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Phibro Animal Health Corp. (PAHC)

Q2 2021 Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Phibro Animal Health Corporation Q2 2021 Conference Call. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Damian Finio, Chief Financial Officer. Thank you. Please go ahead.

Damian Finio - Phibro Animal Health Corporation - CFO

Thank you, Mariama. Good morning, and welcome to the Phibro Animal Health Earnings call for our second quarter ended December 31, 2020. I am Damian Finio, Chief Financial Officer of Phibro, and I'm joined on today's call by Jack Bendheim, Phibro's Chairman, President and Chief Executive Officer. We will cover key themes for the quarter, our second quarter financial results, guidance for third quarter ending March 31, 2021, and then open the line to respond to 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 also be accessed on the website. A replay of today's presentation, the slides that accompany the presentation and a transcript of the call will also be available on our website.

On to Slide 2. Our remarks today will include forward-looking statements, and actual results could differ materially from those projections. For a list and 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 include references to certain financial measures, which were not prepared in accordance with generally accepted accounting principles, or U.S. GAAP. I refer you to the non-GAAP financial information section in our earnings press release for a discussion of these measures. Reconciliations of these non-GAAP financial measures to the most directly comparable U.S. GAAP measures are included in the financial tables that accompany the earnings press release. Before we get into the numbers, we want to remind everyone that we present our results on a GAAP basis and on an adjusted basis. We present adjusted results that exclude acquisition-related items; unusual, nonoperational or nonrecurring items, including stock-based compensation and restructuring costs; other income and expense as separately reported in the consolidated statements of operations, including foreign currency gains and losses; net and income tax effects related to pretax adjustments and unusual or nonrecurring income tax items.

And now I'm pleased to begin today's presentation by asking Jack to share his opening remarks, starting on Slide 3. Jack?

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Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

Thank you, Damian. Welcome to your first investor call as our Chief Financial Officer, and good morning, everyone. I'd like to start today's call with 4 key themes for the quarter: First, we are excited about our second quarter and year-to-date financial results. In the second quarter, although on a consolidated basis, company sales decreased 4%, diluted EPS increased 10% versus the same quarter last year. The decline in consolidated sales were driven by a 5% decline in the Animal Health segment of our business and 3% decline in Mineral Nutrition, while Performance Products net sales increased 8%. Keep in mind, there was no COVID-19 impact in the prior year results, which is why I am pleased with our bottom-line performance this quarter. Second quarter performance also reflects growth over last quarter. Second quarter sales and diluted EPS grew 6% and 7% over last quarter, respectively. These are solid GAAP financial results in a tough market.

Second, we are encouraged by signs the industry is stabilizing, despite the continued global pandemic. The world, and more specifically, the Animal Health industry is likely to cope with the ongoing impacts of COVID-19. In our own business, we're learning new ways to service our customers and what were new safety protocols in our production facilities about a year ago are now just part of everyone's daily routine. We are encouraged but remain cautiously optimistic about the near term.

Third, we are projecting solid third quarter financial results, although as mentioned, sales in the Animal Health segment of our business were down versus the same quarter last year. Looking ahead to our third quarter, we anticipate flat sales of MFAs, continued strong growth in nutritional specialties, particularly in Europe and in Asia, and in poultry in the United States, and continued expansion in the vaccine space. We also expect continued strong adjusted EBITDA performance from our Mineral Nutrition segment as favorable product mix continues.

And lastly, we expect our Performance Product segment to continue to benefit from higher capital volumes in the near term. Despite the pandemic, we continue to invest in our future. I am proud of the fact that our pHi-Tech vaccine device is now being trialed and sold in over a dozen countries and increasingly being serviced remotely, a unique capability that we that we will look to build upon even as we emerge from the pandemic. The nutritional specialties growth is underpinned by our recently launched OmniGen Pro for the dairy sector, and we continue to spend time and money in developing unique nutritional specialty products that we are confident will be a key pillar of Phibro for years to come. Further, many of you probably saw the announcement we made on January 20, about the expansion of our Mineral Nutrition facility in Omaha, Nebraska. The Omaha production facility is geographically positioned to manufacture supply Mineral Nutrition products and trace mineral premixes to our U.S. livestock producers. The facility upgrade provides the next evolution of food safety, product quality and output while enhancing our customers' ability to meet growing consumer needs.

