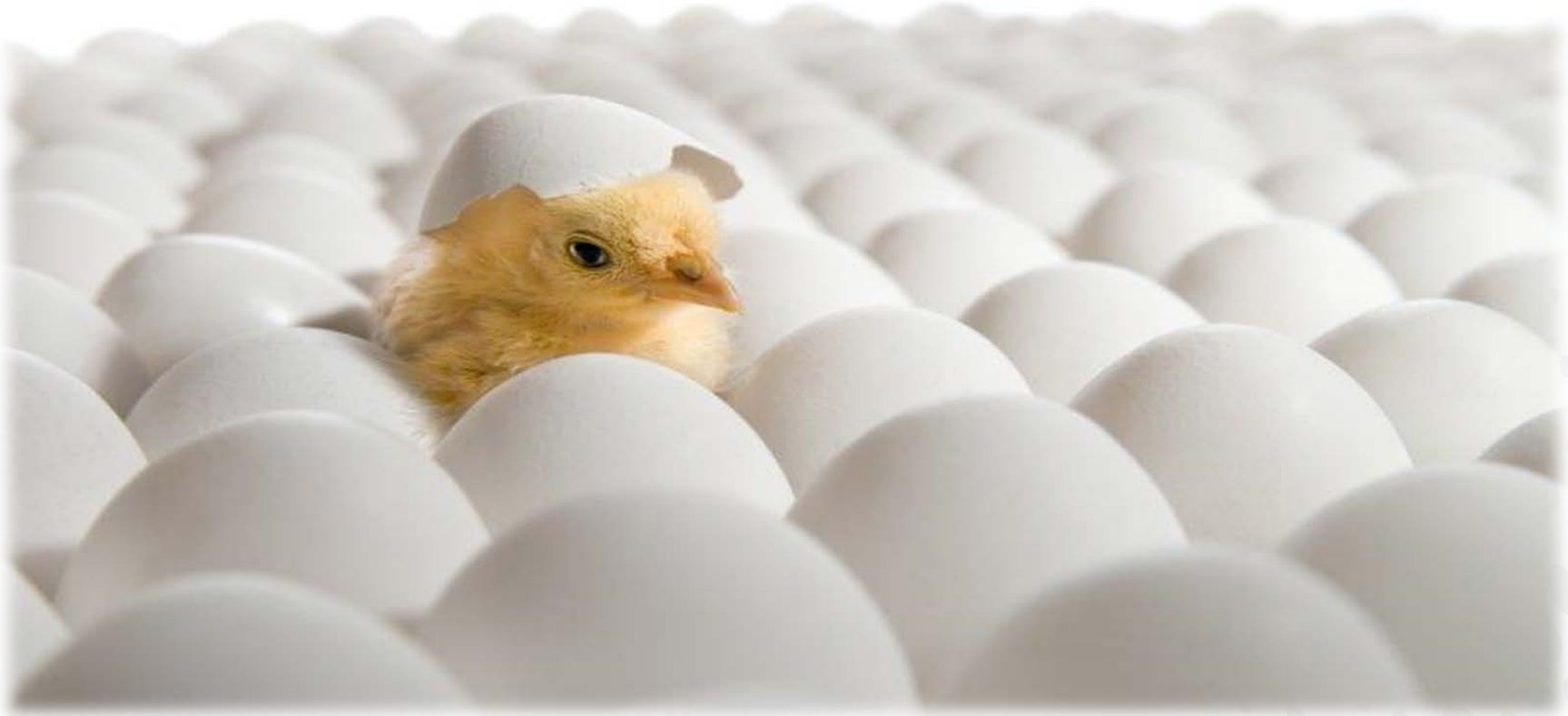
Phibro Animal Health Corporation



Fourth Quarter – June 30, 2020
Webcast and Conference Call
August 27, 2020

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Conference ID: **2577655**

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 adjustments to contingent consideration
  - 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

