

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2019

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ to ____

Commission File Number: 001-36410

Phibro Animal Health Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

Glenpointe Centre East, 3rd Floor
300 Frank W. Burr Boulevard, Suite 21
Teaneck, New Jersey
(Address of Principal Executive Offices)

13-1840497
(I.R.S. Employer
Identification No.)

07666-6712
(Zip Code)

(201) 329-7300
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$0.0001 par value per share	PAHC	Nasdaq Stock Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.) Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of January 28, 2020, there were 20,287,574 shares of the registrant's Class A common stock, par value \$0.0001 per share, and 20,166,034 shares of the registrant's Class B common stock, par value \$0.0001 per share, outstanding.

PHIBRO ANIMAL HEALTH CORPORATION

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Periods Ended December 31	Three Months		Six Months	
	2019	2018	2019	2018
	(unaudited)			
	(in thousands, except per share amounts)			
Net sales	\$214,012	\$218,223	\$403,732	\$418,376
Cost of goods sold	144,908	149,579	276,965	283,927
Gross profit	69,104	68,644	126,767	134,449
Selling, general and administrative expenses	49,495	42,938	97,011	85,890
Operating income	19,609	25,706	29,756	48,559
Interest expense, net	3,432	3,015	6,786	5,798
Foreign currency (gains) losses, net	(718)	2,617	2,503	(18)
Income before income taxes	16,895	20,074	20,467	42,779
Provision for income taxes	5,001	5,326	6,058	11,717
Net income	<u>\$ 11,894</u>	<u>\$ 14,748</u>	<u>\$ 14,409</u>	<u>\$ 31,062</u>
Net income per share				
basic	\$ 0.29	\$ 0.37	\$ 0.36	\$ 0.77
diluted	\$ 0.29	\$ 0.36	\$ 0.36	\$ 0.77
Weighted average common shares outstanding				
basic	40,454	40,383	40,454	40,376
diluted	40,504	40,523	40,504	40,523

The accompanying notes are an integral part of these consolidated financial statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Periods Ended December 31	Three Months		Six Months	
	2019	2018	2019	2018
	(unaudited) (in thousands)			
Net income	\$11,894	\$14,748	\$14,409	\$31,062
Change in fair value of derivative instruments	1,080	(2,243)	(4)	(1,702)
Foreign currency translation adjustment	2,203	4,163	(4,620)	(3,519)
Unrecognized net pension gains (losses)	138	124	258	232
(Provision) benefit for income taxes	(303)	527	(63)	365
Other comprehensive income (loss)	3,118	2,571	(4,429)	(4,624)
Comprehensive income (loss)	\$15,012	\$17,319	\$ 9,980	\$26,438

The accompanying notes are an integral part of these consolidated financial statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

<u>As of</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
	(unaudited) (in thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	\$ 26,180	\$ 57,573
Short-term investments	49,000	24,000
Accounts receivable, net	147,441	159,022
Inventories, net	193,509	198,322
Other current assets	29,357	27,245
Total current assets	445,487	466,162
Property, plant and equipment, net	144,733	140,235
Intangibles, net	75,541	47,478
Goodwill	52,679	27,348
Other assets	69,878	45,448
Total assets	<u>\$ 788,318</u>	<u>\$726,671</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	\$ 15,625	\$ 12,540
Accounts payable	58,263	73,189
Accrued expenses and other current liabilities	73,171	68,498
Total current liabilities	147,059	154,227
Revolving credit facility	149,000	96,000
Long-term debt	208,446	217,635
Other liabilities	66,398	42,794
Total liabilities	<u>570,903</u>	<u>510,656</u>
Commitments and contingencies (Note 9)		
Common stock, par value \$0.0001 per share; 300,000,000 Class A shares authorized, 20,287,574 shares issued and outstanding at December 31, 2019 and June 30, 2019; 30,000,000 Class B shares authorized, 20,166,034 shares issued and outstanding at December 31, 2019 and June 30, 2019	4	4
Preferred stock, par value \$0.0001 per share; 16,000,000 shares authorized, no shares issued and outstanding	—	—
Paid-in capital	134,395	133,266
Retained earnings	173,626	168,926
Accumulated other comprehensive income (loss)	(90,610)	(86,181)
Total stockholders' equity	<u>217,415</u>	<u>216,015</u>
Total liabilities and stockholders' equity	<u>\$ 788,318</u>	<u>\$726,671</u>

The accompanying notes are an integral part of these consolidated financial statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Periods Ended December 31	Six Months	
	2019	2018
	(unaudited) (in thousands)	
OPERATING ACTIVITIES		
Net income	\$ 14,409	\$ 31,062
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	15,929	13,532
Amortization of debt issuance costs and debt discount	442	441
Stock-based compensation	1,129	1,129
Acquisition-related costs of goods sold	280	—
Acquisition-related accrued interest	132	—
Deferred income taxes	(565)	135
Foreign currency (gains) losses, net	(132)	12
Other	374	(1,071)
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable, net	12,906	(8,906)
Inventories, net	3,412	(16,278)
Other current assets	(2,300)	(3,616)
Other assets	(1,395)	866
Accounts payable	(14,108)	5,169
Accrued expenses and other liabilities	(1,992)	(5,839)
Net cash (used) provided by operating activities	28,521	16,636
INVESTING ACTIVITIES		
Purchases of short-term investments	(25,000)	(10,000)
Maturities of short-term investments	—	11,000
Capital expenditures	(16,115)	(12,117)
Business acquisitions	(54,549)	(9,838)
Other, net	(1,045)	27
Net cash (used) by investing activities	(96,709)	(20,928)
FINANCING ACTIVITIES		
Revolving credit facility borrowings	155,000	103,000
Revolving credit facility repayments	(102,000)	(85,000)
Payments of long-term debt and other	(6,361)	(6,359)
Issuance of acquisition note payable	—	3,775
Proceeds from common shares issued	—	341
Dividends paid	(9,709)	(8,883)
Net cash used by financing activities	36,930	6,874
Effect of exchange rate changes on cash	(135)	(414)
Net increase (decrease) in cash and cash equivalents	(31,393)	2,168
Cash and cash equivalents at beginning of period	57,573	29,168
Cash and cash equivalents at end of period	\$ 26,180	\$ 31,336

The accompanying notes are an integral part of these consolidated financial statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Shares of Common Stock	Common Stock	Preferred Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
(in thousands, except share amounts)							
As of June 30, 2019	<u>40,453,608</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$133,266</u>	<u>\$168,926</u>	<u>\$ (86,181)</u>	<u>\$216,015</u>
Comprehensive income (loss)	—	—	—	—	2,515	(7,547)	(5,032)
Dividends declared (\$0.12/share)	—	—	—	—	(4,854)	—	(4,854)
Stock-based compensation expense	—	—	—	565	—	—	565
As of September 30, 2019	<u>40,453,608</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$133,831</u>	<u>\$166,587</u>	<u>\$ (93,728)</u>	<u>\$206,694</u>
Comprehensive income (loss)	—	—	—	—	11,894	3,118	15,012
Dividends declared (\$0.12/share)	—	—	—	—	(4,855)	—	(4,855)
Stock-based compensation expense	—	—	—	564	—	—	564
As of December 31, 2019	<u>40,453,608</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$134,395</u>	<u>\$173,626</u>	<u>\$ (90,610)</u>	<u>\$217,415</u>

	Shares of Common Stock	Common Stock	Preferred Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
(in thousands, except share amounts)							
As of June 30, 2018	<u>40,357,708</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$129,873</u>	<u>\$131,560</u>	<u>\$ (76,483)</u>	<u>\$184,954</u>
Adoption of new revenue standard	—	—	—	—	1,245	—	1,245
Comprehensive income (loss)	—	—	—	—	16,314	(7,195)	9,119
Exercise of stock options	17,860	—	—	211	—	—	211
Dividends declared (\$0.10/share)	—	—	—	—	(4,037)	—	(4,037)
Stock-based compensation expense	—	—	—	565	—	—	565
As of September 30, 2018	<u>40,375,568</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$130,649</u>	<u>\$145,082</u>	<u>\$ (83,678)</u>	<u>\$192,057</u>
Comprehensive income (loss)	—	—	—	—	14,748	2,571	17,319
Exercise of stock options	11,000	—	—	130	—	—	130
Dividends declared (\$0.12/share)	—	—	—	—	(4,846)	—	(4,846)
Stock-based compensation expense	—	—	—	564	—	—	564
As of December 31, 2018	<u>40,386,568</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$131,343</u>	<u>\$154,984</u>	<u>\$ (81,107)</u>	<u>\$205,224</u>

The accompanying notes are an integral part of these consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share amounts)
(unaudited)

1. Description of Business

Phibro Animal Health Corporation (“Phibro” or “PAHC”) and its subsidiaries (together, the “Company”) is a diversified global developer, manufacturer and marketer of a broad range of animal health and mineral nutrition products for food animals including poultry, swine, dairy and beef cattle, and aquaculture. The Company is also a manufacturer and marketer of performance products for use in the personal care, industrial chemical and chemical catalyst industries. Unless otherwise indicated or the context requires otherwise, references in this report to “we,” “our,” “us,” and similar expressions refer to Phibro and its subsidiaries.

The unaudited consolidated financial information for the three and six months ended December 31, 2019 and 2018, is presented on the same basis as the financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2019 (the “Annual Report”), filed with the Securities and Exchange Commission on August 27, 2019 (File no. 001-36410). In the opinion of management, these financial statements include all adjustments necessary for a fair statement of the financial position, results of operations and cash flows of the Company for the interim periods, and the adjustments are of a normal and recurring nature. The financial results for any interim period are not necessarily indicative of the results for the full year. The consolidated balance sheet information as of June 30, 2019, was derived from the audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (“GAAP”). The unaudited consolidated financial information should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report.

The consolidated financial statements include the accounts of Phibro and its consolidated subsidiaries. Intercompany balances and transactions have been eliminated from the consolidated financial statements. The decision whether or not to consolidate an entity requires consideration of majority voting interests, as well as effective control over the entity.