Moving on, as promised on our last call, I want to give you a bit more information about our expanding efforts in the pet business, where we continue to identify, explore and progress opportunities. Rejensa, our proprietary chew for canine joint care, continues to grow as sales doubled in the last 6 months versus the prior 6 months. Despite the continuing challenges accessing vet clinics due to COVID-19-related restrictions, we are optimistic that we can continue to drive profitable growth in this brand. We also have a number of products in development. The first is a novel line vaccine and delivery system, which we have previously disclosed. Although our development progress has slowed due again to COVID-19, we expect the program to restart in about 6 to 9 months in the early part of our fiscal year 2022. We are also pleased to announce that we have licensed a unique dermacare compound for treatment of atopic dermatitis in dogs. We secured this opportunity as the outcome of a competitive process, where we believe our ability to focus on development and marketing efforts on this product was a key differentiator to our being selected. While early stage, we are enthusiastic about the prospect of launching this product down the road into one of the fastest-growing segments of the pet marketplace.

Lastly, as another example of the types of opportunities we're interested in, we are currently evaluating potential opportunity in the oral care space for cats and dogs, a space with an estimated addressable market of over $2 billion. These are just a few of the many activities that I wanted to share to help you better understand how we are looking to expand into the multi-billion-dollar pet care industry to add another pillar to our business.

With that, I would like to ask Damian to share more details on our second quarter financial performance. At the conclusion of Damian's remarks, we look forward to taking your questions. Damian?

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Damian Finio - Phibro Animal Health Corporation - CFO

Thanks, Jack. On to Slide 5. I'll start by reviewing consolidated results for our second quarter ended December 31, 2020, and then sharing some more detail on our individual business segments and then close out my remarks with our expectations for the third quarter.

In summary, we posted a strong second quarter financial results on a consolidated basis. Versus the prior year, second quarter sales declined 4%, but net income and diluted EPS grew 8% and 10%, respectively. On an adjusted basis, adjusted EBITDA, adjusted net income and adjusted diluted EPS were comparable to the prior year. Our GAAP profitability measures improved versus the prior year due to reduced spending and a lower effective tax rate. The effective tax rate for the quarter was 20.3% versus 29.6% in the prior year, due primarily to the impact of the final Global Intangible Low Tax Income, or GILTI, regulations issued in July 2020 and a benefit related to exchange rate differences on intercompany dividends.

Next page. Now let me explain what's driving consolidated results in a little bit more detail. As mentioned, consolidated net sales were $206.1 million for the quarter. That's a decrease of $7.9 million or 4% versus the prior year. The sales decrease was driven by a $7.5 million or 5% decline in the Animal Health segment, a $1.5 million or 3% decline in Mineral Nutrition, partially offset by a $1.1 million or 8% increase in Performance Products. As Jack mentioned in his opening remarks, there was no COVID-19 impact in the comparable prior quarter. Despite the decrease in sales, we reported GAAP net income of $12.8 million, an 8% increase versus the prior year and diluted EPS of $0.32, a 10% increase versus the prior year. These increases were driven by an improvement in gross margin, lower SG&A costs and provision for income taxes, offset partially by foreign currency losses. Moving from GAAP results to adjusted results, second quarter financial results after adjustments to exclude things like one-offs acquisition-related items, other income and expense, including foreign currency gains or losses, adjusted EBITDA, adjusted net income and adjusted diluted EPS were all comparable to the prior year. The adjusted net income and adjusted diluted EPS calculations also reflect the income tax effects related to the pretax adjustments and unusual or nonrecurring income tax items.

