

27-Aug-2020

Phibro Animal Health Corp. (PAHC)

Q4 2020 Earnings Call

Correction

On August 27, 2020, the Company hosted a conference call and live webcast to discuss its financial results for the quarter and fiscal year ended June 30, 2020 with investors and analysts (the "Earnings Call"). At approximately 38:07 during the Earnings Call recording and page 12 of the Earnings Call transcript, in response to a question from a participant, we stated that we have been selling our products containing virginiamycin in Brazil under regulatory approvals containing therapeutic claims for approximately one year. More accurately, we are more than one year into a transition period established by the regulatory authorities in Brazil to cease using growth promotion claims for certain products, including products containing virginiamycin. We are in the process of seeking therapeutic claims for these products in Brazil. We expect our ability to sell these products under the current growth promotion claims will continue during this transition period.



CORPORATE PARTICIPANTS

Richard G. Johnson

Chief Financial Officer, Phibro Animal Health Corp.

Jack C. Bendheim

Chairman, President & Chief Executive Officer, Phibro Animal Health Corp.

OTHER PARTICIPANTS

Balaji Prasad

Analyst, Barclays Capital, Inc.

David Westenberg

Analyst, Guggenheim Securities LLC

Michael Ryskin

Analyst, BofA Securities, Inc.

David R. Risinger

Analyst, Morgan Stanley & Co. LLC

Kevin Kedra

Analyst, G.research, LLC

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Phibro Animal Health Corporation Q4 2020 Conference Call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn the call over to your speaker today, Richard Johnson, CFO. Please go ahead.

Richard G. Johnson

Chief Financial Officer, Phibro Animal Health Corp.

Thank you, operator, and good morning, everyone, and welcome to the Phibro Animal Health earnings call for our fourth quarter and fiscal year ended June 2020. On the call today are Jack Bendheim, our Chief Executive Officer; and myself, Richard Johnson, Chief Financial Officer. We'll provide an overview of our quarterly and full-year results, and then we'll open the lines for your questions.

[Technical Difficulty] (00:59-03:45)

Richard G. Johnson

Chief Financial Officer, Phibro Animal Health Corp.

All right. All right. My apologies. Okay. So, I will start over. Yeah. So, thank you, operator, and my apologies to everyone who experienced that moment of blackout silence. I guess my technology wasn't working.

So, let me start from the beginning. Good morning. Welcome to the Phibro Animal Health earnings call for our fourth quarter and fiscal year ended June 2020. On the call today are Jack Bendheim, our Chief Executive Officer

and myself, Richard Johnson, Chief Financial Officer. We'll provide an overview of our quarterly and full year results, and then we'll open the line for your questions.

Before we begin, let me remind you that the earnings press release and financial tables can be found on the Investors section of our website at pahc.com. We're also providing a simultaneous webcast of this morning's call which can be accessed on the website as well. Today's presentation slides and a replay and transcript to the call will also be available on the website later today.

Our remarks today will include forward-looking statements and actual results could differ materially from those projections. For a list of description of certain factors that could cause results to differ, I refer you to the forward-looking statements section in our earnings press release.

Our remarks today will also include references to certain financial measures, which were prepared in accordance with generally accepted accounting principles, or US GAAP. I refer you to the non-GAAP financial information section on our earnings press release for a discussion of these measures. Reconciliations of these non-GAAP financial measures to the most directly comparable US GAAP measures are included in the financial tables that accompany the earnings press release.

Before we get into the numbers, let me remind everyone that we present results on a GAAP basis and on an adjusted basis. Our adjusted results exclude acquisition-related items, unusual, non-operational or other non-recurring items, certain other income and expense items, and the income tax effects related to any of those pre-tax adjustments as well as any unusual or non-recurring income tax items.

And with that, here is Jack Bendheim with some introductory comments. Jack?

Jack C. Bendheim

Chairman, President & Chief Executive Officer, Phibro Animal Health Corp.