2. Summary of Significant Accounting Policies and New Accounting Standards

Our significant accounting policies are described in the notes to the consolidated financial statements included in our Annual Report. We adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*, effective July 1, 2019. See “New Accounting Standards” and “Note 7—Leases.” As of December 31, 2019, there have been no other material changes to our significant accounting policies.

Leases

We determine at the inception of an arrangement whether the arrangement contains a lease. If an arrangement contains a lease, we assess the lease term when the underlying asset is available for use (“lease commencement.”) Individual lease terms reflect the non-cancellable period of the lease, reasonably certain renewal periods and consideration of termination options. We determine the lease classification as either operating or financing at lease commencement, which governs the pattern of expense recognition and presentation in our consolidated financial statements. Our current lease portfolio only includes operating leases.

We recognize a right-of-use (“ROU”) asset and a corresponding lease liability at lease commencement for leases with terms exceeding twelve months. Short-term leases with terms of twelve months or less are not recognized on the consolidated balance sheet and lease payments are recognized on a straight-line basis over the term.

The values of the ROU assets and lease liabilities are calculated based on the present value of the fixed payment obligations over the lease term, using our incremental borrowing rate (“IBR”), determined at lease commencement. The IBR reflects the rate of interest we would expect to pay on a secured basis to borrow an amount equal to the lease payments under similar terms. The IBR incorporates the term and economic environment of the respective lease arrangements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We have elected to account for lease and non-lease components together as a single lease component and include fixed payment obligations related to such non-lease components in the measurement of ROU assets and lease liabilities. Fixed lease payments are recognized on a straight-line basis over the lease term. Variable lease payments can include index-based lease payments, real estate taxes, maintenance costs, utilization charges and other non-lease services paid to lessors and are not determinable at lease commencement. Variable lease payments are not included in the measurement of ROU assets and lease liabilities and are recognized in the period incurred.

Net Income per Share and Weighted Average Shares

Basic net income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the reporting period.

Diluted net income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the reporting period after giving effect to potential dilutive common shares resulting from the assumed exercise of stock options and vesting of restricted stock units. All common share equivalents were included in the calculation of diluted net income per share in the periods included in the consolidated financial statements.

For the Periods Ended December 31	Three Months		Six Months	
	2019	2018	2019	2018
Net income	\$11,894	\$14,748	\$14,409	\$31,062
Weighted average number of shares – basic	40,454	40,383	40,454	40,376
Dilutive effect of stock options and restricted stock units	50	140	50	147
Weighted average number of shares – diluted	40,504	40,523	40,504	40,523
Net income per share				
basic	\$ 0.29	\$ 0.37	\$ 0.36	\$ 0.77
diluted	\$ 0.29	\$ 0.36	\$ 0.36	\$ 0.77

New Accounting Standards

ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, removes certain exceptions and amends certain requirements in the existing income tax guidance to ease accounting requirements. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020 and must be applied on a retrospective basis. We continue to evaluate the effect of adoption of this guidance on our consolidated financial statements.

ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Topic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*, modifies existing disclosure requirements for defined benefit pension and other postretirement plans. This ASU is effective for fiscal years ending after December 15, 2020 and must be applied on a retrospective basis. We continue to evaluate the effect of adoption of this guidance on our consolidated financial statements.

ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, modifies existing disclosure requirements for fair value measurement. This ASU is effective for fiscal years beginning after December 15, 2019. We continue to evaluate the effect of adoption of this guidance on our consolidated financial statements.

ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* allows reclassification from accumulated other comprehensive income to retained earnings of stranded tax effects related to adjustments resulting from the United States Tax Cuts and Jobs Act. This ASU is effective for our consolidated financial statements beginning July 1, 2019. The adoption of this guidance did not have a material effect on our consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ASU 2016-02, *Leases (Topic 842)* requires an entity to recognize assets and liabilities on the balance sheet for both financing and operating leases and requires additional qualitative and quantitative disclosures regarding leasing arrangements. We adopted ASU 2016-02 and its amendments effective July 1, 2019, using a modified retrospective transition approach, which does not require modifications to periods prior to the date of initial application. We utilized certain permitted practical expedients intended to ease transition to the new standard, including carrying forward the original lease classifications without reassessment. We did not use hindsight in our assessment of lease terms as of the effective date. Upon adoption of ASU 2016-02 on July 1, 2019, we recognized initial ROU assets and lease liabilities of \$18,576 and \$19,368 respectively, on the consolidated balance sheet. The difference in the amounts of the ROU assets and lease liabilities recognized relates to landlord incentives and deferred rent. An adjustment to opening retained earnings was not required, and the recognition of lease expense in the consolidated statements of operations did not change significantly. Refer to “Note 7—Leases” for further information.

3. Acquisition

In August 2019, we acquired the business and assets of Osprey Biotechnics, Inc. (“Osprey”). Osprey is a developer, manufacturer and marketer of microbial products and bioproducts for a variety of applications, serving customers in the animal health and nutrition, environmental, industrial and plant protection industries. The business is included in the Animal Health segment.

We acquired assets used in Osprey’s business, including intellectual property, working capital and property, plant and equipment, for an aggregate net cash payment of \$54,549. The agreement also includes a future additional payment to be determined based on Osprey’s financial performance for the year ending June 30, 2021. We recorded a \$7,553 liability for the estimated future payment. The additional payment will be no less than \$4,840 and has no maximum limit.

We accounted for the acquisition as a business combination in accordance with FASB Accounting Standards Codification No. 805, *Business Combinations*. Pro forma information giving effect to the acquisition has not been provided because the results are not material to the consolidated financial statements. The preliminary fair values of the acquired assets and liabilities as of the acquisition date were:

Working capital, net	\$ 2,366
Property, plant and equipment	2,005
Definite-lived intangible assets	32,400
Goodwill	25,331
Net assets acquired	<u>\$62,102</u>

We may further refine the determination of certain assets during the measurement period. The definite-lived intangible assets relate to trade names, developed products and customer relationships and will be amortized over estimated useful lives ranging from five to twelve years. The preliminary amount of goodwill has been allocated to our Animal Health segment and is deductible for income taxes.

4. Statements of Operations—Additional Information

We develop, manufacture and market a broad range of products for food animals including poultry, swine, beef and dairy cattle and aquaculture. The products help prevent, control and treat diseases, enhance nutrition to help improve health and contribute to balanced mineral nutrition. The animal health and mineral nutrition products are sold directly to integrated poultry, swine and cattle integrators and through commercial animal feed manufacturers, wholesalers and distributors. The animal health industry and demand for many of the animal health products in a particular region are affected by changing disease pressures and by weather conditions, as product usage follows varying weather patterns and seasons. Our operations are primarily focused in regions where the majority of livestock production is consolidated in large commercial farms.

We have a diversified portfolio of products that are classified within our three business segments—Animal Health, Mineral Nutrition and Performance Products. Each segment has its own dedicated management and sales team.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Animal Health

The Animal Health business develops, manufactures and markets products in three main categories:

- **MFAs and Other:** MFAs and other products primarily consist of concentrated medicated products that are administered through animal feeds, commonly referred to as Medicated Feed Additives (“MFAs”). Specific product classifications include antibacterials, which inhibit the growth of pathogenic bacteria that cause bacterial infections in animals; anticoccidials, which inhibit the growth of coccidia (parasites) that damage the intestinal tract of animals; and other related products.
- **Nutritional Specialties:** Nutritional specialty products enhance nutrition to help improve health and performance in areas such as immune system function and digestive health.
- **Vaccines:** Our vaccines are primarily focused on preventing diseases in poultry, swine and cattle. They protect animals from either viral or bacterial disease challenges. We develop, manufacture and market conventionally licensed and autogenous vaccine products and also produce and market adjuvants to vaccine manufacturers. We have developed and market an innovative and proprietary delivery platform for vaccines.

Mineral Nutrition

The Mineral Nutrition business is comprised of formulations and concentrations of trace minerals such as zinc, manganese, copper, iron and other compounds, with a focus on customers in North America. The customers use these products to fortify the daily feed requirements of their livestock’s diets and maintain an optimal balance of trace elements in each animal. We manufacture and market a broad range of mineral nutrition products for food animals including poultry, swine and beef and dairy cattle.

Performance Products

The Performance Products business manufactures and markets a number of specialty ingredients for use in the personal care, industrial chemical and chemical catalyst industries, predominantly in the United States.

The following tables present our revenues disaggregated by major product category and geographic region:

Net Sales by Product Type

For the Periods Ended December 31	Three Months		Six Months	
	2019	2018	2019	2018
Animal Health				
MFAs and other	\$ 91,955	\$ 93,054	\$166,989	\$180,058
Nutritional specialties	33,062	29,460	63,495	56,430
Vaccines	18,672	17,048	35,055	34,263
Total Animal Health	\$143,689	\$139,562	\$265,539	\$270,751
Mineral Nutrition	55,685	62,319	108,334	117,157
Performance Products	14,638	16,342	29,859	30,468
Total	\$214,012	\$218,223	\$403,732	\$418,376

Net Sales by Region

For the Periods Ended December 31	Three Months		Six Months	
	2019	2018	2019	2018
United States	\$122,917	\$126,065	\$241,404	\$240,552
Latin America and Canada	42,704	40,273	79,445	79,156
Europe, Middle East and Africa	27,660	26,186	51,353	51,022
Asia Pacific	20,731	25,699	31,530	47,646
Total	\$214,012	\$218,223	\$403,732	\$418,376

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Net sales by region are based on country of destination.

Deferred revenue was \$5,130 and \$5,464 as of December 31, 2019 and June 30, 2019, respectively. Accrued expenses and other current liabilities included \$1,082 and \$965 of the total deferred revenue as of December 31, 2019 and June 30, 2019, respectively. The deferred revenue resulted primarily from certain customer arrangements, including technology licensing fees and discounts on future product sales. The transaction price associated with our deferred revenue arrangements is generally based on the stand alone sales prices of the individual products or services.

Our customer payment terms generally range from 30 to 120 days globally and do not include any significant financing components. Payment terms vary based on industry and business practices within the regions in which we operate. Our average worldwide collection period for accounts receivable is approximately 60 to 70 days after the revenue is recognized.

