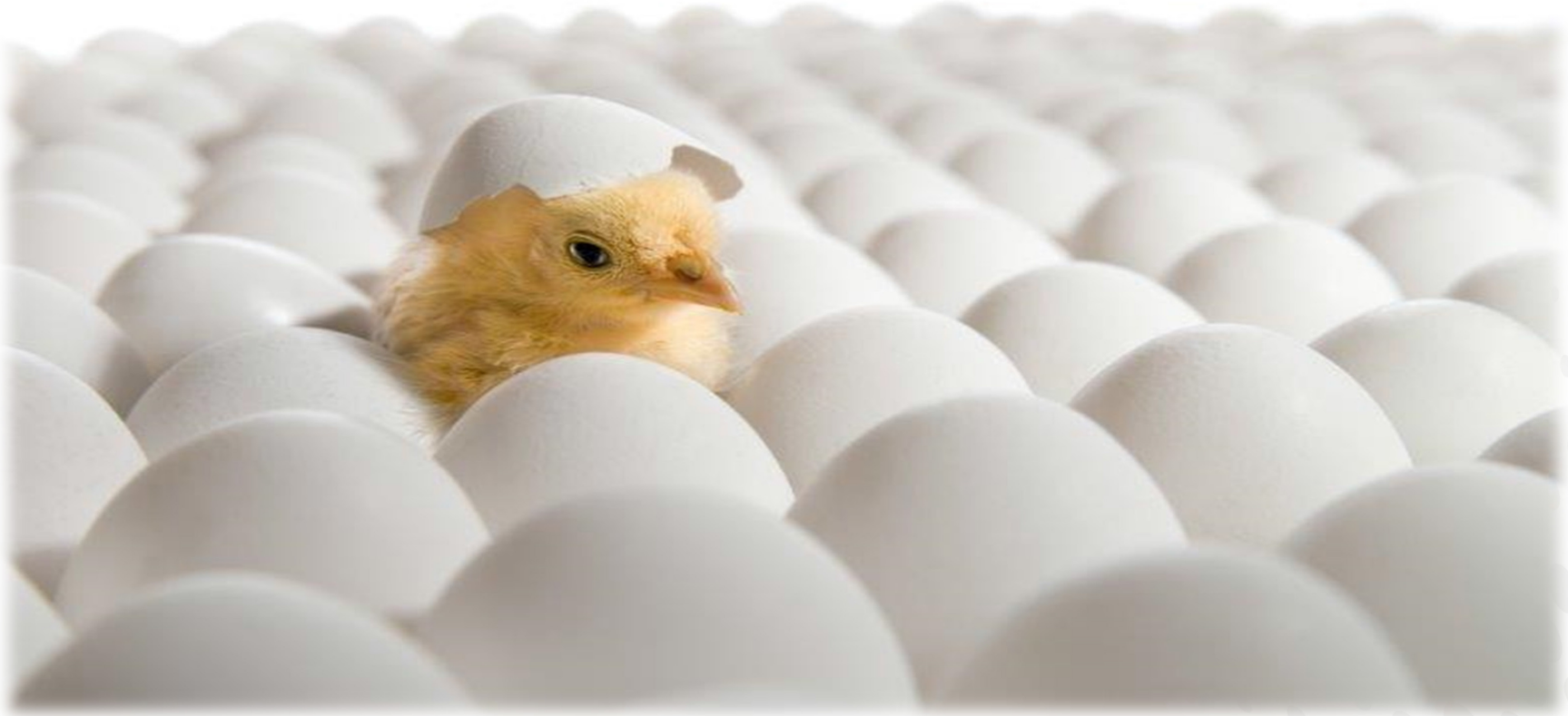
Phibro Animal Health Corporation



First Quarter – September 30, 2019
Webcast and Conference Call
November 5, 2019

U.S. toll-free +1-866-211-3051
International toll +1-647-689-6616
Conference ID: **9196206**

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.

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, restructuring costs
  - 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

Opening Remarks and Financial Review

- Jack Bendheim

  Chairman, President, Chief Executive Officer

- Richard Johnson

  Chief Financial Officer

HEALTHY ANIMALS. HEALTHY FOOD. HEALTHY WORLD.®

Phibro ANIMAL HEALTH CORPORATION™

Highlights

Q1 – September 2019

Consolidated

For the three months ended September 30	2019	2018	Change	
	(in millions, except per share amounts and percentages)			
Net sales	**$ 189.7**	$ 200.2	$ (10.4)	*(5)%*
Net income	**2.5**	16.3	(13.8)	*(85)%*
Diluted EPS	**$ 0.06**	$ 0.40	$ (0.34)	*(85)%*
Adjusted EBITDA	**$ 19.7**	$ 30.1	$ (10.4)	*(35)%*
Adjusted net income	**7.6**	15.9	(8.3)	*(52)%*
Adjusted diluted EPS	**$ 0.19**	$ 0.39	$ (0.20)	*(51)%*

- Net sales decreased due to reduced volumes in Animal Health and lower average selling prices in Mineral Nutrition, partially offset by growth in Performance Products. Animal Health sales declined due to African Swine Fever (“ASF”) in China and the exited U.S. vaccine distribution arrangement. Animal Health sales growth in nutritional specialty products and other vaccines was offset by customer order patterns for MFAs and other in international regions.