Thanks, Dick, and thank you everyone who is joining us on this call today. The June quarter was certainly a difficult one for Phibro as it was for all those who are involved in the supply chain to feed the world with healthy proteins. It did, however, highlight our continuing evolution to a more balanced animal health company. Hence, despite the incredible challenges we and our customers faced across the board, we were able to grow our nutritional specialties and vaccine product lines. We are happy to turn the page and while we enter our new fiscal year without the typical visibility we would normally have, I do anticipate the macro trend of our nutritional specialties and vaccine products growing at a faster clip than our MFAs and other products will continue.

We have a number of growth initiatives relating to our nutritional specialties and vaccine product offerings planned for the current year. Already, the first two months, we have seen successes in executing against these plans and I'm confident that our momentum will continue to grow throughout the year as we access new customers and enter new geographies.

Over the coming fiscal year, we expect our markets to gradually rebound to pre-COVID levels. And importantly, we also anticipate gaining greater in-person access to our customers, access that will allow us to resume the work on the multiple new initiatives that were paused by the pandemic. While we are adding a number of new initiatives on top of the ones we are carrying forward from last year, we are cognizant of the need for our industry to get back on its feet. So, we're exercising restraint in the number of projects we have green-lighted.

Finally, I want to reiterate our commitment to stand behind our products and science. As we stated in our recent press release regarding carbadox, we are deeply disappointed that the FDA has not followed its own

procedures and afforded Phibro the hearing the law requires and that the FDA previously agreed to. We will continue to work on highlighting the safety and efficacy of this product and we will take whatever steps are necessary to make sure the product is judged on the science.

With that, I will turn it back to Dick and look forward to taking your questions at the conclusion of his presentation. Dick?

Richard G. Johnson

Chief Financial Officer, Phibro Animal Health Corp.

Thank you, Jack. So, let's start by reviewing the results for our June quarter. Our consolidated sales for the quarter were \$186 million. That was a decline of \$18 million or 9% versus the prior year. During the quarter, we experienced a short-term decline in demand for our products due to the pandemic. The animal production industry faced unprecedented demand disruptions, production impacts, price declines, plus substantial currency volatility in a number of international markets.

We experienced sales declines in all three segments of our business primarily due to lower volumes. In Animal Health, we saw increased sales of nutritional specialty and vaccine products but those were offset by the lower sales of MFAs and other products. We'll get into further details regarding segment results later in the presentation.

Our reported net income was \$5.6 million for the quarter. That was a decline of \$3.2 million or 36% when compared to the prior year. Income before income taxes improved primarily due restructuring costs in the same quarter last year, however, an unusually high provision for income taxes caused the net income decline.

The increase in income tax was driven by the effects of the complex additional federal income tax known as GILTI (that's an acronym), changes in uncertain tax positions, and the absence of tax benefits on the operating results of some of our newer international operations. As a result, diluted earnings per share was \$0.14 for the current quarter. That was a decrease of \$0.08 per share from the prior year.

Now let's look at adjusted results on page 6. I'll discuss net sales in more detail when we look at the individual segments level. In total, adjusted gross profit was \$62.1 million for the quarter. That was a decline of \$4.5 million or 7% compared to the prior year. We did see favorable product mix at the Animal Health and Mineral Nutrition segments during the quarter and that contributed to an improvement in the overall gross profit percentage.

In the Animal Health segment, increased sales and gross profit from nutritional specialty and vaccine product sales partially offset lower volumes in MFAs and other products. Mineral Nutrition gross profit decreased as lower average selling prices more than offset favorable raw material costs. And a gross profit decline in Performance Products was driven by lower overall volume.

Total adjusted SG&A, or operating expenses, decreased in the quarter. They were \$44.2 million. That was a decrease of \$1.7 million or 4% year-on-year primarily due to lower variable compensation and employee-related costs in the Animal Health segment, with a partial offset from the effects of the Osprey acquisition. This is the last quarter where we will see any meaningful impact of the overlap of the acquisition which we did in the beginning of August a year ago. The adjusted provision for income taxes was unusually high in the quarter for the same reasons that I described earlier. And as a result, adjusted diluted EPS was \$0.17 per share compared with \$0.33 per share last year.