Interest Expense and Depreciation and Amortization

For the Periods Ended December 31	Three Months		Six Months	
	2019	2018	2019	2018
Interest expense, net				
Term loan	\$2,031	\$2,202	\$4,079	\$4,314
Revolving credit facility	1,530	920	2,961	1,667
Amortization of debt issuance costs and debt discount	221	220	442	441
Acquisition-related accrued interest	79	—	132	—
Other	76	120	156	283
Interest expense	3,937	3,462	7,770	6,705
Interest (income)	(505)	(447)	(984)	(907)
	<u>\$3,432</u>	<u>\$3,015</u>	<u>\$6,786</u>	<u>\$5,798</u>

For the Periods Ended December 31	Three Months		Six Months	
	2019	2018	2019	2018
Depreciation and amortization				
Depreciation of property, plant and equipment	\$5,840	\$5,308	\$11,571	\$10,496
Amortization of intangible assets	2,296	1,521	4,334	3,012
Amortization of other assets	12	12	24	24
	<u>\$8,148</u>	<u>\$6,841</u>	<u>\$15,929</u>	<u>\$13,532</u>

5. Balance Sheets—Additional Information

As of	December 31, 2019	June 30, 2019
Inventories		
Raw materials	\$ 73,394	\$ 64,441
Work-in-process	10,489	10,699
Finished goods	109,626	123,182
	<u>\$ 193,509</u>	<u>\$198,322</u>

As of	December 31, 2019	June 30, 2019
Goodwill roll-forward		
Balance at beginning of period	\$ 27,348	\$27,348
Osprey acquisition	25,331	—
Balance at end of period	<u>\$ 52,679</u>	<u>\$27,348</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We evaluate our investments in equity method investees for impairment if circumstances indicate that the fair value of the investment may be impaired. The assets underlying a \$3,548 equity investment are currently idled; we have concluded the investment is not currently impaired, based on expected future operating cash flows and/or disposal value.

As of	December 31, 2019	June 30, 2019
Other assets		
ROU operating lease assets	\$ 23,115	\$ —
Deferred income taxes	17,039	16,770
Deposits	6,809	7,024
Insurance investments	5,521	5,431
Equity method investments	4,902	4,196
Indemnification asset	3,000	3,000
Deferred financing fees	1,276	1,531
Other	8,216	7,496
	<u>\$ 69,878</u>	<u>\$45,448</u>

As of	December 31, 2019	June 30, 2019
Accrued expenses and other current liabilities		
Employee related	\$ 29,845	\$28,298
Current operating lease liabilities	6,672	—
Commissions and rebates	7,942	8,397
Insurance-related	1,291	1,279
Professional fees	5,222	5,212
Income and other taxes	4,791	6,067
Restructuring costs	2,568	3,590
Other	14,840	15,655
	<u>\$ 73,171</u>	<u>\$68,498</u>

During the three months ended June 30, 2019, we initiated business restructuring activities related to productivity and cost saving initiatives in the Animal Health segment. We recorded pre-tax charges of \$6,281 for these activities, including \$3,500 related to the termination of a contract manufacturing agreement and \$2,781 for employee separation charges. As of June 30, 2019, \$691 had been paid.

During the three months ended September 30, 2019, we recorded \$425 related to employee separation charges. The charges are included in selling, general and administrative expenses in our consolidated statements of operations. The following table summarizes the activity of the restructuring liability during the six months ended December 31, 2019:

Liability balance at June 30, 2019	\$ 5,590
Charges	425
Payments	(1,847)
Liability balance at December 31, 2019	<u>\$ 4,168</u>

As of December 31, 2019, \$2,568 was included in accrued expenses and other current liabilities and \$1,600 was included in other liabilities. We expect to record an additional charge for employee separation costs of an estimated \$500 and plan to complete the additional separation actions by June 30, 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

<u>As of</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Other liabilities		
Long-term operating lease liabilities	\$ 17,453	\$ —
Long term and deferred income taxes	9,520	8,978
Supplemental retirement benefits, deferred compensation and other	7,837	7,605
Acquisition-related consideration	7,678	—
International retirement plans	5,247	5,133
U.S. pension plan	3,146	3,934
Restructuring costs	1,600	2,000
Other long term liabilities	13,917	15,144
	<u>\$ 66,398</u>	<u>\$42,794</u>
<u>As of</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Accumulated other comprehensive income (loss)		
Derivative instruments	\$ (598)	\$ (594)
Foreign currency translation adjustment	(75,845)	(71,225)
Unrecognized net pension gains (losses)	(19,792)	(20,050)
(Provision) benefit for income taxes on derivative instruments	149	148
(Provision) benefit for incomes taxes on long-term intercompany investments	8,166	8,166
(Provision) benefit for income taxes on pension gains (losses)	(2,690)	(2,626)
	<u>\$ (90,610)</u>	<u>\$ (86,181)</u>

6. Debt*Term Loans and Revolving Credit Facilities*

Pursuant to a credit agreement (the “Credit Agreement”), we have a revolving credit facility (the “Revolver”), where we can borrow up to \$250,000, subject to the terms of the agreement, and a term A loan with an aggregate initial principal amount of \$250,000 (the “Term A Loan,” and together with the Revolver, the “Credit Facilities”). The Credit Facilities have applicable margins equal to 2.00%, 1.75% or 1.50%, in the case of LIBOR and Eurodollar rate loans and 1.00%, 0.75% or 0.50%, in the case of base rate loans; the applicable margins are based on the First Lien Net Leverage Ratio, as defined in the Credit Agreement. The LIBOR rate is subject to a floor of 0.00%. The Credit Facilities mature on June 29, 2022.

The Credit Facilities require, among other things, the maintenance of (i) a maximum First Lien Net Leverage Ratio and (ii) a minimum consolidated interest coverage ratio, each calculated on a trailing four quarter basis, and contain an acceleration clause should an event of default (as defined in the Credit Agreement) occur. As of December 31, 2019, we were in compliance with the financial covenants.

As of December 31, 2019, we had \$149,000 in borrowings under the Revolver and had outstanding letters of credit of \$2,709, leaving \$98,291 available for borrowings and letters of credit under the Revolver. We obtain letters of credit in connection with certain regulatory and insurance obligations, inventory purchases and other contractual obligations. The terms of these letters of credit are all less than one year.

As of December 31, 2019, the interest rates for the Revolver and the Term A Loan were 3.51% and 3.61%, respectively. The weighted-average interest rates for the outstanding revolving credit facilities were 3.58% and 3.71% for the six months ended December 31, 2019 and 2018, respectively. The weighted-average interest rates for the term loans were 3.46% and 3.47% for the six months ended December 31, 2019 and 2018, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In July 2017, we entered into an interest rate swap agreement on \$150,000 of notional principal that effectively converts the floating LIBOR portion of our interest obligation on that amount of debt, to a fixed interest rate of 1.8325% plus the applicable rate. The agreement matures concurrent with the Credit Agreement. We designated the interest rate swap as a highly effective cash flow hedge. For additional details, see “—Derivatives.”

Long-Term Debt

<u>As of</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Term A Loan due June 2022	\$ 225,000	\$231,250
Other	—	40
	<u>225,000</u>	<u>231,290</u>
Unamortized debt issuance costs and debt discount	(929)	(1,115)
	<u>224,071</u>	<u>230,175</u>
Less: current maturities	(15,625)	(12,540)
	<u>\$ 208,446</u>	<u>\$217,635</u>

7. Leases

Our lease portfolio consists of real estate, vehicles and equipment ROU assets, classified as operating leases. As of December 31, 2019, the remaining non-cancelable lease terms, inclusive of renewal options reasonably certain of exercise, range from one to 16 years.

The following table summarizes the ROU assets and the related lease liabilities recorded on the consolidated balance sheet:

<u>As of</u>	<u>December 31, 2019</u>	<u>Balance Sheet Classification</u>
Assets:		
Operating lease ROU assets	<u>\$ 23,115</u>	Other Assets
Liabilities:		
Current portion	6,672	Accrued expenses and other current liabilities
Non-current portion	<u>17,453</u>	Other liabilities
Total operating lease liabilities	<u>\$ 24,125</u>	

The following table summarizes the composition of net lease cost:

<u>For the Periods Ended December 31</u>	<u>Three months 2019</u>	<u>Six months 2019</u>
Operating lease expense	\$ 1,911	\$ 3,762
Variable lease expense	307	631
Short-term lease expense	214	417
Total lease cost	<u>\$ 2,432</u>	<u>\$ 4,810</u>

The following tables include other supplemental information:

<u>For the Periods Ended December 31</u>	<u>Three months 2019</u>	<u>Six months 2019</u>
Operating cash flows used for ROU operating leases	\$ 1,968	\$ 3,645
Right of use assets obtained in exchange for new operating lease liabilities	\$ 3,972	\$ 7,762

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	As of December 31, 2019
Weighted average remaining lease term (in years) – ROU operating leases	6.4
Weighted average discount rate – ROU operating leases	4.17%
At December 31, 2019, maturities of future lease liabilities were:	
For the Years Ending June 30	
2020	\$ 3,853
2021	6,627
2022	5,012
2023	2,765
2024	2,283
2025 and thereafter	7,273
Total lease payments	27,813
Less: interest	3,688
Total operating lease liabilities	<u>\$24,125</u>

There were no significant future payment obligations related to executed lease agreements for which the related lease had not yet commenced as of December 31, 2019. Our lease agreements do not contain any material restrictive covenants or residual value guarantee provisions.

Future minimum lease payments for operating leases accounted for under ASC 840, “Leases,” with remaining non-cancelable terms in excess of one year at June 30, 2019 were:

For the Years Ending June 30	
2020	\$ 5,815
2021	4,160
2022	3,191
2023	1,445
2024	865
Thereafter	765
Total minimum lease payments	<u>\$16,241</u>

8. Related Party Transactions

Certain relatives of Jack C. Bendheim, our Chairman, President and Chief Executive Officer, provided services to us as employees or consultants and received aggregate compensation and benefits of approximately \$390 and \$430 during the three months ended December 31, 2019 and 2018, respectively, and \$841 and \$1,213 during the six months ended December 31, 2019 and 2018, respectively. Mr. Bendheim has sole authority to vote shares of our stock owned by BFI Co., LLC, an investment vehicle of the Bendheim family.