Now Slide 7. Let's break down our consolidated results by business segment, starting with our largest segment, Animal Health, which is comprised of MFAs and Other, Nutritional Specialty products, and Vaccines. As I mentioned earlier, net sales of our Animal Health segment decreased 5% versus the prior year. The decrease in Animal Health net sales is comprised of three components. First, an 11% decline in MFAs and others versus the prior period. The decline was driven by lower international demand, primarily in Asia and Latin America, offset by favorable domestic customer order patterns. Second, a 10% growth in nutritional specialties, driven by domestic and international growth in dairy products. And third, a 2% decline in vaccine net sales, driven by higher domestic vaccine sales, which was more than offset by lower international volume due to timing of customer orders and reduced demand. In terms of profitability, Animal Health adjusted EBITDA decreased $0.5 million or 1% on lower sales and gross profit, partially offset by favorable SG&A costs, driving an adjusted EBITDA margin improvement of 100 basis points to 24.5%.

Next page, please. Now let's walk through financial performance of our other business segments, namely Mineral Nutrition and Performance Products, then a brief word about Corporate expenses. Starting with Mineral Nutrition, net sales for the second quarter were $54.2 million, a decrease of $1.5 million or 3% versus prior year, driven by lower average selling prices. The decline in average selling prices is correlated with the movement of the underlying raw material costs. Mineral Nutrition adjusted EBITDA was $4.2 million, an increase of $0.5 million or 14%, driven by increased gross profit on favorable product mix. Mineral Nutrition adjusted EBITDA margin improved 110 basis points to 7.7%. In terms of our Performance Products segment, we are having a strong year. Net sales of $15.8 million for the 3 months ended December 31, 2020, was an increase of $1.1 million or 8% over prior year as increased volumes of copper-based products were partially offset by lower sales of personal care product ingredients. The increased gross profit drove $2.3 million of adjusted EBITDA for the quarter, which is a 56% increase versus prior year and an adjusted EBITDA margin of 14.4%, an improvement of 440 basis points versus the prior year. Lastly, corporate expenses. They increased $0.8 million or 7% versus prior year due to increased costs for professional fees and information technology.

Now on Slide 9, shifting gears to capitalization-related metrics, the business provided $19 million of cash in the second quarter before financing activities. And our gross leverage ratio, which is calculated by taking our total debt of $387 million divided by trailing 12 months adjusted EBITDA of $107 million, was 3.6x as of December 31, 2020. Now that's a slight improvement from the quarter ending September 30, 2020. In terms of liquidity, we had $165 million available. This includes cash and short-term investments of $96 million and $69 million of unused and available revolving credit. And consistent with the past several quarters, we will pay a routine quarterly dividend of $0.12 per share or $4.9 million.

Lastly, on Slide 10, looking ahead to financial guidance. Although we are seeing stabilization across the Animal Health industry and within our Company specifically, given the uncertainty of the future course of the pandemic, we will continue to provide only near-term guidance. That said, we expect solid financial results again for our third quarter as follows: net sales of approximately $205 million to $208 million; net income of

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approximately $11 million to $12 million; diluted EPS of approximately $0.27 to $0.30; adjusted EBITDA of approximately $27 million to $29 million; adjusted net income of approximately $12 million to $13.5 million; and lastly, adjusted diluted EPS of $0.30 to $0.33.

To conclude our opening remarks and to reinforce Jack's sentiments, we posted solid financial results for the second quarter, we are encouraged by signs of stability across the industry, we continue to invest in our future and are projecting solid third quarter financial results.

Thank you for your time and attention. Mariama, if you could please open the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from David Westenberg.

David Michael Westenberg - Guggenheim Securities, LLC, Research Division - Analyst

Congrats on the good margins here. First, can you describe the derma care product? Just kind of the approach you're taking? Is this a JAK inhibitor, monoclonal autobody, et cetera? Why is this the right approach? And can you give us a little bit of -- in terms of time to launch.

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

A lot of good questions, and I'm not going to really answer any of them. We're sort of early. I think we feel with the product that we've been able to win sort of a competitive licensing competition to definitely serve the market broadly, but it has a lot of milestones to go through in the next 3, 4 years before we get to market, and that's if everything is going well. So it's in the future, but we would not have entered into it, if we wouldn't have felt that we would answer sort of all the demands of what a derma care product needs to be.