Looking more closely at the Animal Health business, net sales of \$122 million declined \$9.6 million or 7% compared to the same period of the prior year. Net sales of nutritional specialty products were \$31.1 million, an increase of \$2.6 million or 9%. The Osprey acquisition accounted for the majority of that sales growth. Net sales of vaccines were \$18.6 million, an increase of \$1.5 million or 8% driven by higher international demand. And net sales of MFAs and other products were \$72.6 million, a decline of \$13.7 million or 16%. We saw lower demand in various international regions including China and South America; and the volume decline in China was due to the effects of African Swine Fever plus a phased regulatory change that took effect in the middle of our fiscal year in January 2020.

For the Animal Health segment, adjusted EBITDA was \$29.6 million. That was a decline of \$1.6 million or 5%. The decrease was attributable to the overall sales and related gross profit, decreases partially offset by favorable SG&A costs.

And now, looking at our other segments. Mineral Nutrition had net sales of almost \$50 million; that was about a \$6 million decrease, or 11%, primarily due to lower average selling prices coupled with a slightly lower overall unit volume. The lower average selling prices are generally correlated with the movement of underlying raw material costs.

Gross profit declined \$300,000 in the quarter as the decline in average selling prices was more than the change in favorable raw material costs. As a result, adjusted EBITDA was \$3.5 million, down about \$300,000 compared with the same quarter last year.

The Performance Products business reported net sales \$13.6 million, a decline of \$2.3 million, or 14%. We saw volume declines in copper-based and industrial chemical products, which contributed to lower profitability and overall a \$400,000 decrease in adjusted EBITDA. And corporate expenses were comparable to the prior year.

And now turning briefly to our full year performance, since this is the end of our fiscal year, we are not only talking about the quarter, but also talking about the full year. So for the full year, we have \$800 million of sales; a decrease of about \$28 million - that was about a 3% year-over-year decline. And within the Animal Health segment, sales declined about \$5 million and that was a 1% decline. We did record double digit sales growth for our nutritional specialty and vaccine product lines. However, MFAs and other products declined. Net sales of nutritional specialties grew 14% for the full year due to volume growth in poultry and dairy products and the recent Osprey acquisition accounted for approximately two-thirds of the overall sales growth for that product group.

Vaccines grew 10% for the full year due to strong international demand for poultry vaccines and increasing market penetration. In addition, in the prior year we had a domestic distribution arrangement for the first four months of the year. And so on a comparable basis our net sales of vaccines would have increased 14% without that unfavorable overlap. And finally, net sales of MFAs and other products declined 8% due to a \$31 million sales decline in China driven by the effects of African Swine Fever and regulatory changes.

The other segments of our business also saw declines in sales. Mineral Nutrition segment sales declined \$19 million. That was an 8% decline. Decline was primarily driven by lower average selling prices. And Performance Products net sales decreased \$3 million or about 5% due to reduced volumes of copper-based products with a partial offset from more business in the personal care ingredients area.



Adjusted gross profit overall was \$263.5 million, that declined \$6.4 million or 2% due to the sales and related gross profit declines. Animal Health adjusted gross profit declined primarily due to the sales decline in MFAs and other products with some partial offset from the sales growth of the other product groups. Mineral Nutrition adjusted gross profit also declined as we saw average selling prices dropping slightly faster than the overall favorable raw material costs and the favorable effect of increased unit volumes. And in Performance Products gross profit declined due to overall lower volumes.

Total company for the full year, adjusted SG&A increased \$11.5 million or 7% as we continued to invest in product development and strategic initiatives. In addition, the Osprey acquisition and increased public company costs related to strengthening and testing their internal control over financial reporting also contributed to the overall expense increase. As a result, adjusted EBITDA for the year was \$102 million compared to \$118 million a year ago. And that translated to adjusted earnings per share of \$1.08, a 29% decline compared to \$1.53 a year ago.

