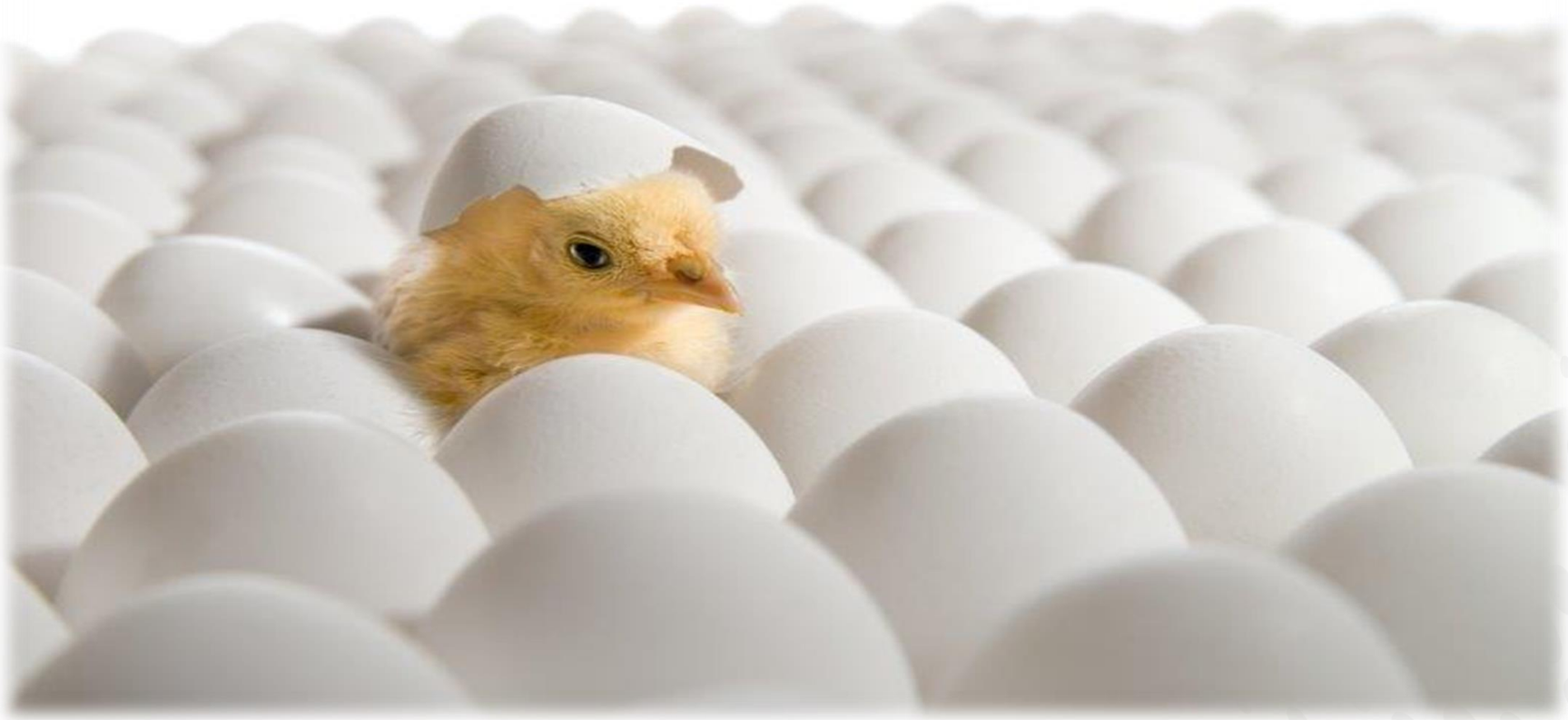
Phibro Animal Health Corporation



Third Quarter – March 31, 2020
Webcast and Conference Call
May 8, 2020

U.S. toll-free +1-866-211-3051
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Conference ID: **7169811**

Cautionary Statements

Forward-Looking Statements

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

Non-GAAP Financial Information

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

Internet Posting of Information

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

GAAP and Non-GAAP Financial Information

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

Opening Remarks and Financial Review

- Jack Bendheim

  Chairman, President, Chief Executive Officer

- Richard Johnson

  Chief Financial Officer

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Highlights

Q3 – March 2020

Consolidated

For the three months ended March 31	2020	2019	Change	
	(in millions, except per share amounts and percentages)			
Net sales	**$ 210.7**	$ 205.7	$ 5.0	*2%*
Net income	**13.5**	14.8	(1.3)	*(9)%*
Diluted EPS	**$ 0.33**	$ 0.37	$ (0.04)	*(11)%*
Adjusted EBITDA	**$ 30.1**	$ 30.0	$ 0.1	*0%*
Adjusted net income	**15.5**	16.0	(0.5)	*(3)%*
Adjusted diluted EPS	**$ 0.38**	$ 0.39	$ (0.01)	*(3)%*

- Sales growth in the Animal Health business was partially offset by lower average selling prices in Mineral Nutrition and decreased sales in Performance Products. The increase in Animal Health was driven by nutritional specialties and vaccine products.
- Net income decline - higher gross profit driven by volume growth in the Animal Health segment was more than offset by increased SG&A expenses for product development and marketing and the effect of the Osprey acquisition.