David Michael Westenberg - Guggenheim Securities, LLC, Research Division - Analyst

Got it. Okay. I totally understand that being early in the pipeline. Can you talk about Performance Products margin contribution relative to the overall base business? I'm just trying to get a feel for as that grows, what we should be thinking about in terms of bottom line contribution? I mean, because this quarter seemed like it was a little bit different than in usual past. I mean, years past where you had such really good margin contribution despite the revenue slowdown.

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

Yes. No. Normally, when we talk about Performance products, we talk about -- well, it's a business we're not really concentrating on. It had some unusual factors came together. Some volumes of our product and definitely higher prices in copper, and that made it to really stand out this quarter. It might continue another 1 or 2 quarters, but long term, as we've always said, this is not where we put our focus.

David Michael Westenberg - Guggenheim Securities, LLC, Research Division - Analyst

Totally understand. Okay. So just maybe the last one in terms of more growth in the portfolio and new products. What are your appetites for maybe generics in cattle? I mean, obviously, (inaudible) is coming off patent, and it tends to be an easier product to kind of develop. And since then generic

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for -- or at least like that patent has been expired for a long time, and they are large markets. I mean, is cattle in generics, something that interests you in the next few years?

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

Overall, cattle interests us a lot, and we're very active in the U.S. in cattle markets, specifically in Mexico and Brazil, and growing in Canada, Australia, South Africa. I think I've made more of the big markets. So we are looking, and we recently signed an agreement and announced with Virbac to distribute their generic production the Canadian market. And we're going to look for opportunities like that. I think there is a lot of generics coming into the market, but where we have feet on the ground and where we can make some money and why not? So I think that's specifically what we're looking at, but right now, I don't think I want to go any further to the other products we're looking at.

Operator

Our next question comes from Balaji Prasad.

Balaji V. Prasad - Barclays Bank PLC, Research Division - Director

This is Balaji. A couple of questions. Maybe first, let me start with China. So 10 days ago, 8 to 10 days ago, there seemed to be reports of newer strains of African swine fever emerging in China. And what I find most concerning is that there seems to be a farm owned by the fourth largest hog producer. So what are the implications of this, a, for the industry in the near term? And looking beyond, as you seek to participate in China, what implications does it have for your business?

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

You're definitely right on top of the news. The Chinese overall are making great efforts with the depopulation a few years ago because of African swine fever. What seems to be happening on some of these farms is that there are some illegal vaccines that have not been approved by the government that people are using that are causing African swine fever to reemerge. That seems to be -- that's number one. And number two, that never controlled that swine fever, but the way they're controlling, is –going to the big farm, they can afford to and because of the high price of hogs in China. A lot better biosecurity, meaning that the population on the farm is not as dense as it used to be. So yes, there have been outbreaks we see in swine fever, but overall, the Chinese are working very hard to repopulate. Having said that, it's going to take them a long time. So I don't see any reason why exports from the markets we are active in, U.S., Brazil won't continue strongly in the next couple of years.

Balaji V. Prasad - Barclays Bank PLC, Research Division - Director

Maybe just a follow-up to that. So I also asked, where do you currently stand with your registration process, which is ongoing in China? And at what point should we factor you participating in the reheating cycle?

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

So the good news is, because China has done a great job in recovering from COVID, the Chinese regulatory authorities have reopened, and we have submitted our registration package. So that's good news because unless you buy the lottery, we think you can't win the lottery. So we've begun. I'm not sure. I mean, let's assume the numbers we're using internally is between 1.5 and 2 years.

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Balaji V. Prasad - Barclays Bank PLC, Research Division - Director

That's helpful. Maybe one quick question, and then I'll re-join the queue. So could you provide us an update on where you arewith next-gen OmniGen?What kind of traction have you had in the last quarter?

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

So we are starting to see traction with the next generation, we call it OmniGen Pro. Most of the sales increases that we had this past quarter have been in that product, and I think we will continue to see success like most people in the Animal Health business, the biggest problem today is being able to really bring the team in to sit with a customer team and go over all the data and all the success because until vaccination rates are a lot higher than they are today, things are going to move very, very slowly. So we're seeing good success. It's a great product, but it's going to be, I guess, a year until we really get back in, and we see accelerated success for that product.

Operator

Your next question comes from Erin Wilson Wright with Credit Suisse.