And now, briefly looking at capitalization, at the end of June, we had a gross leverage ratio of 3.8 times. That was \$388 million of total debt, compared to \$102 million of adjusted EBITDA. We also had \$91 million of cash in short-term investments on the balance sheet at that same point in time. For the June quarter, we used \$6 million of cash before financing activities primarily for our ongoing capital expenditure program.

For the full year, we used \$30 million of cash excluding change in short-term investments and that included using \$55 million for the acquisition of Osprey. So, putting aside the acquisition of Osprey, we generated \$25 million of cash prior to any financing activities for the year. And we have paid and declared to be paid the routine quarterly dividend of \$0.12 per share.

And now talking a little bit about our guidance. We are forecasting only short-term expectations at this point, given the ongoing difficult conditions in the industry and as a result our more limited visibility than we would normally have. The animal production industry continues to face demand disruption and production impacts. We do believe – we're optimistic. We believe the current situation will normalize as we progress through our fiscal year, and the industry gradually will return to typical operating levels.

Our guidance for our September quarter is to have net sales of approximately \$190 million and that's about the same level as the September quarter a year ago. That will translate to net income of \$5 million to \$6 million on a GAAP basis, an increase of \$2.5 million to \$3.5 million compared to last year, and GAAP EPS of \$0.13 to \$0.15 per share, again, an increase of \$0.07 to \$0.09 per share. Adjusted EBITDA, we are guiding to approximately \$20 million for the quarter, again approximately equal to the prior quarter, and that will translate to adjusted diluted EPS of \$0.18 to \$0.20 per share, a change of plus or minus \$0.01 from the same quarter last year.

And with that, that's the end of my prepared comments. Now we will open it up for questions from the callers. Operator, please.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Balaji Prasad with Barclays. Your line is open.

Balaji Prasad

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning, everyone, and thanks for taking the questions. Just a couple from me. Firstly, on the guidance, I kind of want to draw your attention to last week's report – outlook report from the USDA where it states that it expects pork production of around 7.2 billion pounds or around 7% growth versus last year. So, could you please help me understand that outlook with regard to your Q3 guidance?

Secondly, with regards to China, can you give an update on what is the current impact of ASF and isn't the repopulation or re-herding in China picking up pace enough to start offsetting the impact of ASF? Thank you.

Jack C. Bendheim

Chairman, President & Chief Executive Officer, Phibro Animal Health Corp.

A

Thanks for the questions. So, first of all, as we all know, as we all have read, the hog production in the US was greatly disrupted by – at the processing factories, high level of infection – COVID infection with many of these facilities got closed down or operate at different rate. So what that has pushed back in this past year, there were a lot of pigs went unprocessed. There were lots of – it was a combination of culling, combination of sort of product maybe moved to different markets. I think things that USDA is projecting things will get back on the normal production. Even though with some of these plants still operating, we understand still having problems of getting people to come in, still operating with fairly high levels of COVID.

So I think that this is just a projection. But, I think that feeling generally is that things will return to the past, past not being last year, the past being years back, going back. So, we will all see some level or increase in hog production this coming year.

As far as China goes, there is no ASF vaccine yet in China. So, the way the Chinese producers are combating ASF is to very cautiously do a better, better job in biosecurity and sort of moving into some of these larger farms where they can do that. So, yes, there is an increase in hog population as the big producers go on and to repopulate. Price has been very high. So it's very profitable. But at many, many of the smaller farms, they're very – they're still very scared to put pigs on the ground and run the risk of these great losses.

So, there is some increase and I don't think they will ever be able to get back to the 400 million pigs they had on the ground in China until there is a vaccine.

Balaji Prasad

Analyst, Barclays Capital, Inc.

Q

Understood. Thank you.

Operator: Your next question comes from David Westenberg with Guggenheim Securities. Your line is open.

David Westenberg

Analyst, Guggenheim Securities LLC

Q

Hi. Thank you for taking my question. So, I know you made some investments in this last fiscal year in terms of new product development. So can you talk about the contribution for new products in 2021, quantitative or qualitatively? And then, can you – how do you feel your position in a kind of a new precision livestock farming paradigm? I mean, are any of those investments in new products around technology solutions? I have a follow-up.

