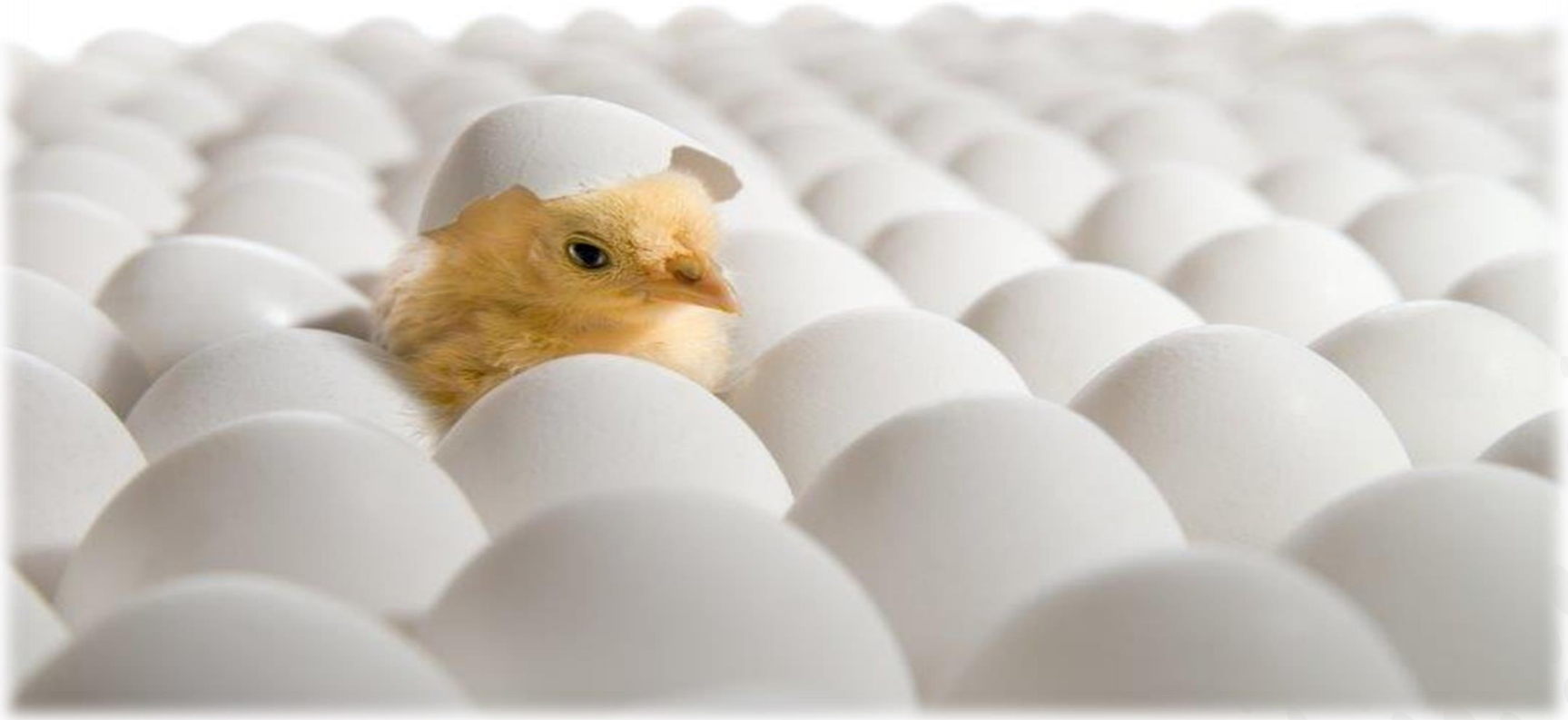
Phibro Animal Health Corporation



Second Quarter – December 31, 2019
Webcast and Conference Call
February 4, 2020

U.S. toll-free +1-866-211-3051
International toll +1-647-689-6616
Conference ID: **9179438**

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

Q2 – December 2019

Consolidated

For the three months ended December 31	2019	2018	Change	
	(in millions, except per share amounts and percentages)			
Net sales	**$ 214.0**	$ 218.2	$ (4.2)	*(2)%*
Net income	**11.9**	14.7	(2.9)	*(19)%*
Diluted EPS	**$ 0.29**	$ 0.36	$ (0.07)	*(19)%*
Adjusted EBITDA	**$ 28.5**	$ 31.6	$ (3.1)	*(10)%*
Adjusted net income	**13.9**	16.5	(2.6)	*(16)%*
Adjusted diluted EPS	**$ 0.34**	$ 0.41	$ (0.07)	*(17)%*

- Increased sales in the Animal Health business were more than offset by lower average selling prices in Mineral Nutrition and decreased volume in Performance Products. The increase in Animal Health was driven by nutritional specialties and vaccine products, partially offset by lower sales of MFAs and other.

- Net income decline driven by increased SG&A expenses, including increased costs for strategic investments, and increased interest expense from higher debt outstanding, partially offset by higher gross profit driven by product mix.