Haley Larissa Christofides - Crédit Suisse AG, Research Division - Research Analyst

This is Haley Christofides on for Erin this morning. I kind of wanted to focus on vaccines. Can you speak to the key drivers of the lower demand trendsinternationally that you called out this quarter?And when do you think we can potentially return to double-digit growth across that segment longer term?

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

So it's a great question. In certain parts of the world and parts of the world where poultry is the key protein, the effect of COVID has been mostly an economic effect. I mean the average effect of people getting sick and people dying is true everywhere and that's hard. But in those markets, the demand has dropped significantly because the economic activity has dropped significantly. So I think, again, that will be totally driven by the success of vaccination programs that we're starting to see becoming successful in North America, in Europe, in those markets where those countries depend on the exports. So I think we're going to start seeing increases, but until we get back to normal and the assumption that vaccines will be completely successful, so far look likes like they will begin in about a year's time.

Haley Larissa Christofides - Crédit Suisse AG, Research Division - Research Analyst

Okay. That's helpful. That makes sense. And kind of a follow-up to that. You provided some helpful clarity on the Animal Health trends by segment for 3Q, but I was wondering if you could kind of going to demand trends across species beyond poultry?And how we should think about those in the next couple of quarters?

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

So this is in -- sorry, which market?

Haley Larissa Christofides - Crédit Suisse AG, Research Division - Research Analyst

Globally.

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Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

The next biggest market for us would be hog, and that business in the market where it often depends on exports, and China, as I said earlier, is still the biggest importer of hogs, pork in the world. So I think that continues and grows a little bit over the next couple of years. So I think for the production animal, the volume is going to be good. The thing you have to start thinking about, which we have not thought about formally is higher input costs. The cost of corn and soybeans have risen dramatically. So that's going to change the economics, which changes the dynamics of the overall animal protein business. It helps our business because our products help make those products work better, right? It helps the animals stay healthier so they convert the corn and the soybean at better rates. But there is a balance, and the first number if you are a pig producer or if you're a chicken producer, that you look at is what is my input cost? And that is the biggest dynamic that all of our customers all over the world are facing.

Operator

Our next question comes from Michael Ryskin with Bank of America.

Michael Leonidovich Ryskin - BofA Securities, Research Division - Associate

Actually, I want to pick up exactly where you just left off on input cost and corn prices. So I want to go into that a little bit deeper, if you will. So I mean, just looking at the pricing of corn and how much that spiked in the last couple of months, especially -- I mean, even since mid-December, I was just reading a lot of reports about, especially poultry and hog producers being a little bit more cautious. I'm just wondering how much of that are you factoring into your outlook for the third quarter? Is it too early to make any assumptions or guesses on what it's going to do to sort of herd size and expansion in the U.S. and internationally? Are you waiting to see if the prices are sustained at these levels? Or sort of -- have you gotten any feedback from customers in terms of purchase orders, slowing things down at all? I'm just wondering because we've seen a lot of concerns on that front.

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

Thanks, Michael. It's a great question. So right now, right, it's in the early days. Most people who we deal with around the world have hedged and locked in their prices 6 months ago. So they might not even be seeing these higher prices, but it's something they start thinking about going forward. The balance is demand. So if there is a demand for chicken or pork, someone is going to make it. Someone's going to have to use the input cost, no matter what the price is. So if you ask me, do I think the price of chicken and pigs will go up around the world I think the answer to that is yes. If you ask me when, I don't know. But overall, we're seeing these higher input costs, and that means, ultimately, the price of protein will be higher.

Michael Leonidovich Ryskin - BofA Securities, Research Division - Associate

Okay. That's helpful. And then I also wanted to notice that you had a couple of comments calling out strength in traditional specialties on the back of dairy. I think that's an end market that we've been talking about for it feels like years now about how that's been a challenged end market in the U.S. I'm just wondering if that's any -- if you think any of that is a little bit of a catch-up or easy comps or are you seeing any fundamental changes in the market that makes you think that maybe the outlook for dairy is finally turning?