Jack C. Bendheim

Chairman, President & Chief Executive Officer, Phibro Animal Health Corp.

A

Starting backwards – one of our investments in sort of new technology is a more precision vaccinator to release the vaccine – to vaccinate chicks, – so we made an investment – continue to make investment in that product and we've developed it. But the problems of the pandemic is the ability to get on farms, the ability to bring our salesmen and our technical teams to demonstrate this product has been severely curtailed.

So, while we made investment in the prior year and continue doing this year, the ramp-up is hard to project because people on these farms are being very, very cautious of bringing people from the outside. And so, I would say sort of an answer to sort of both of those questions. So, we had made investments, but to bring new products to market will be continually to be slow until there is a vaccine for COVID, and when people feel more comfortable bringing outsiders in.

David Westenberg

Analyst, Guggenheim Securities LLC

Q

Yeah. Okay. Got it. That makes sense. So, maybe we should think about contribution of products being as or a COVID vaccine or at least a little bit more open to the sales channel. And then, I do admit you're one of the only companies that I cover or you are the only company that I cover that has mineral nutrition as a big contribution to business. Can you remind us kind of the fluctuation in prices? Why is there not a way to be kind of opportunistic given the fact that you're – you are probably a little bit more sophisticated of a buyer than the people – or the companies and farmers that you're selling to?

Jack C. Bendheim

Chairman, President & Chief Executive Officer, Phibro Animal Health Corp.

A

Well, so, I'll take great umbrage of that not for ourselves, but for our customers. There is no one smarter in pricing in any raw materials than a farmer. There is no one – I mean, the first exchanges in terms of commodity exchange – it happened in Chicago, it happened with grains and happened with pork bellies and stuff like that. So, the farmer gets up – farmer gets up really early in the morning and he does his calculation and he then goes out to feed the animals and then he comes back and he trades on the exchange. So, everyone is very smart. Everyone knows every raw material costs. Everyone knows everything.

So, if prices change anywhere in the world, believe me, our customers know it. And they're right. They're asking for – stay current with the prices. So, that's why it's quite apparent what happened. Prices go up, prices go down by many other factors in the world and so that gets translated into the pricing for the customers.

This past quarter – last quarter with COVID, created so many imbalances that what we saw very often is that the shock of farmers not being able to move some animal in the normal course of events, right? You're growing your pigs, and all of a sudden the slaughterhouses, say I can't take any, I'm backed up. So, now what do you do? And so what happened and across the industry is that the farmer said, okay, the product has already been sold, I sold

on the exchange a long time ago. I'm not going to invest more money, literally, if I'm not going to get more money.

So, they looked to cut back whatever they can cut back; cut back in animals which is what they did; a cut back in – in what they can feed, see if they can get away with cheaper feed, et cetera, et cetera. And that created for the industry this craziness we saw in the quarter, plus foreign exchange rates and so on and so forth. But maybe I think we are more back to normal, we are very optimistic on trends in the industry, even right now without a vaccine, people are managing much better. And, again, we'll see a vaccine hopefully sometime earlier – middle of next year, and I think things should completely come back to normal.

David Westenberg

Analyst, Guggenheim Securities LLC

Q

That was a really good answer. Thank you. I'll leave it there.

Operator: Your next question comes from Michael Ryskin with Bank of America. Your line is open.

Michael Ryskin

Analyst, BofA Securities, Inc.

Q

Hey, Jack. Thanks for taking the questions. Hope you're doing well. I want to have a couple of quick ones. One – or hopefully quick. One, I want to start on the guidance through 1Q and the outlook, and I realize that there's obviously a lot of – as you had discussed, a lot of uncertainty in the market in terms of what's going on both as a result of the underlying market but especially if you layer COVID on top of it. But just looking sequentially fiscal 4Q versus the fiscal 1Q guide, it still implies – even though it's flat sequentially on a – or roughly flat sequentially on a dollar amount and on a year-on-year amount, it still implies a little bit of improvement in markets. So I just wanted to dig deeper into what you see bigger drivers. Maybe we can get your thought on US versus OUS balance as far as COVID impact goes and – or whether it's specific to your business lines or species that you're thinking about for fiscal 1Q? And then, I have a couple of follow-ups after that.