9. Commitments and Contingencies

Environmental

Our operations and properties are subject to extensive federal, state, local and foreign laws and regulations, including those governing pollution; protection of the environment; the use, management, and release of hazardous materials, substances and wastes; air emissions; greenhouse gas emissions; water use, supply and discharges; the investigation and remediation of contamination; the manufacture, distribution, and sale of regulated materials, including pesticides; the importing, exporting and transportation of products; and the health and safety of our employees (collectively, “Environmental Laws”). As such, the nature of our current and former operations exposes us to the risk of claims with respect to such matters, including fines, penalties, and remediation obligations that may be imposed by regulatory authorities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Under certain circumstances, we might be required to curtail operations until a particular problem is remedied. Known costs and expenses under Environmental Laws incidental to ongoing operations, including the cost of litigation proceedings relating to environmental matters, are included within operating results. Potential costs and expenses may also be incurred in connection with the repair or upgrade of facilities to meet existing or new requirements under Environmental Laws or to investigate or remediate potential or actual contamination and from time to time we establish reserves for such contemplated investigation and remediation costs. In many instances, the ultimate costs under Environmental Laws and the time period during which such costs are likely to be incurred are difficult to predict.

While we believe that our operations are currently in material compliance with Environmental Laws, we have, from time to time, received notices of violation from governmental authorities, and have been involved in civil or criminal action for such violations. Additionally, at various sites, our subsidiaries are engaged in continuing investigation, remediation and/or monitoring efforts to address contamination associated with historic operations of the sites. We devote considerable resources to complying with Environmental Laws and managing environmental liabilities. We have developed programs to identify requirements under, and maintain compliance with, Environmental Laws; however, we cannot predict with certainty the effect of increased and more stringent regulation on our operations, future capital expenditure requirements, or the cost of compliance.

The nature of our current and former operations exposes us to the risk of claims with respect to environmental matters and we cannot assure we will not incur material costs and liabilities in connection with such claims. Based upon our experience to date, we believe that the future cost of compliance with existing Environmental Laws, and liabilities for known environmental claims pursuant to such Environmental Laws, will not have a material adverse effect on our financial position, results of operations, cash flows or liquidity.

The United States Environmental Protection Agency (the “EPA”) is investigating and planning for the remediation of offsite contaminated groundwater that has migrated from the Omega Chemical Corporation Superfund Site (“Omega Chemical Site”), which is upgradient of Phibro-Tech’s Santa Fe Springs, California facility. The EPA has named Phibro-Tech and certain other subsidiaries of PAHC as potentially responsible parties (“PRPs”) due to groundwater contamination from Phibro-Tech’s Santa Fe Springs facility that has allegedly commingled with contaminated groundwater from the Omega Chemical Site. In September 2012, the EPA notified approximately 140 PRPs, including Phibro-Tech and the other subsidiaries, that they have been identified as potentially responsible for remedial action for the groundwater plume affected by the Omega Chemical Site and for EPA oversight and response costs. Phibro-Tech contends that any groundwater contamination at its site is localized and due to historical operations that pre-date Phibro-Tech and/or contaminated groundwater that has migrated from upgradient properties. In addition, a successor to a prior owner of the Phibro-Tech site has asserted that PAHC and Phibro-Tech are obligated to provide indemnification for its potential liability and defense costs relating to the groundwater plume affected by the Omega Chemical Site. Phibro-Tech has vigorously contested this position and has asserted that the successor to the prior owner is required to indemnify Phibro-Tech for its potential liability and defense costs. Furthermore, a group of companies that sent chemicals to the Omega Chemical Site for processing and recycling has filed a complaint under CERCLA and RCRA in the United States District Court for the Central District of California against many of the PRPs allegedly associated with the groundwater plume affected by the Omega Chemical Site (including Phibro-Tech) for contribution toward past and future costs associated with the investigation and remediation of the groundwater plume affected by the Omega Chemical Site. Due to the ongoing nature of the EPA’s investigation, the preliminary stage of the ongoing litigation and Phibro-Tech’s dispute with the prior owner’s successor, at this time we cannot predict with any degree of certainty what, if any, liability Phibro-Tech or the other subsidiaries may ultimately have for investigation, remediation and the EPA oversight and response costs associated with the affected groundwater plume.

Based upon information available, to the extent such costs can be estimated with reasonable certainty, we estimated the cost for further investigation and remediation of identified soil and groundwater problems at operating sites, closed sites and third-party sites, and closure costs for closed sites, to be

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

approximately \$5,096 and \$5,890 at December 31, 2019 and June 30, 2019, respectively, which is included in current and long-term liabilities on the consolidated balance sheets. However, future events, such as new information, changes in existing Environmental Laws or their interpretation, and more vigorous enforcement policies of regulatory agencies, may give rise to additional expenditures or liabilities that could be material. For all purposes of the discussion under this caption and elsewhere in this report, it should be noted that we take and have taken the position that neither PAHC nor any of our subsidiaries is liable for environmental or other claims made against one or more of our other subsidiaries or for which any of such other subsidiaries may ultimately be responsible.

Claims and Litigation

PAHC and its subsidiaries are party to a number of claims and lawsuits arising out of the normal course of business including product liabilities, payment disputes and governmental regulation. Certain of these actions seek damages in various amounts. In many cases, such claims are covered by insurance. We believe that none of the claims or pending lawsuits, either individually or in the aggregate, will have a material adverse effect on our financial position, results of operations, cash flows or liquidity.

10. Derivatives

We monitor our exposure to foreign currency exchange rates and interest rates and from time-to-time use derivatives to manage certain of these risks. We designate derivatives as a hedge of a forecasted transaction or of the variability of the cash flows to be received or paid in the future related to a recognized asset or liability (cash flow hedge). All changes in the fair value of a highly effective cash flow hedge are recorded in accumulated other comprehensive income (loss).

We routinely assess whether the derivatives used to hedge transactions are effective. If we determine a derivative ceases to be an effective hedge, we discontinue hedge accounting in the period of the assessment for that derivative, and immediately recognize any unrealized gains or losses related to the fair value of that derivative in the consolidated statements of operations.

We record derivatives at fair value in the consolidated balance sheets. For additional details regarding fair value, see “—Fair Value Measurements.”

We entered into an interest rate swap agreement on \$150,000 of notional principal that effectively converts the floating LIBOR portion of our interest obligation on that amount of debt, to a fixed interest rate of 1.8325% plus the applicable rate. The agreement matures concurrent with the Credit Agreement. The forecasted transactions are probable of occurring, and the interest rate swap has been designated as a highly effective cash flow hedge.

We entered into foreign currency option contracts to hedge cash flows related to monthly inventory purchases. The individual option contracts mature monthly through June 2021. The forecasted inventory purchases are probable of occurring and the individual option contracts were designated as highly effective cash flow hedges.

Outstanding derivatives that are designated and effective as cash flow hedges as of December 31, 2019 were:

Instrument	Hedge	Notional Amount at December 31, 2019	Consolidated Balance Sheet	Asset (Liability) fair value as of	
				December 31, 2019	June 30, 2019
Options	Brazilian Real calls	R\$108,000	(1)	\$ 659	\$ 413
Options	Brazilian Real puts	R\$108,000	(1)	\$ (217)	\$ (30)
Swap	Interest rate swap	\$150,000	Other liabilities	\$ (1,040)	\$ (977)

- (1) We record the net fair values of our outstanding foreign currency option contracts within the respective balance sheet line item based on the net financial position and maturity date of the individual contracts as of the balance sheet date. Other current assets as of December 31, 2019 and June 30, 2019, included net fair values of \$442 and \$383, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following tables show the effects of derivatives on the consolidated statements of operations and other comprehensive income for the three and six months ended December 31, 2019 and 2018.

For the Three Months Ended December 31

Instrument	Hedge	Gain (Loss) recorded in OCI		Gain (Loss) recognized in consolidated statements of operations			Consolidated Statement of Operations Line Item Total	
		2019	2018	Consolidated Statement of Operations	2019	2018	2019	2018
Options	Brazilian Real calls	\$ 422	\$ 513	Cost of goods sold	\$ (63)	\$ —	\$ 144,908	\$ 149,579
Swap	Interest rate swap	\$ 658	\$ (2,756)	Interest expense, net	\$ —	\$ —	\$ 3,432	\$ 3,015

For the Six Months Ended December 31

Instrument	Hedge	Gain (Loss) recorded in OCI		Gain (Loss) recognized in consolidated statements of operations			Consolidated Statement of Operations Line Item Total	
		2019	2018	Consolidated Statement of Operations	2019	2018	2019	2018
Options	Brazilian Real calls	\$ 59	\$ 404	Cost of goods sold	\$(108)	\$1,084	\$ 276,965	\$ 283,927
Swap	Interest rate swap	\$ (63)	\$ (2,106)	Interest expense, net	\$ —	\$ —	\$ 6,786	\$ 5,798

We recognize gains (losses) related to foreign currency derivatives as a component of cost of goods sold at the time the hedged item is sold.

11. Fair Value Measurements

Short-term investments

As of December 31, 2019, our short-term investments consist of cash deposits held at financial institutions. We consider the carrying amounts of these short-term investments to be representative of their fair value.

Current Assets and Liabilities

We consider the carrying amounts of current assets and current liabilities to be representative of their fair value because of the current nature of these items.

Contingent Consideration on Acquisitions

We determine the fair value of contingent consideration on acquisitions based on contractual terms, our current forecast of performance factors related to the acquired business and an applicable discount rate.

Letters of Credit

We obtain letters of credit in connection with certain regulatory and insurance obligations, inventory purchases and other contractual obligations. The carrying values of these letters of credit are considered to be representative of their fair values because of the nature of the instruments.

Debt

We record debt, including term loans and revolver balances, at book value in our consolidated financial statements. We believe the carrying value of the debt is approximately equal to its fair value, due to the variable nature of the instruments.