- Net income decline driven by reduced sales, increased SG&A expenses, including increased costs for strategic investments, and increased interest expense from higher debt outstanding.

Selected Line Items

Q1 – September 2019

Consolidated

For the three months ended September 30	2019	2018	Change	
	(in millions, except per share amounts and percentages)			
Net sales	$ 189.7	$ 200.2	$ (10.4)	*(5)%*
Adjusted gross profit	59.5	67.1	(7.6)	*(11)%*
Adjusted SG&A	45.6	42.2	3.3	*8%*
Adjusted EBITDA	19.7	30.1	$ (10.4)	*(35)%*
Depreciation expense	5.7	5.2	0.5	*11%*
Adjusted interest expense, net	3.3	2.8	0.5	*19%*
Adjusted income before income taxes	10.6	22.1	(11.5)	*(52)%*
Adjusted provision for income taxes	3.0	6.2	(3.2)	*(52)%*
Adjusted net income	$ 7.6	$ 15.9	$ (8.3)	*(52)%*
Adjusted diluted EPS	$ 0.19	$ 0.39	$ (0.20)	*(51)%*

- Adjusted gross profit
  - Animal Health volume declines and unfavorable product mix in MFAs and other and vaccines, partially offset by volume growth in nutritional specialty products
  - Mineral Nutrition increased due to favorable raw material costs and product mix
  - Performance Products decreased due to unfavorable manufacturing costs, partially offset by increased unit volumes
- Adjusted SG&A
  - Strategic investments for future growth and the effect of the Osprey acquisition
- Adjusted interest expense
  - Increased debt levels
- Adjusted income taxes
  - Effective tax rate of 28.0% for both periods

Animal Health

Q1 – September 2019

Animal Health

For the three months ended September 30	2019	2018	Change	
	(in millions, except percentages)			
MFAs and other	$ 75.0	$ 87.0	$ (12.0)	*(14)%*
Nutritional specialties	30.4	27.0	3.5	*13%*
Vaccines	16.4	17.2	(0.8)	*(5)%*
Net sales	$ 121.9	$ 131.2	$ (9.3)	*(7)%*
Adjusted EBITDA	$ 25.1	$ 35.7	$ (10.7)	*(30)%*
% of segment net sales	*20.6%*	*27.2%*		*-660 bps*

- MFAs and other
  - Lower demand in China due to ASF
  - Unfavorable customer order patterns in other international regions
- Nutritional specialties
  - Volume growth in poultry and dairy products
  - Osprey acquisition contributed half of the sales growth
- Vaccines
  - Volume growth in most regions, more than offset by loss of domestic distribution agreement
  - Excluding loss of domestic distribution agreement, vaccine sales would have increased 5%
- Adjusted EBITDA
  - Gross profit declined due to lower volumes and unfavorable product mix in MFAs and other and vaccines, partially offset by volume growth in nutritional specialty products
  - SG&A increased due to strategic growth initiatives and the Osprey acquisition

Other Segments

Q1 – September 2019

For the three months ended September 30	2019	2018	Change	
		(in millions, except percentages)		
Mineral Nutrition				
Net sales	$ 52.6	$ 54.8	$ (2.2)	*(4)%*
Adjusted EBITDA	$ 3.5	$ 2.6	$ 0.9	*36%*
% of segment net sales	*6.6%*	*4.7%*		*+190bps*
Performance Products				
Net sales	$ 15.2	$ 14.1	$ 1.1	*8%*
Adjusted EBITDA	$ 0.9	$ 0.7	$ 0.1	*19%*
% of segment net sales	*5.6%*	*5.1%*		*+50bps*
Corporate				
Adjusted EBITDA	$ (9.7)	$ (8.9)	$ (0.8)	*

** Calculation not meaningful*

- Mineral Nutrition
  - Sales decreased due to lower average selling prices; volumes increased
  - Adjusted EBITDA increase driven by gross profit as a result of favorable raw material costs and product mix
- Performance Products
  - Volume growth in personal care products
- Corporate
  - Increased cost of strategic initiatives

Capitalization

September 30, 2019

- 3.7x leverage ratio at September 30, 2019
  - $396 million total debt
  - $108 million Adjusted EBITDA
- $79 million cash and short-term investments on hand at September 30, 2019
- $66 million use of cash before financing for the September 2019 quarter, including $55 million used for the Osprey Biotechnics acquisition

Guidance

Year – June 2020

	FY2020			FY2019	Change		
	low		high		low		high
	(in millions, except per share amounts and percentages)						
Net sales - Animal Health segment	$ 537	-	$ 557	$ 532	*1%*	-	*5%*
Net sales	833	-	863	828	*1%*	-	*4%*
Adjusted EBITDA	$ 103	-	$ 107	$ 118	*(13)%*	-	*(9)%*
Adjusted diluted EPS	$ 1.08	-	$ 1.15	$ 1.53	*(29)%*	-	*(25)%*

Reaffirm our annual guidance

Q&A Session

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