Selected Line Items

Q3 – March 2020

Consolidated

For the three months ended March 31	2020	2019	Change	
	(in millions, except per share amounts and percentages)			
Net sales	**$ 210.7**	$ 205.7	$ 5.0	*2%*
Adjusted gross profit	**71.2**	66.2	5.0	*8%*
Adjusted SG&A	**47.0**	41.5	5.5	*13%*
Adjusted EBITDA	**30.1**	30.0	$ 0.1	*0%*
Depreciation expense	**5.8**	5.3	0.5	*9%*
Adjusted interest expense, net	**3.2**	2.9	0.3	*9%*
Adjusted income before income taxes	**21.0**	21.7	(0.7)	*(3)%*
Adjusted provision for income taxes	**5.5**	5.7	(0.2)	*(4)%*
Adjusted net income	**$ 15.5**	$ 16.0	$ (0.5)	*(3)%*
Adjusted diluted EPS	**$ 0.38**	$ 0.39	$ (0.01)	*(3)%*

- Adjusted gross profit
  - Animal Health volume growth in nutritional specialty products and vaccines were partially offset by lower volumes in MFAs and other.
  - Mineral Nutrition decreased as lower average selling prices and unfavorable product mix more than offset lower raw material costs.
  - Performance Products was comparable to the prior year.
- Adjusted SG&A
  - Strategic investments for product development and marketing, the effect of the Osprey acquisition and increased variable compensation
- Adjusted interest expense
  - Increased debt levels
- Adjusted income taxes
  - Effective tax rate of 26.3% for current quarter

Animal Health

Q3 – March 2020

Animal Health

For the three months ended March 31	2020	2019	Change	
	(in millions, except percentages)			
MFAs and other	**$ 82.7**	$ 84.1	$ (1.4)	*(2)%*
Nutritional specialties	**34.6**	28.2	6.4	*23%*
Vaccines	**21.7**	16.9	4.8	*28%*
Net sales	**$ 139.0**	$ 129.2	$ 9.8	*8%*
Adjusted EBITDA	**$ 34.6**	$ 33.2	$ 1.4	*4%*
% of segment net sales	*24.9%*	*25.7%*		*-80bps*

- MFAs and other
  - Lower demand in China due to ASF and phased regulatory change, beginning January 1, 2020
  - Increased demand from poultry and cattle customers in U.S. and Latin America
- Nutritional specialties
  - Growth in domestic dairy and poultry
  - Osprey acquisition contributed half the sales growth
- Vaccines
  - Strong international demand for poultry vaccines and growth in adjuvant products.
- Adjusted EBITDA
  - Gross profit increased due to volume growth in nutritional specialty and vaccine products, partially offset by lower volume in MFAs and other. Favorable product mix contributed to a higher gross profit ratio.
  - SG&A increased due to product development, marketing costs and the Osprey acquisition

Other Segments

Q3 – March 2020

For the three months ended March 31	2020	2019	Change	
		(in millions, except percentages)		
Mineral Nutrition				
Net sales	**$ 56.2**	$ 60.7	$ (4.5)	*(7)%*
Adjusted EBITDA	**$ 4.1**	$ 5.3	$ (1.2)	*(23)%*
% of segment net sales	*7.2%*	*8.7%*		*-150bps*
Performance Products				
Net sales	**$ 15.6**	$ 15.9	$ (0.3)	*(2)%*
Adjusted EBITDA	**$ 1.5**	$ 1.3	$ 0.2	*13%*
% of segment net sales	*9.7%*	*8.4%*		*+130bps*
Corporate				
Adjusted EBITDA	**$ (10.1)**	$ (9.9)	$ (0.2)	*

** Calculation not meaningful*

- Mineral Nutrition
  - Sales decreased due to lower average selling prices, partially offset by volume growth
  - Adjusted EBITDA decrease driven by lower gross profit and increased SG&A costs. Gross profit declined as lower average selling prices outpaced favorable raw material costs.
- Performance Products
  - Sales volume decline in ingredients for personal care products
- Corporate
  - Increased public company costs

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Capitalization

March 31, 2020

- 3.5x leverage ratio at March 31, 2020
  - $368 million total debt
  - $105 million LTM Adjusted EBITDA
- $82 million cash and short-term investments on hand at March 31, 2020
- $19 million source of cash before financing for the March 2020 quarter, excluding changes in short-term investments

Withdrawal of Guidance for our Fiscal Year 2020

Year – June 2020

- Due to the COVID-19 pandemic, the animal production industry is facing unprecedented demand disruption and production impacts, including its ability to process animals. Animal producers are rapidly adjusting the amount of animals and milk being produced. Significant price declines at the producer level for all proteins also contribute to reduced production levels.

- We anticipate a decline in demand for our products during our quarter ending June 30, 2020. Due to the uncertainties of the COVID-19 pandemic, we are unable to estimate the overall effects on our operations and financial results in the near-term. As a result, we are withdrawing all previously issued financial guidance for our fiscal year ending June 30, 2020.

- We believe the current difficult situation will begin to normalize in the second half of calendar 2020 and the industry gradually will return to typical operating levels. We believe we have the financial resources to weather a down-turn in our business. We are actively monitoring the changing environment and stand ready to take additional operational actions as necessary to protect our financial position.

Q&A Session

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