Derivatives

We determine the fair value of derivative instruments based upon pricing models using observable market inputs for these types of financial instruments, such as spot and forward currency translation rates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Non-financial assets

Our non-financial assets, which primarily consist of goodwill, other intangible assets, property and equipment, and lease-related ROU assets, are not required to be measured at fair value on a recurring basis, and instead are reported at carrying value in the consolidated balance sheet. We assess the carrying values of non-financial assets for impairment on a periodic basis or whenever events or changes in circumstances indicate an asset may not be fully recoverable.

Fair Value of Assets (Liabilities)

As of	December 31, 2019			June 30, 2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Short-term investments	\$49,000	\$ —	\$ —	\$24,000	\$ —	\$ —
Foreign currency derivatives	\$ —	\$ 442	\$ —	\$ —	\$ 383	\$ —
Interest rate swap	\$ —	\$(1,040)	\$ —	\$ —	\$(977)	\$ —
Contingent consideration on acquisitions	\$ —	\$ —	\$(7,678)	\$ —	\$ —	\$ —

The table below provides a summary of the changes in the fair value of Level 3 liabilities:

Balance at June 30, 2019	\$ —
Osprey acquisition	(7,553)
Acquisition-related accrued interest	(125)
Balance at December 31, 2019	<u>(\$ 7,678)</u>

12. Business Segments

We evaluate performance and allocate resources based on the Animal Health, Mineral Nutrition and Performance Products segments. Certain of our costs and assets are not directly attributable to these segments and we refer to these items as Corporate. We do not allocate Corporate costs or assets to the segments because they are not used to evaluate the segments' operating results or financial position. Corporate costs include certain costs related to executive management, business technology, legal, finance, human resources and business development.

We evaluate performance of our segments based on Adjusted EBITDA. We define Adjusted EBITDA as income before income taxes plus (a) interest expense, net, (b) depreciation and amortization, (c) (income) loss from, and disposal of, discontinued operations, (d) other expense or less other income, as separately reported on our consolidated statements of operations, including foreign currency gains and losses and loss on extinguishment of debt, and (e) certain items that we consider to be unusual, non-operational or non-recurring.

The accounting policies of our segments are the same as those described in the summary of significant accounting policies included herein.

For the Periods Ended December 31	Three Months		Six Months	
	2019	2018	2019	2018
Net sales				
Animal Health	\$143,689	\$139,562	\$265,539	\$270,751
Mineral Nutrition	55,685	62,319	108,334	117,157
Performance Products	14,638	16,342	29,859	30,468
Total segments	<u>\$214,012</u>	<u>\$218,223</u>	<u>\$403,732</u>	<u>\$418,376</u>
Depreciation and amortization				
Animal Health	\$ 6,711	\$ 5,493	\$ 13,095	\$ 10,849
Mineral Nutrition	629	616	1,242	1,213
Performance Products	417	279	794	552
Total segments	<u>\$ 7,757</u>	<u>\$ 6,388</u>	<u>\$ 15,131</u>	<u>\$ 12,614</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Periods Ended December 31	Three Months		Six Months	
	2019	2018	2019	2018
Adjusted EBITDA				
Animal Health	\$ 33,838	\$ 35,925	\$ 58,899	\$ 71,641
Mineral Nutrition	3,684	4,084	7,159	6,647
Performance Products	1,457	1,514	2,309	2,230
Total segments	<u>\$ 38,979</u>	<u>\$ 41,523</u>	<u>\$ 68,367</u>	<u>\$ 80,518</u>
Reconciliation of income before income taxes to Adjusted EBITDA				
Income before income taxes	\$ 16,895	\$ 20,074	\$ 20,467	\$ 42,779
Interest expense, net	3,432	3,015	6,786	5,798
Depreciation and amortization – Total segments	7,757	6,388	15,131	12,614
Depreciation and amortization – Corporate	391	453	798	918
Corporate costs	10,491	9,918	20,219	18,804
Restructure costs	—	—	425	—
Stock-based compensation	564	564	1,129	1,129
Acquisition-related cost of goods sold	—	—	280	—
Acquisition-related transaction costs	—	—	462	—
Acquisition-related other	167	—	167	—
Other, net	—	(1,506)	—	(1,506)
Foreign currency (gains) losses, net	(718)	2,617	2,503	(18)
Adjusted EBITDA – Total segments	<u>\$ 38,979</u>	<u>\$ 41,523</u>	<u>\$ 68,367</u>	<u>\$ 80,518</u>

As of	December 31, 2019	June 30, 2019
Identifiable assets		
Animal Health	\$ 572,921	\$508,864
Mineral Nutrition	69,988	67,662
Performance Products	33,530	32,886
Total segments	676,439	609,412
Corporate	111,879	117,259
Total	<u>\$ 788,318</u>	<u>\$726,671</u>

The Animal Health segment includes all goodwill of the Company. The Animal Health segment includes advances to and investment in an equity method investee of \$3,548 and \$3,287 as of December 31, 2019 and June 30, 2019, respectively. The Performance Products segment includes an investment in an equity method investee of \$852 and \$759 as of December 31, 2019 and June 30, 2019, respectively. Corporate assets include cash and cash equivalents, short-term investments, debt issuance costs, income tax related assets and certain other assets.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**Introduction**

Our management’s discussion and analysis of financial condition and results of operations (“MD&A”) is provided to assist readers in understanding our performance, as reflected in the results of our operations, our financial condition and our cash flows. The following discussion summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and cash flows as of and for the periods presented below. This MD&A should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q. Our future results could differ materially from our historical performance as a result of various factors such as those discussed in “Risk Factors” and “Forward-Looking Statements.”

Overview of our business

Phibro Animal Health Corporation is a global diversified animal health and mineral nutrition company. We develop, manufacture and market a broad range of products for food animals including poultry, swine, beef and dairy cattle and aquaculture. Our products help prevent, control and treat diseases, enhance nutrition to help improve health and performance and contribute to balanced mineral nutrition. In addition to animal health and mineral nutrition products, we manufacture and market specific ingredients for use in the personal care, industrial chemical and chemical catalyst industries.

Analysis of the consolidated statements of operations

Summary Results of Operations

For the Periods Ended December 31	Three Months				Six Months			
	2019	2018	Change		2019	2018	Change	
	(in thousands, except per share amounts and percentages)							
Net sales	\$214,012	\$218,223	\$(4,211)	(2)%	\$403,732	\$418,376	\$(14,644)	(4)%
Gross profit	69,104	68,644	460	1%	126,767	134,449	(7,682)	(6)%
Selling, general and administrative expenses	49,495	42,938	6,557	15%	97,011	85,890	11,121	13%
Operating income	19,609	25,706	(6,097)	(24)%	29,756	48,559	(18,803)	(39)%
Interest expense, net	3,432	3,015	417	14%	6,786	5,798	988	17%
Foreign currency (gains) losses, net	(718)	2,617	(3,335)	*	2,503	(18)	2,521	*
Income before income taxes	16,895	20,074	(3,179)	(16)%	20,467	42,779	(22,312)	(52)%
Provision for income taxes	5,001	5,326	(325)	(6)%	6,058	11,717	(5,659)	(48)%
Net income	<u>\$ 11,894</u>	<u>\$ 14,748</u>	<u>\$(2,854)</u>	<u>(19)%</u>	<u>\$ 14,409</u>	<u>\$ 31,062</u>	<u>\$(16,653)</u>	<u>(54)%</u>
Net income per share								
basic	\$ 0.29	\$ 0.37	\$ (0.08)		\$ 0.36	\$ 0.77	\$ (0.41)	
diluted	\$ 0.29	\$ 0.36	\$ (0.07)		\$ 0.36	\$ 0.77	\$ (0.41)	
Weighted average number of shares outstanding								
basic	40,454	40,383			40,454	40,376		
diluted	40,504	40,523			40,504	40,523		
Ratio to net sales								
Gross profit	32.3%	31.5%			31.4%	32.1%		
Selling, general and administrative expenses	23.1%	19.7%			24.0%	20.5%		
Operating income	9.2%	11.8%			7.4%	11.6%		
Income before income taxes	7.9%	9.2%			5.1%	10.2%		
Net income	5.6%	6.8%			3.6%	7.4%		
Effective tax rate	29.6%	26.5%			29.6%	27.4%		

Certain amounts and percentages may reflect rounding adjustments.

* Calculation not meaningful

Net sales, Adjusted EBITDA and reconciliation of GAAP net income to Adjusted EBITDA

We report Net sales and Adjusted EBITDA by segment to understand the operating performance of each segment. This enables us to monitor changes in net sales, costs and other actionable operating metrics at the segment level. See “—General description of non-GAAP financial measures.”

Segment net sales and Adjusted EBITDA:

For the Periods Ended December 31	Three Months				Six Months			
	2019	2018	Change		2019	2018	Change	
	(in thousands, except percentages)							
Net sales								
MFAs and other	\$ 91,955	\$ 93,054	\$(1,099)	(1)%	\$ 166,989	\$ 180,058	\$(13,069)	(7)%
Nutritional specialties	33,062	29,460	3,602	12%	63,495	56,430	7,065	13%
Vaccines	18,672	17,048	1,624	10%	35,055	34,263	792	2%
Animal Health	143,689	139,562	4,127	3%	265,539	270,751	(5,212)	(2)%
Mineral Nutrition	55,685	62,319	(6,634)	(11)%	108,334	117,157	(8,823)	(8)%
Performance Products	14,638	16,342	(1,704)	(10)%	29,859	30,468	(609)	(2)%
Total	<u>\$214,012</u>	<u>\$218,223</u>	<u>\$(4,211)</u>	<u>(2)%</u>	<u>\$403,732</u>	<u>\$418,376</u>	<u>\$(14,644)</u>	<u>(4)%</u>
Adjusted EBITDA								
Animal Health	\$ 33,838	\$ 35,925	\$(2,087)	(6)%	\$ 58,899	\$ 71,641	\$(12,742)	(18)%
Mineral Nutrition	3,684	4,084	(400)	(10)%	7,159	6,647	512	8%
Performance Products	1,457	1,514	(57)	(4)%	2,309	2,230	79	4%
Corporate	(10,491)	(9,918)	(573)	*	(20,219)	(18,804)	(1,415)	*
Total	<u>\$ 28,488</u>	<u>\$ 31,605</u>	<u>\$(3,117)</u>	<u>(10)%</u>	<u>\$ 48,148</u>	<u>\$ 61,714</u>	<u>\$(13,566)</u>	<u>(22)%</u>
Adjusted EBITDA ratio to segment net sales								
Animal Health	23.5%	25.7%			22.2%	26.5%		
Mineral Nutrition	6.6%	6.6%			6.6%	5.7%		
Performance Products	10.0%	9.3%			7.7%	7.3%		
Corporate ⁽¹⁾	(4.9)%	(4.5)%			(5.0)%	(4.5)%		
Total ⁽¹⁾	13.3%	14.5%			11.9%	14.8%		