Jack C. Bendheim

Chairman, President & Chief Executive Officer, Phibro Animal Health Corp.

A

So, I think part of it is, that in – we see in our dairy business, the prices of milk hasn't taken great gyrations. It sort of stayed to a level that given the farmers a bit more confidence. And even though it's still – as I said, just, in the prior call, it's quite difficult to get on farms. We are getting out and meeting with our customers, maybe not on their farms, and maybe sort of car-to-car. In the industry we used to call it belly-to-belly, but that's not done these days, so sitting in a car and be able to talk about your products and what's going on and trying to help the customers. So we're starting to see a pickup, one, in our dairy business. We're starting to see – some of the products we worked on, we've introduced – it's going to be picked up a lot slower than we had hoped for. But we're starting to see pickup in new poultry products that we invented. We are constantly getting growth in our vaccine business. We have really good poultry and swine vaccines. So, again, when we're able to introduce them, we're seeing pick up there. So, I think that's the general tone and the optimism that we have.

It's still going to be slow-going because people are not back to normal, but looking at our customers, they've managed to rearrange their supply chains and they're selling more to supermarkets today than ever before. And if you look at it, quite interestingly, up to very recently, normally, when you hit the summer and you see lots of sales being offered to move product into the barbeque which means that there's surplus in the warehouse; but only now we're starting to see sales being offered in supermarkets. So I think our customers have balanced

it, the supply chain is set up, and they've – they've had – at least the supermarkets have had a pretty good year.

Michael Ryskin

Analyst, BofA Securities, Inc.

Q

Great. Thanks. Sorry, I was on mute there. Appreciate that. And then, on the international markets, I don't know if you can answer this or not, but in places like South America, Latin America, where you're seeing some of the more recent pressures, is it fair to say that those markets have at least bottomed for you and it's as bad as it's going to get or is it too early to say that, too much uncertainty kind of depends on COVID?

Jack C. Bendheim

Chairman, President & Chief Executive Officer, Phibro Animal Health Corp.

A

Yeah, I hate to call bottoms, but I think overall, looking at the biggest markets in South America which is really Brazil, Argentina, Central America, Mexico. I think things can get bottomed out and markets there, and again for Brazil, a lot of it depends on exports, I think have a sort of stabilizing, starting to get better. Some of the smaller markets still is unpredictable like Chile and Peru with COVID. But where we're seeing still the effects of COVID and then sort of interestingly is places like in the Far East like Indonesia, Bangladesh where a lot of those markets, it's just driven by the economy. Their economy has been so badly devastated by the effects of COVID, one, in the country and, two, in the markets they sell normally their products to like the US and Europe, as their people don't have the same economic ability to buy protein as they had a year ago.

So, for those markets, it's going to take longer to come out of this COVID-related disaster, right? Because not necessarily pushed by their own people being sick, but being pushed by their own people having work.

Michael Ryskin

Analyst, BofA Securities, Inc.

Q

Great. Thanks. And then a couple of – a couple of really quick ones. One is – apologies if I missed it in the prepared remarks. I know you touched on Mecadox briefly, but could you remind me of sort of the next steps – catalyst, timeline, how we should think about that situation evolving on Mecadox? And then the second question is could you quantify what was the dollar contribution of Osprey for the year? I think it's been almost a full year it's been a new business. So, I just wanted to make sure I got it right in my model.

Jack C. Bendheim

Chairman, President & Chief Executive Officer, Phibro Animal Health Corp.