Highlights

Q4 – June 2020

Consolidated

For the three months ended June 30	2020	2019	Change	
	(in millions, except per share amounts and percentages)			
Net sales	**$ 185.9**	$ 203.9	$ (18.0)	*(9)%*
Net income	**5.6**	8.8	(3.2)	*(36)%*
Diluted EPS	**$ 0.14**	$ 0.22	$ (0.08)	*(36)%*
Adjusted EBITDA	**$ 23.9**	$ 26.3	$ (2.5)	*(9)%*
Adjusted net income	**6.8**	13.6	(6.8)	*(50)%*
Adjusted diluted EPS	**$ 0.17**	$ 0.33	$ (0.16)	*(48)%*

- Short-term decline in product demand due to COVID-19. Sales declines in the Animal Health, Mineral Nutrition and Performance Products businesses, primarily due to lower volume. In Animal Health, decreased sales in MFAs and other sales were partially offset by increases in nutritional specialty products and vaccines.

- Net income declined as gross profit decreased driven by sales decline, primarily in the Animal Health segment, partially offset by favorable SG&A expenses. Increased income tax was due to the effects of GILTI tax, changes in uncertain tax positions and increased valuation allowances.

Selected Line Items

Q4 – June 2020

Consolidated

For the three months ended June 30	2020	2019	Change	
	(in millions, except per share amounts and percentages)			
Net sales	**$ 185.9**	$ 203.9	$ (18.0)	*(9)%*
Adjusted gross profit	**62.1**	66.6	(4.5)	*(7)%*
Adjusted SG&A	**44.2**	45.9	(1.7)	*(4)%*
Adjusted EBITDA	**23.9**	26.3	$ (2.5)	*(9)%*
Depreciation expense	**5.9**	5.6	0.3	*5%*
Adjusted interest expense, net	**2.7**	3.0	(0.3)	*(10)%*
Adjusted income before income taxes	**15.2**	17.7	(2.5)	*(14)%*
Adjusted provision for income taxes	**8.4**	4.1	4.3	*105%*
Adjusted net income	**$ 6.8**	$ 13.6	$ (6.8)	*(50)%*
Adjusted diluted EPS	**$ 0.17**	$ 0.33	$ (0.16)	*(48)%*

- Adjusted gross profit
  - Animal Health volume decline in MFAs and other was partially offset by increased sales in nutritional specialty products and vaccines.
  - Mineral Nutrition decreased as lower average selling prices more than offset favorable raw material costs.
  - Performance Products decline driven by lower volume.
- Adjusted SG&A
  - Lower variable compensation and employee-related costs, partially offset by the Osprey acquisition
- Adjusted income taxes
  - Effective tax rate of 55.4% for current quarter driven by GILTI tax, uncertain tax positions and increased valuation allowances

Animal Health

Q4 – June 2020

Animal Health

For the three months ended June 30	2020	2019	Change	
	(in millions, except percentages)			
MFAs and other	**$ 72.6**	$ 86.3	$ (13.7)	*(16)%*
Nutritional specialties	**31.1**	28.6	2.6	*9%*
Vaccines	**18.6**	17.2	1.5	*8%*
Net sales	**$ 122.4**	$ 132.0	$ (9.6)	*(7)%*
Adjusted EBITDA	**$ 29.6**	$ 31.2	$ (1.6)	*(5)%*
% of segment net sales	*24.2%*	*23.6%*		*+60bps*

- MFAs and other
  - Lower demand in China, South America and other international regions
  - Lower demand in China due to ASF and phased regulatory change beginning January 1, 2020
- Nutritional specialties
  - Increase primarily due to Osprey acquisition
- Vaccines
  - Higher international volume
- Adjusted EBITDA
  - Overall sales and related gross profit decline, partially offset by favorable SG&A costs