(1) reflects ratio to total net sales

The table below sets forth a reconciliation of net income, as reported under GAAP, to Adjusted EBITDA:

For the Periods Ended December 31	Three Months				Six Months			
	2019	2018	Change		2019	2018	Change	
	(in thousands, except percentages)							
Net income	\$11,894	\$14,748	\$(2,854)	(19)%	\$14,409	\$31,062	\$(16,653)	(54)%
Interest expense, net	3,432	3,015	417	14%	6,786	5,798	988	17%
Provision for income taxes	5,001	5,326	(325)	(6)%	6,058	11,717	(5,659)	(48)%
Depreciation and amortization	8,148	6,841	1,307	19%	15,929	13,532	2,397	18%
EBITDA	28,475	29,930	(1,455)	(5)%	43,182	62,109	(18,927)	(30)%
Restructuring costs	—	—	—	*	425	—	425	*
Stock-based compensation	564	564	—	0%	1,129	1,129	—	0%
Acquisition-related cost of goods sold	—	—	—	*	280	—	280	*
Acquisition-related transaction costs	—	—	—	*	462	—	462	*
Acquisition-related other, net	167	—	167	*	167	—	167	*
Other, net	—	(1,506)	1,506	*	—	(1,506)	1,506	*
Foreign currency (gains) losses, net	(718)	2,617	(3,335)	*	2,503	(18)	2,521	*
Adjusted EBITDA	\$28,488	\$31,605	\$(3,117)	(10)%	\$48,148	\$61,714	\$(13,566)	(22)%

Certain amounts and percentages may reflect rounding adjustments.

* Calculation not meaningful

Comparison of three months ended December 31, 2019 and 2018

Net sales

Net sales of \$214.0 million for the three months ended December 31, 2019, decreased \$4.2 million, or 2%, as compared to the three months ended December 31, 2018. Animal Health increased \$4.1 million, while Mineral Nutrition and Performance Products declined \$6.6 million and \$1.7 million, respectively.

Animal Health

Net sales of \$143.7 million for the three months ended December 31, 2019, increased \$4.1 million, or 3%. Net sales of MFAs and other declined \$1.1 million, or 1%. Increased domestic sales were offset by reduced sales in China due to the effects of African Swine Fever. China customers purchased MFAs in advance of regulatory changes that were effective January 1, 2020. Net sales of nutritional specialty products grew \$3.6 million, or 12%. The recent Osprey acquisition accounted for approximately two-thirds of the nutritional specialties sales growth. We experienced growth in net sales of domestic poultry and dairy products, partially offset by lower international sales. The increase in the domestic poultry segment was driven by the introduction of *Provia Prime*[™], a direct fed microbial product that helps optimize the gut microbiome for improved health, immunity and productivity. Net sales of vaccines increased \$1.6 million, or 10%, driven by strong international demand and increased market penetration.

Mineral Nutrition

Net sales of \$55.7 million for the three months ended December 31, 2019, decreased \$6.6 million, or 11%, due to lower average selling prices coupled with lower overall unit volume. The decline in average selling prices is correlated with the movement of the underlying raw material costs.

Performance Products

Net sales of \$14.6 million for the three months ended December 31, 2019, decreased \$1.7 million, or 10%, driven by lower volume of copper-based products, partially offset by increased volumes of personal care products.

Gross profit

Gross profit of \$69.1 million for the three months ended December 31, 2019, increased \$0.5 million, or 1%, as compared to the three months ended December 31, 2018. Gross profit increased to 32.3% of net sales for the three months ended December 31, 2019, as compared to 31.5% for the three months ended December 31, 2018.

Animal Health gross profit increased \$1.1 million due to volume growth in nutritional specialty and vaccine products, partially offset by lower volume in MFAs and other. Mineral Nutrition gross profit decreased \$0.5 million, as the decline in average selling prices and unfavorable product mix more than offset lower raw material costs. Performance Products gross profit decreased \$0.1 million due to decreased volume, partially offset by favorable product mix.

Selling, general and administrative expenses

Selling, general and administrative expenses (“SG&A”) of \$49.5 million for the three months ended December 31, 2019, increased \$6.6 million, or 15%, as compared to the three months ended December 31, 2018. SG&A for the three months ended December 31, 2019, included \$0.6 million of stock-based compensation and \$0.2 million of other acquisition-related costs. SG&A for the three months ended December 31, 2018, included \$0.6 million of stock-based compensation and a \$1.5 million benefit from the cancellation of a certain business arrangement. Excluding the effects of these costs, SG&A increased \$4.9 million, or 11%.

Animal Health SG&A increased \$4.4 million, including increased investments in product development and the effect of the Osprey acquisition. Mineral Nutrition and Performance Products SG&A were comparable to the prior year. Corporate expenses increased \$0.5 million due to increased costs of strategic initiatives and public company costs. Stock-based compensation, other acquisition-related costs and the benefit in the prior year from the cancellation of a certain business arrangement resulted in a net \$1.7 million increase to SG&A.

Interest expense, net

Interest expense, net of \$3.4 million for the three months ended December 31, 2019, increased \$0.4 million, or 14%, as compared to the three months ended December 31, 2018. The increase in interest expense was primarily driven by the increase in outstanding borrowings on the Revolver. Interest income from short-term investments was comparable to the prior year.

Foreign currency (gains) losses, net

Foreign currency (gains) losses, net for the three months ended December 31, 2019, amounted to net gains of \$0.7 million, as compared to \$2.6 million in net losses for the three months ended December 31, 2018. Foreign currency gains and losses primarily arose from intercompany balances.

Provision for income taxes

The provision for income taxes was \$5.0 million and \$5.3 million for the three months ended December 31, 2019 and 2018, respectively. The effective income tax rate was 29.6% and 26.5% for the three months ended December 31, 2019 and 2018, respectively. The provision for income taxes during the three months ended December 31, 2018, included a \$0.7 million benefit from an adjustment to the previously recorded mandatory toll charge on deemed repatriation of undistributed earnings of foreign subsidiaries and a \$0.1 million benefit from the exercise of employee stock options. The effective income tax rate, without these benefits, would have been 30.5% for the three months ended December 31, 2018.

Net income

Net income of \$11.9 million for the three months ended December 31, 2019, decreased \$2.9 million, as compared to net income of \$14.8 million for the three months ended December 31, 2018. The decrease was primarily due to a \$6.1 million decline in operating income and increased interest expense of \$0.4 million, partially offset by favorable foreign currency movements of \$3.3 million and lower income

tax expense of \$0.3 million. The decline in operating income was driven by increased SG&A costs of \$6.6 million as a result of investments in product development and the effect of the Osprey acquisition, partially offset by \$0.5 million of increased gross profit.

Adjusted EBITDA

Adjusted EBITDA of \$28.5 million for the three months ended December 31, 2019, decreased \$3.1 million, or 10%, as compared to the three months ended December 31, 2018. Animal Health Adjusted EBITDA decreased \$2.1 million due to increased SG&A costs as a result of investments in product development and the effect of the Osprey acquisition, partially offset by increased gross profit driven by volume growth. Mineral Nutrition Adjusted EBITDA decreased \$0.4 million, driven by decreased gross profit. Performance Products Adjusted EBITDA was comparable to the prior year. Corporate expenses increased \$0.6 million due to increased professional service and public company costs.

Comparison of six months ended December 31, 2019 and 2018

Net sales

Net sales of \$403.7 million for the six months ended December 31, 2019, decreased \$14.6 million, or 4%, as compared to the six months ended December 31, 2018. Animal Health, Mineral Nutrition and Performance Products declined \$5.2 million, \$8.8 million and \$0.6 million, respectively.

Animal Health

Net sales of \$265.5 million for the six months ended December 31, 2019, declined \$5.2 million, or 2%. Net sales of MFAs and other declined \$13.1 million, or 7%, due to reduced demand related to the effect of African Swine Fever in China. Net sales growth in other products and regions were a partial offset. Net sales of nutritional specialty products grew \$7.1 million, or 13%, due to volume growth in poultry and dairy products. The recent Osprey acquisition accounted for approximately two-thirds of the nutritional specialty sales growth. Net sales of vaccines increased \$0.8 million, or 2%, due to international demand and increased market penetration. Net sales of vaccines would have increased approximately 7%, excluding the loss of a domestic distribution arrangement in October 2018.

Mineral Nutrition

Net sales of \$108.3 million for the six months ended December 31, 2019, decreased \$8.8 million, or 8%, driven by lower average selling prices and decreased unit volumes. The decline in average selling prices is correlated with the movement of the underlying raw material costs.

Performance Products

Net sales of \$29.9 million for the six months ended December 31, 2019, decreased \$0.6 million, or 2%. Increased volumes of personal care ingredients were more than offset by lower volume of copper-based products.

Gross profit

Gross profit of \$126.8 million for the six months ended December 31, 2019, decreased \$7.7 million, or 6%, as compared to the six months ended December 31, 2018. Gross profit decreased to 31.4% of net sales for the six months ended December 31, 2019, as compared to 32.1% for the six months ended December 31, 2018. The six months ended December 31, 2019, included \$0.3 million of acquisition-related cost of goods sold.

Animal Health gross profit decreased \$7.5 million due to volume declines and unfavorable product mix in MFAs and other, partially offset by volume growth in nutritional specialty products. Gross profit from vaccine products was comparable to the prior year. Mineral Nutrition gross profit increased \$0.4 million, as favorable raw material costs and product mix offset the decline in average selling prices. Performance Products gross profit decreased \$0.3 million due to unfavorable manufacturing costs.