A

Okay. Well, as I said towards the end of my prepared remarks, the FDA surprised us a little over a month ago with – I only can call it an end run -- we were proceeding for the last four or five years and answering questions they had, investing a lot in doing the science and research, proving I think to ourselves and I think also to them that the product is safe. So it's always been effective but the product is safe as used. Something – I don't know what – is going on in FDA. I know what they're not doing. But what they should be doing in terms of the animal health space – is just continuing on the normal pattern. And looking at the science here and if they're not happy we could continue to hearing and then proving in a sort of hearing that the product is safe. They decided to withdraw that NOOH, and say, okay, forget that and now we're going to come up with another way maybe to move the product.

So, we're protesting that. We most likely will end up in a lawsuit with them. So, I don't have a short-term prediction but I think, again, if this thing would end up in the right procedures we would win because the product – we've proven scientifically the product is safe.

Michael Ryskin

Analyst, BofA Securities, Inc.

Great. And Osprey?

Q

Jack C. Bendheim

Chairman, President & Chief Executive Officer, Phibro Animal Health Corp.

I don't know. Dick, do you have those numbers?

A

Richard G. Johnson

Chief Financial Officer, Phibro Animal Health Corp.

Yeah. We say that about two-thirds of our nutritional specialty growth for the year was the Osprey business. And that's the legacy business, that's not the new poultry product that we developed sort of separately. So, that will give you a sense of the magnitude of the Osprey sales contribution.

A

Michael Ryskin

Analyst, BofA Securities, Inc.

Perfect. Perfect. That's exactly what I'm looking for. Thanks so much. Thanks, Jack.

Q

Jack C. Bendheim

Chairman, President & Chief Executive Officer, Phibro Animal Health Corp.

Thank you.

A

Operator: Your next question comes from David Risinger with Morgan Stanley. Your line is open.

David R. Risinger

Analyst, Morgan Stanley & Co. LLC

Thanks very much. Good morning, Jack and Dick, and thanks for all of the comments. So, I have three questions please. First, with respect to China, there is an opportunity for the company to begin to sort of regenerate sales in China. Could you talk about those prospects?

Q

Second, with respect to Brazil, is there anything to watch with respect to virginiamycin regulation in Brazil? And, third, with respect to tax rate, could you just – and maybe you've mentioned it earlier but is there any way that you could frame for us how we should think about medium to long term prospects for the corporate tax rate?

Jack C. Bendheim

Chairman, President & Chief Executive Officer, Phibro Animal Health Corp.

All right. Thanks. Thank you, David. So, in China – and I think maybe – I'll start with China and go back to Brazil. So, in China, like in most markets in the world, virginiamycin which was our leading product, was used in growth promotion. It did not have a therapeutic label. So China changed the rules pretty suddenly as they sometimes do and the ability for us to continue in that market as a growth promotion product ended and we have reapplied to move that product to a therapeutic claim and as a therapeutic product we are selling virginiamycin, continue to sell it around the world.

A

So, we've got held up in China with COVID that many of the government agencies we needed to deal with shut down. It's hard to get product tested, et cetera, et cetera. As you know, China when they shut, they really shut. So, what we thought would take – we would have by now, I think will take us another year to get our therapeutic claim and then to start rebuilding the product, not to the same level we had before but at a very decent level.

In the meanwhile, we've sort of reengineered our sales force and our product line and we've begun selling some of our nutritional products that we have selling around the world in China, it's not that significant yet, but we're seeing growth of those products in that marketplace. So, going forward, hopefully, a year from now, we'll be talking both about MFAs and nutritional specialties in the Chinese market.

In Brazil – Brazil made the change and we've made the change in Brazil from a growth promotion to a therapeutic model over a year ago, maybe even a little longer. So, our sales continue and virginiamycin continues to be used as a therapeutic product there both in – across all three species, poultry, swine and cattle. And we're seeing decent uptake.

David R. Risinger

Analyst, Morgan Stanley & Co. LLC

Thank you.

Q

Richard G. Johnson

Chief Financial Officer, Phibro Animal Health Corp.