Other Segments

Q4 – June 2020

For the three months ended June 30	2020	2019	Change	
	(in millions, except percentages)			
Mineral Nutrition				
Net sales	**$ 49.9**	$ 56.0	$ (6.1)	*(11)%*
Adjusted EBITDA	**$ 3.5**	$ 3.8	$ (0.3)	*(8)%*
% of segment net sales	*6.9%*	*6.7%*		*+20bps*
Performance Products				
Net sales	**$ 13.6**	$ 15.9	$ (2.3)	*(14)%*
Adjusted EBITDA	**$ 0.7**	$ 1.2	$ (0.4)	*(38)%*
% of segment net sales	*5.3%*	*7.4%*		*-210bps*
Corporate				
Adjusted EBITDA	**$ (9.9)**	$ (9.8)	$ (0.1)	*

** Calculation not meaningful*

- **Mineral Nutrition**
  - Sales decreased due to lower average selling prices and lower overall volumes
  - Adjusted EBITDA decrease driven primarily by lower gross profit, as lower average selling prices outpaced favorable raw material costs.
- **Performance Products**
  - Sales volume declines in copper-based and industrial chemical products contributed to lower gross profit and a decline in Adjusted EBITDA
- **Corporate**
  - Comparable to the prior year

Selected Line Items

Year – June 2020

Consolidated

For the year ended June 30	2020	2019	Change	
	(in millions, except per share amounts and percentages)			
Net sales	**$ 800.4**	$ 828.0	$ (27.6)	*(3)%*
Adjusted gross profit	**263.5**	269.9	(6.4)	*(2)%*
Adjusted SG&A	**184.8**	173.3	11.5	*7%*
Adjusted EBITDA	**102.1**	118.0	(15.9)	*(13)%*
Depreciation expense	**23.3**	21.4	1.8	*9%*
Adjusted interest expense, net	**12.6**	11.8	0.8	*7%*
Adjusted income before income taxes	**66.1**	84.8	(18.7)	*(22)%*
Adjusted provision for income taxes	**22.3**	22.8	(0.5)	*(2)%*
Adjusted net income	**$ 43.8**	$ 62.0	$ (18.2)	*(29)%*
Adjusted diluted EPS	**$ 1.08**	$ 1.53	$ (0.45)	*(29)%*

- MFAs and other
  - Driven primarily by lower demand in China due to ASF and phased regulatory change beginning January 1, 2020
- Nutritional specialties
  - Growth in domestic dairy and poultry
  - Osprey acquisition contributed two-thirds of sales growth
- Vaccines
  - Strong international demand for poultry vaccines and increased market penetration
- Mineral Nutrition
  - Sales decline due to lower average selling prices, which outpaced favorable raw material costs
- Adjusted EBITDA
  - Gross profit decreased due to sales and related gross profit declines in all three segments
  - SG&A increased due to product development, strategic growth initiatives and the Osprey acquisition

Capitalization

June 30, 2020

- 3.8x leverage ratio at June 30, 2020
  - $388 million total debt
  - $102 million Adjusted EBITDA
- $91 million cash and short-term investments on hand at June 30, 2020
- $6 million use of cash before financing for the June 2020 quarter, including $10 million of capital expenditures
- $30 million use of cash before financing for the June 2020 year, excluding changes in short-term investments, and including $55 million for the acquisition of Osprey
- Quarterly dividend of $0.12 per share
  - $4.9 million paid June 2020
  - $4.9 million to be paid September 2020

Guidance for our September 2020 Quarter

- We are forecasting only short-term expectations, given the ongoing difficult conditions in the industry. The animal production industry continues to face demand disruption and production impacts. We believe the current situation will begin to normalize as we progress through our fiscal year and the industry gradually will return to typical operating levels.
  - Net sales of approximately $190 million, approximately equal to the prior period
  - Net income of $5 - $6 million, an increase of $2.5 - $3.5 million
  - Diluted EPS of $0.13 - $0.15, an increase of $0.07 - $0.09
  - Adjusted EBITDA of approximately $20 million, approximately equal to the prior period
  - Adjusted diluted EPS of $0.18 - $0.20, a change of $(0.01) - $0.01

Q&A Session

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