Selling, general and administrative expenses

Selling, general and administrative expenses (“SG&A”) of \$97.0 million for the six months ended December 31, 2019, increased \$11.1 million, or 13%, as compared to the six months ended December 31, 2018. SG&A for the six months ended December 31, 2019, included \$0.4 million of restructuring costs, \$1.1 million of stock-based compensation, 0.5 million of acquisition-related transaction costs and \$0.2 million of other acquisition-related costs. SG&A for the six months ended December 31, 2018, included \$1.1 million of stock-based compensation and a \$1.5 million benefit from the cancellation of a certain business arrangement. Excluding the effects of these costs, SG&A increased \$8.5 million, or 10%.

Animal Health SG&A increased \$7.5 million, including increased investments in product development and the effect of the Osprey acquisition. Mineral Nutrition and Performance Products SG&A decreased \$0.1 million and \$0.2 million, respectively. Corporate expenses increased \$1.3 million due to increased costs of strategic initiatives and public company costs. The restructuring costs, stock-based compensation, acquisition-related transaction costs, other acquisition-related costs and the benefit in the prior year from the cancellation of a certain business arrangement resulted in a net \$2.6 million increase to SG&A.

Interest expense, net

Interest expense, net of \$6.8 million for the six months ended December 31, 2019, increased \$1.0 million, or 17%, as compared to the six months ended December 31, 2018. The increase in interest expense was primarily driven by the increase in outstanding borrowings on the Revolver. Interest income from short-term investments was comparable to the prior year.

Foreign currency (gains) losses, net

Foreign currency (gains) losses, net for the six months ended December 31, 2019, amounted to net losses of \$2.5 million, as compared to a nominal amount for the six months ended December 31, 2018. Foreign currency gains and losses primarily arose from intercompany balances and the effects of currency devaluations in both Argentina and Turkey.

Provision for income taxes

The provision for income taxes was \$6.1 million and \$11.7 million for the six months ended December 31, 2019 and 2018, respectively. The effective income tax rate was 29.6% and 27.4% for the six months ended December 31, 2019 and 2018, respectively. The provision for income taxes during the six months ended December 31, 2018 included a \$0.7 million benefit from an adjustment to the previously recorded mandatory toll charge on deemed repatriation of undistributed earnings of foreign subsidiaries and a \$0.2 million benefit from the exercise of employee stock options. The effective income tax rate, without these benefits, would have been 29.6% for the six months ended December 31, 2018.

Net income

Net income of \$14.4 million for the six months ended December 31, 2019, decreased \$16.7 million, as compared to net income of \$31.1 million for the six months ended December 31, 2018. The decrease was primarily due to an \$18.8 million decline in operating income coupled with unfavorable foreign currency movements of \$2.5 million and increased interest expense of \$1.0 million, partially offset by lower income tax expense of \$5.6 million. The decline in operating income was driven by a \$7.7 million reduction in gross profit, on reduced volumes and unfavorable product mix, and increased SG&A costs of \$11.1 million as we continue to invest in product development and strategic growth initiatives.

Adjusted EBITDA

Adjusted EBITDA of \$48.1 million for the six months ended December 31, 2019, decreased \$13.6 million, or 22%, as compared to the six months ended December 31, 2018. Animal Health Adjusted EBITDA decreased \$12.7 million due to reduced sales volumes and the related gross profit decline, coupled with increased SG&A costs for product development and strategic growth initiatives. Mineral Nutrition

Adjusted EBITDA increased \$0.5 million, driven by increased gross profit. Performance Products Adjusted EBITDA was comparable to the prior year. Corporate expenses increased \$1.4 million due to increased costs of strategic initiatives and public company costs.

Analysis of financial condition, liquidity and capital resources

Net increase (decrease) in cash and cash equivalents was:

<u>For the Periods Ended December 31</u>	<u>Six Months</u>		
	<u>2019</u>	<u>2018</u>	<u>Change</u>
	<u>(in thousands)</u>		
Cash provided by/(used in):			
Operating activities	\$ 28,521	\$ 16,636	\$ 11,737
Investing activities	(96,709)	(20,928)	(75,633)
Financing activities	36,930	6,874	30,056
Effect of exchange-rate changes on cash and cash equivalents	(135)	(414)	279
Net increase/(decrease) in cash and cash equivalents	<u>\$(31,393)</u>	<u>\$ 2,168</u>	<u>\$(33,561)</u>

Certain amounts may reflect rounding adjustments.

Net cash provided (used) by operating activities was comprised of:

<u>For the Periods Ended December 31</u>	<u>Six Months</u>		
	<u>2019</u>	<u>2018</u>	<u>Change</u>
	<u>(in thousands)</u>		
EBITDA	\$43,182	\$ 62,109	\$(18,927)
Adjustments			
Restructuring costs	425	—	425
Stock-based compensation	1,129	1,129	—
Acquisition-related cost of goods sold	280	—	280
Acquisition-related transaction costs	462	—	462
Acquisition other, net	167	—	167
Other, net	—	(1,506)	1,506
Foreign currency (gains) losses, net	2,503	(18)	2,521
Interest paid	(6,261)	(5,874)	(387)
Income taxes paid	(9,357)	(10,490)	1,133
Changes in operating assets and liabilities and other items	(3,547)	(28,714)	25,019
Cash used for acquisition-related transaction costs	(462)	—	(462)
Net cash provided (used) by operating activities	<u>\$28,521</u>	<u>\$ 16,636</u>	<u>\$ 11,737</u>

Certain amounts may reflect rounding adjustments.

Operating activities

Net cash provided by operating activities was \$28.5 million for the six months ended December 31, 2019. Cash provided by net income and non-cash items of \$32.0 million, including depreciation and amortization, was offset by \$3.5 million of cash used in the ordinary course of business for changes in operating assets and liabilities and other items. Cash uses included \$14.1 million for accounts payable and \$2.3 million for prepaid expenses and other due to the timing of payments for inventory purchases. Cash was provided by accounts receivable of \$12.9 million due to the timing of sales and collections in international regions.

Investing activities

Net cash used in investing activities was \$96.7 million for the six months ended December 31, 2019. Cash used for the Osprey acquisition was \$54.5 million. We invested \$25.0 million in short-term investments. Capital expenditures were \$16.1 million as we continued to invest in our existing asset base and for capacity expansion and productivity improvements.

Financing activities

Net cash provided by financing activities was \$36.9 million for the six months ended December 31, 2019. Net borrowings on our Revolver provided \$53.0 million, primarily to fund the cash paid for the Osprey acquisition. We paid \$9.7 million in dividends to holders of our Class A and Class B common stock. We paid \$6.4 million in scheduled debt and other requirements.

Liquidity and capital resources

We believe our cash on hand, our operating cash flows and our financing arrangements, including the availability of borrowings under the Revolver and foreign credit lines, will be sufficient to support our ongoing cash needs. Our operating plan projects adequate liquidity throughout the year. However, we can provide no assurance that our liquidity and capital resources will be adequate for future funding requirements. We believe we will be able to comply with the terms of the covenants under the Credit Facilities and foreign credit lines based on our operating plan. In the event of adverse operating results and/or violation of covenants under the facilities, there can be no assurance we would be able to obtain waivers or amendments. Other risks to our meeting future funding requirements include global economic conditions and macroeconomic, business and financial disruptions that could arise. There can be no assurance that a challenging economic environment or an economic downturn would not affect our liquidity or our ability to obtain future financing. In addition, our debt covenants may restrict our ability to invest.

Certain relevant measures of our liquidity and capital resources follow:

<u>As of</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
	<u>(in thousands, except ratios)</u>	
Cash and cash equivalents and short-term investments	\$ 75,180	\$ 81,573
Working capital	238,873	242,902
Ratio of current assets to current liabilities	2.82:1	2.71:1

We define working capital as total current assets (excluding cash and cash equivalents and short-term investments) less total current liabilities (excluding current portion of long-term debt). We calculate the ratio of current assets to current liabilities based on this definition.

At December 31, 2019, we had \$149.0 million in outstanding borrowings under the Revolver. We had outstanding letters of credit and other commitments of \$2.7 million, leaving \$98.3 million available for borrowings and letters of credit.

We currently intend to pay quarterly dividends on our Class A and Class B common stock, subject to approval from the Board of Directors. On February 3, 2020, our Board of Directors declared a cash dividend of \$0.12 per share on Class A and Class B common stock outstanding on the record date of March 4, 2020, payable on March 25, 2020. Our future ability to pay dividends will depend upon our results of operations, financial condition, capital requirements, our ability to obtain funds from our subsidiaries and other factors that our Board of Directors deems relevant. Additionally, the terms of our current and any future agreements governing our indebtedness could limit our ability to pay dividends or make other distributions.

As of December 31, 2019, our cash and cash equivalents and short-term investments included \$73.2 million held by our international subsidiaries. There are no restrictions on cash distributions to PAHC from our international subsidiaries.

Contractual obligations

As of December 31, 2019, there were no material changes in payments due under contractual obligations from those disclosed in the Annual Report on Form 10-K for the year ended June 30, 2019.

Off-balance sheet arrangements

We do not currently use off-balance sheet arrangements for the purpose of credit enhancement, hedging transactions, investment or other financial purposes.

In the ordinary course of business, we may indemnify our counterparties against certain liabilities that may arise. These indemnifications typically pertain to environmental matters. If the indemnified party were to make a successful claim pursuant to the terms of the indemnification, we would be required to reimburse the loss. These indemnifications generally are subject to certain restrictions and limitations.

Adjusted EBITDA

Adjusted EBITDA is an alternative view of performance used by management as our primary operating measure, and we believe that investors' understanding of our performance is enhanced by disclosing this performance measure. We report Adjusted EBITDA to portray the results of our operations prior to considering certain income statement elements. We have defined EBITDA as net income (loss) plus (i) interest expense, net, (ii) provision for income taxes or less benefit for income taxes, and (iii) depreciation and amortization. We have defined Adjusted EBITDA as EBITDA plus (a) (income) loss from, and disposal of, discontinued operations, (b) other expense or less other income, as separately reported on our consolidated statements of operations, including foreign currency gains and losses and loss on extinguishment of debt, and (c) certain items that we consider to be unusual, non-operational or non-recurring. The Adjusted EBITDA measure is not, and should not be viewed as, a substitute for GAAP reported net income.