Selected Line Items

Q2 – December 2019

Consolidated

For the three months ended December 31	2019	2018	Change	
	(in millions, except per share amounts and percentages)			
Net sales	**$ 214.0**	$ 218.2	$ (4.2)	*(2)%*
Adjusted gross profit	**70.7**	70.0	0.8	*1%*
Adjusted SG&A	**48.1**	43.7	4.4	*10%*
Adjusted EBITDA	**28.5**	31.6	$ (3.1)	*(10)%*
Depreciation expense	**5.8**	5.3	0.5	*10%*
Adjusted interest expense, net	**3.3**	3.0	0.3	*10%*
Adjusted income before income taxes	**19.3**	23.3	(4.0)	*(17)%*
Adjusted provision for income taxes	**5.4**	6.8	(1.4)	*(20)%*
Adjusted net income	**$ 13.9**	$ 16.5	$ (2.6)	*(16)%*
Adjusted diluted EPS	**$ 0.34**	$ 0.41	$ (0.07)	*(17)%*

- Adjusted gross profit
  - Animal Health volume growth in nutritional specialty products and vaccines were partially offset by lower volume in MFAs and other.
  - Mineral Nutrition decreased as average selling prices and unfavorable product mix more than offset lower raw material costs.
  - Performance Products decreased due to lower volume, partially offset by favorable product mix.
- 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 current quarter

Animal Health

Q2 – December 2019

Animal Health

For the three months ended December 31	2019	2018	Change	
	(in millions, except percentages)			
MFAs and other	**$ 92.0**	$ 93.1	$ (1.1)	*(1)%*
Nutritional specialties	**33.1**	29.5	3.6	*12%*
Vaccines	**18.7**	17.0	1.6	*10%*
Net sales	**$ 143.7**	$ 139.6	$ 4.1	*3%*
Adjusted EBITDA	**$ 33.8**	$ 35.9	$ (2.1)	*(6)%*
% of segment net sales	*23.5%*	*25.7%*		*-220bps*

- MFAs and other
  - Lower demand in China due to ASF
  - Increased domestic demand
  - China customer purchases made in advance of regulatory changes, effective January 1, 2020.
- Nutritional specialties
  - Osprey acquisition contributed two-third of the sales growth
  - Growth in domestic dairy and poultry – introduction of *Provia Prime*™
- Vaccines
  - Volume growth on strong international demand and increased market penetration.
- Adjusted EBITDA
  - Gross profit increased due to volume growth in nutritional specialty and vaccine products, partially offset by lower volume in MFAs and other.
  - SG&A increased due to strategic growth initiatives and the Osprey acquisition

Other Segments

Q2 – December 2019

For the three months ended December 31	2019	2018	Change	
	(in millions, except percentages)			
Mineral Nutrition				
Net sales	**$ 55.7**	$ 62.3	$ (6.6)	*(11)%*
Adjusted EBITDA	**$ 3.7**	$ 4.1	$ (0.4)	*(10)%*
% of segment net sales	*6.6%*	*6.6%*		
Performance Products				
Net sales	**$ 14.6**	$ 16.3	$ (1.7)	*(10)%*
Adjusted EBITDA	**$ 1.5**	$ 1.5	$ (0.1)	*(4)%*
% of segment net sales	*10.0%*	*9.3%*		*+70bps*
Corporate				
Adjusted EBITDA	**$ (10.5)**	$ (9.9)	$ (0.6)	*

** Calculation not meaningful*

- Mineral Nutrition
  - Sales decreased due to lower average selling prices and lower volume
  - Adjusted EBITDA decrease driven by lower gross profit, as the decline in average selling prices and unfavorable product mix more than offset lower raw material costs.
- Performance Products
  - Volume decline in copper products, partially offset by growth in personal care products
- Corporate
  - Increased costs of strategic initiatives and public company costs

Capitalization

December 31, 2019

- 3.6x leverage ratio at December 31, 2019
  - $374 million total debt
  - $105 million Adjusted EBITDA
- $75 million cash and short-term investments on hand at December 31, 2019
- $23 million source of cash before financing for the December 2019 quarter, excluding changes in short-term investments

Guidance

Year – June 2020

Phibro Animal Health Corporation

Updated Guidance for fiscal year 2020

For the year ending June 30	**2020**	2019	Change from 2019	Change from Previous Guidance
		(in millions, except per share amounts and percentages)		
Net sales - Animal Health segment	**$ 537 - $ 547**	$ 532	$ 5 - $ 15	*1% - 3%*	$ - - $ (10)
Net sales	**$ 812 - $ 828**	$ 828	$ (16) - $ 0	*(2)% - 0%*	$ (21) - $ (35)
Adjusted EBITDA	**$ 103 - $ 107**	$ 118	$ (15) - $ (11)	*(13)% - (9)%*	$ - - $ -
Adjusted net income per share - diluted	**$ 1.15 - $ 1.22**	$ 1.53	$ (0.38) - $ (0.31)	*(25)% - (20)%*	$ 0.07 - $ 0.08

Q&A Session

© 2020 Phibro Animal Health Corporation, Teaneck, NJ 07666
Phibro; Phibro logo design; Healthy Animals. Healthy Food. Healthy World.; and any other Phibro brand or brands shown herein are trademarks owned by or licensed to Phibro Animal Health Corporation or its affiliates. Any other trademark that might be mentioned herein and that is not a Phibro brand (property of or licensed to Phibro Animal Health Corporation or its affiliates) is used for identification purposes only and is owned by its holder.