Right. And on the tax rate, David, I would say before this – I hate to use the much overused terminology, something like a perfect storm, but I would say that in the medium term – even this year, we're looking at a rate to be back sub-30%, so something in the upper 20% range as an effective tax rate on an adjusted basis of course.

A

David R. Risinger

Analyst, Morgan Stanley & Co. LLC

Thanks again.

Q

Operator: [Operator Instructions] Your next question comes from Kevin Kedra with G.research. Your line is open.

Kevin Kedra

Analyst, G.research, LLC

Hi. Thanks for taking my question. First, I wanted to ask about what you're seeing as far as inventory levels out there within the channel – as COVID created some disruption? So, over time, if we're seeing that start to normalize or is there still a lot of movement there.

Q

Jack C. Bendheim

Chairman, President & Chief Executive Officer, Phibro Animal Health Corp.

So, you're talking about at our customers, right?

A

Kevin Kedra

Analyst, G.research, LLC

Yes.

Q

Jack C. Bendheim

Chairman, President & Chief Executive Officer, Phibro Animal Health Corp.

A

Right. So, the big mystery – I mean – and so I think around the world, things are pretty balanced. Again, the big mystery and the big – and everyone was sort of trying to focus on what was in the US as they started talking earlier with so much attention put in so many big hog slaughter facilities shutting down and the backup. And in the industry everyone was speculating that it looks like about 3 million pigs were backed up and what would happen with it. So, somehow they've disappeared, as best we can tell. And they weren't – and I don't think a lot of them were culled. I think a lot of them ended up in the market maybe with small slaughterhouses that are not tracked by the USDA. Some of these places maybe even had – didn't – hadn't been – worked in a long time because these pigs got bigger and they really couldn't be handled well on the more automated lines. So, maybe some of the older factories with slower lines and stuff like that handled it.

But as far as we can tell, we'll see a little bit of gap coming up because in some cases people culled some of the baby pigs, and so that took it out of the marketplace, and maybe we'll see that affect November, December. But I don't think there's a great overhang from what we see and what we hear in the hog industry. And everywhere else, I don't see it's a problem. The poultry guys responded very quickly, they did, and I think things are back normal there. In the cow industry, I think business is okay.

Kevin Kedra

Analyst, G.research, LLC

Q

Great. Appreciate the color. And then, checking – I don't know if I missed this, but did you guys give a revenue number or could you give a revenue number on carbadox, what the contribution was for the full year?

Richard G. Johnson

Chief Financial Officer, Phibro Animal Health Corp.

A

Yeah. It's in the 10-K. It was \$17 million last fiscal, Kevin, 1-7.

Kevin Kedra

Analyst, G.research, LLC

Q

Okay. Great. Thanks for that. And then finally, any update on what you guys have been doing with the African Swine Fever vaccine, I know that's something that you guys were looking at before. Anything new there?

Jack C. Bendheim

Chairman, President & Chief Executive Officer, Phibro Animal Health Corp.

A

Yeah. So, we continue – look, I mean, like everything else in China, COVID sort of shut down, one, our ability to get over there and test products that we have in development. We have not been able to get into China now for nine months. And so, we still are doing some development work outside China. But in order to test what we've developed to see if it has potential to work against African Swine Fever, we're sort of blocked. And we're hopefully – hopefully by the – maybe by this winter, the end of this calendar – towards the end of the calendar year, things will open up, flights will start opening up and we can get back in there to move – start moving the product forward.

Kevin Kedra

Analyst, G.research, LLC

Q

Good. Thanks.

Operator: There are no further questions queued up at this time. I'll turn the call back over to Richard Johnson for closing remarks.

Richard G. Johnson

Chief Financial Officer, Phibro Animal Health Corp.

All right. Well, we thank everyone for listening and your insightful questions and comments. And we'll talk to you again when we talk about our first quarter results in early November we should be having a call. And if we don't have any interesting earnings results to talk about, we'll probably be reporting a couple days after the election, so we can talk about that as an alternative.

Thank you, everyone, and talk next time. Bye.

Operator: That concludes today's conference call. You may now disconnect.

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