The Adjusted EBITDA measure is an important internal measurement for us. We measure our overall performance on this basis in conjunction with other performance metrics. The following are examples of how our Adjusted EBITDA measure is utilized:

- senior management receives a monthly analysis of our operating results that is prepared on an Adjusted EBITDA basis;
- our annual budgets are prepared on an Adjusted EBITDA basis; and
- other goal setting and performance measurements are prepared on an Adjusted EBITDA basis.

Despite the importance of this measure to management in goal setting and performance measurement, Adjusted EBITDA is a non-GAAP financial measure that has no standardized meaning prescribed by GAAP and, therefore, has limits in its usefulness to investors. Because of its non-standardized definition, Adjusted EBITDA, unlike GAAP net income, may not be comparable to the calculation of similar measures of other companies. We present Adjusted EBITDA to permit investors to more fully understand how management assesses performance.

We also recognize that, as an internal measure of performance, the Adjusted EBITDA measure has limitations, and we do not restrict our performance management process solely to this metric. A limitation of the Adjusted EBITDA measure is that it provides a view of our operations without including all events during a period, such as the depreciation of property, plant and equipment or amortization of purchased intangibles, and does not provide a comparable view of our performance to other companies.

Certain significant items

Adjusted EBITDA is calculated prior to considering certain items. We evaluate such items on an individual basis. Such evaluation considers both the quantitative and the qualitative aspect of their unusual or non-operational nature. Unusual, in this context, may represent items that are not part of our ongoing business; items that, either as a result of their nature or size, we would not expect to occur as part of our normal business on a regular basis.

We consider acquisition-related activities and business restructuring costs related to productivity and cost saving initiatives, including employee separation costs, to be unusual items that we do not expect to occur as part of our normal business on a regular basis. We consider foreign currency gains and losses to be non-operational because they arise principally from intercompany transactions and are largely non-cash in nature.

New accounting standards

We adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*, effective July 1, 2019.

For discussion of new accounting standards, see “Notes to Consolidated Financial Statements—Summary of Significant Accounting Policies and New Accounting Standards.”

Critical Accounting Policies

Critical accounting policies are those that require application of management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, management is required to make certain estimates and assumptions during the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Significant estimates include depreciation and amortization periods of long-lived and intangible assets, recoverability of long-lived and intangible assets and goodwill, realizability of deferred income tax and value-added tax assets, assessment of the incremental borrowing rates and reasonably certain renewal periods associated with our lease agreements, legal and environmental matters and actuarial assumptions related to our pension plans. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period they are determined to be necessary. Actual results could differ from those estimates. Our significant accounting policies are described in the notes to the consolidated financial statements included in the Annual Report. As of December 31, 2019, there have been no material changes to any of the critical accounting policies contained therein, other than those related to the adoption of the new lease standard, ASU 2016-02, *Leases (Topic 842)*. See “Notes to Consolidated Financial Statements—Summary of Significant Accounting Policies and New Accounting Standards” for the changes made to our lease accounting policy.

Forward-Looking Statements

This Quarterly Report on Form 10-Q 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. For example, all statements we make relating to our estimated and projected earnings, revenues, costs, expenditures, cash flows, growth rates and financial results, our plans and objectives for future operations, growth or initiatives, strategies, or the expected outcome or impact of pending or threatened litigation are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected. Examples of such risks and uncertainties include:

- perceived adverse effects on human health linked to the consumption of food derived from animals that utilize our products could cause a decline in the sales of those products;

- restrictions on the use of antibacterials in food-producing animals may become more prevalent;
- a material portion of our sales and gross profits are generated by antibacterials and other related products;
- competition in each of our markets from a number of large and small companies, some of which have greater financial, research and development (“R&D”), production and other resources than we have;
- outbreaks of animal diseases could significantly reduce demand for our products;
- our business may be negatively affected by weather conditions and the availability of natural resources;
- the continuing trend toward consolidation of certain customer groups as well as the emergence of large buying groups;
- our ability to control costs and expenses;
- any unforeseen material loss or casualty;
- exposure relating to rising costs and reduced customer income;
- competition deriving from advances in veterinary medical practices and animal health technologies;
- unanticipated safety or efficacy concerns;
- our dependence on suppliers having current regulatory approvals;
- our raw materials are subject to price fluctuations and their availability can be limited;
- natural and man-made disasters, including but not limited to fire, snow and ice storms, flood, hail, hurricanes and earthquakes;
- terrorist attacks, particularly attacks on or within markets in which we operate;
- our ability to successfully implement our strategic initiatives;
- our reliance on the continued operation of our manufacturing facilities and application of our intellectual property;
- adverse U.S. and international economic market conditions, including currency fluctuations;
- failure of our product approval, R&D, acquisition and licensing efforts to generate new products;
- the risks of product liability claims, legal proceedings and general litigation expenses;
- the impact of current and future laws and regulatory changes;
- modification of foreign trade policy may harm our food animal product customers
- our dependence on our Israeli and Brazilian operations;
- our substantial level of indebtedness and related debt-service obligations;
- restrictions imposed by covenants in our debt agreements;
- the risk of work stoppages; and
- other factors as described in “Risk Factors” in Item 1A. of our Annual Report on Form 10-K.

While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from our expectations, or

cautionary statements, are disclosed under “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” All forward-looking statements are expressly qualified in their entirety by these cautionary statements. You should evaluate all forward-looking statements made in this report in the context of these risks and uncertainties.

We caution you that the important factors referenced above may not contain all of the factors that are important to you. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences we anticipate or affect us or our operations in the way we expect. The forward-looking statements included in this report are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. If we do update one or more forward-looking statements, no inference should be made that we will make additional updates with respect to those or other forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

In the normal course of operations, we are exposed to market risks arising from adverse changes in interest rates, foreign currency exchange rates and commodity prices. As a result, future earnings, cash flows and fair values of assets and liabilities are subject to uncertainty. We use, from time to time, foreign currency contracts and interest rate swaps as a means of hedging exposure to foreign currency risks and fluctuating interest rates, respectively. We do not utilize derivative instruments for trading or speculative purposes. We do not hedge our exposure to market risks in a manner that completely eliminates the effects of changing market conditions on earnings, cash flows and fair values. We monitor the financial stability and credit standing of our major counterparties.

For financial market risks related to changes in interest rates and foreign currency exchange rates, reference is made to the “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Qualitative and Quantitative Disclosures about Market Risk” section in the Annual Report and to the notes to the consolidated financial statements included therein. There were no material changes in the Company’s financial market risks from the risks disclosed in the Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Company’s management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”). Based upon that evaluation as of December 31, 2019, our Chief Executive Officer and Chief Financial Officer each concluded that, as of the end of such period, our disclosure controls and procedures were not effective because of material weaknesses in our internal control over financial reporting, as described in Management’s Report on Internal Control over Financial Reporting in “Item 9A. Controls and Procedures” in the Annual Report on Form 10-K for the year ended June 30, 2019.

Material Weakness Remediation Efforts

We continue to make further progress in implementing a broad range of changes to our internal control over financial reporting to remediate the material weaknesses described in this item. Our actions to address the material weaknesses have included the design and implementation of additional formal accounting policies and procedures to ensure transactions are properly initiated, recorded, processed, reported, appropriately authorized and approved. Also, our efforts to ensure maintenance of the appropriate level of segregation of duties includes restricting access to key financial systems and records to appropriate users. We continue to make improvements by reducing the number of segregation of duties conflicts and continue to evaluate the extent it is necessary to limit access and modify responsibilities of certain personnel, as well as designing and implementing additional user access controls and compensating controls. We have completed a gap analysis of our key controls. In completing this analysis, we identified areas where new controls were needed and enhancements to existing controls, policies and procedures need

to be made. Through this analysis, we have developed a workplan for remediation of our material weaknesses. The remediation plan includes enhancing and supplementing the finance team by increasing the number of roles, reassigning responsibilities, and adding additional resources with an appropriate level of knowledge and experience in internal control over financial reporting commensurate with our financial reporting requirements. We will continue to build on the progress we have made in our remediation plan. We cannot determine when our remediation plan will be fully completed, and we cannot provide any assurance that these remediation efforts will be successful or that our internal control over financial reporting will be effective as a result of these efforts.

Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting during the three months ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION**Item 1. Legal Proceedings**

Information required by this Item is incorporated herein by reference to “Notes to the Consolidated Financial Statements—*Commitments and Contingencies*” in Part I, Item 1, of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in the “Risk Factors” section in the Annual Report, which could materially affect our business, financial condition or future results.

There were no material changes in the Company’s risk factors from the risks disclosed in the Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

[Exhibit 31.1 Chief Executive Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 302](#)

[Exhibit 31.2 Chief Financial Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 302](#)

[Exhibit 32.1 Chief Executive Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 906](#)

[Exhibit 32.2 Chief Financial Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 906](#)

Exhibit 101.INS* XBRL Instance Document

Exhibit 101.SCH* XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document

Exhibit 101.LAB* XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

* Furnished with this Quarterly Report. Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933 and are deemed not filed for purposes of section 18 of the Exchange Act.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Phibro Animal Health Corporation
February 3, 2020	By: <u>/s/ Jack C. Bendheim</u> Jack C. Bendheim Chairman, President and Chief Executive Officer
February 3, 2020	By: <u>/s/ Richard G. Johnson</u> Richard G. Johnson Chief Financial Officer

CERTIFICATIONS

I, Jack C. Bendheim, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Phibro Animal Health Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 3, 2020

/s/ Jack C. Bendheim

Jack C. Bendheim
Chairman, President and Chief Executive Officer

CERTIFICATIONS

I, Richard G. Johnson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Phibro Animal Health Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 3, 2020

/s/ Richard G. Johnson

Richard G. Johnson
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Dated: February 3, 2020

/s/ Jack C. Bendheim

Jack C. Bendheim

Chairman, President and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Dated: February 3, 2020

/s/ Richard G. Johnson

Richard G. Johnson
Chief Financial Officer