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

Yes. The outlook for dairy is like the weather in California. It was always good the week before you got there. So it's complicated. I think the dairy guys had started to do better, and now you're seeing higher input costs again. So it's still okay. I mean, if I look at our segments in the United States, dairy guys are doing okay. The pork guys are probably doing okay. And the poultry guys are starting not to do okay. Again, based on input --

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direct input costs, but as I said earlier, it's balanced. If you hedge your corn prices which was 6 months ago, and you have a 2-year hedge, you're going to be fine, right? We don't have that clarity into our customers, but I think this is going to go back to supply and demand. And if the demand is there, the supply will be there and the prices will average out.

Michael Leonidovich Ryskin - BofA Securities, Research Division - Associate

Okay. That's helpful. And yes, I totally agree with you on the many, many false starts we've had in dairy, where that would improve for 1 quarter and then it was one step forward, 2 steps back. So completely makes sense. One last one for me and then I'll hop back. I think the biggest surprise for us in the quarter was actually on the P&L, on the SG&A and sort of the -- your ability to contain costs there, despite the improved performance in the topline. At the same time, you're talking about a lot of the investment going forward in the companion animal business, in the dermacare and some of the other products there? And also just continued investment core MFA and Nutritional Specialties businesses. How should we think about that lever going forward? Was this just a little bit of a timing benefit in the quarter? Or are you able to find some cost constraints that you think will carry forward?

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

So I think there are 3 factors, but on the SG&A, there are 2 main factors: One, clearly with everyone staying at home and no one traveling and no one visiting customers and no one entertaining, we are spending less money per month all over the world. So that's one savings. And an offset to that, so that's buried into the price of goods, it's hard to break out, is the cost of maintaining our plants and our production, and we have maintained it through necessity. We haven't shut down. But it's gotten a lot more expensive, whether it's -- PPE is the cheapest part. It's the safety of the plant, the transportation of the workers coming in. It's managing the plant when one person gets sick and like your kids in a small group, everyone stays home, but still. everyone gets paid, obviously. So then you have other people coming in, substituting over time, all those costs. So that doesn't add up to the amount of money we're saving by not visiting customers, but that's a big swing, and that is in these numbers. The flip side of that, which is calling on customers, selling new products, you're stuck. You're selling the same products. You can't move much. You can't add new products, you can't add new customers. So I think that's all in these numbers, and which is why we go quarter-by-quarter because there is still a lot of effect of COVID all over the world.

Operator

Our next question comes from Kevin Kedra with G. Research.

Kevin Kedra - G. Research, LLC - Research Analyst

I want to come back to the companion animal story. Obviously, this is an area of a focus for you guys with (inaudible) and then the pipeline. Do you feel that what you have right now in development is kind of good? Are you guys looking to further expand in that area? And have you considered moving also into the equine market, given your strength in livestock. I would imagine, there is greater synergies there in equine then necessarily dogs and cats.

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

So as strange as it is, equine is a pet. So our selling into the cattle market doesn't help me sell it at any market, number one. Number two, we we are going to create this fourth pillar to the business and that is companion animals, and we're going to do it historically. And so in a unique way, I mean it's a very competitive field. When you have to go and buy a product line and cost increase, you know the multiples that something's companion animal businesses sell forth. So we are using our abilities. We're using our scientists. We're using our development people. We're using our knowledge and market, and we've added some really very, very talented people, specifically on the companion animal side. And we're seeing a lot of input. We're seeing a lot of people who have interesting products. They are unable to go to the market or to the giant companies because it's not invented here. It's because they've looked at something like that, et cetera, et cetera. And so far, we've looked at dozens of products. And as you see, we've successfully launched one, and we are investing in 2, 3, 4 others right now. So we're going to take a slow approach. But I would say, going forward, 3, 4, 5 years from now, companion animals will be a significant part of our business.

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Kevin Kedra - G. Research, LLC - Research Analyst

That's helpful. I wanted to ask about cash flow. You had a very good cash flow quarter. You gave us good metrics for Q3. But just wondering if you could give us any sort of sense directionally on how we should be thinking about the cash flows for Q3, maybe for the balance of the year? And then kind of related to that, the Omaha plant expansion. Anything we should be thinking about in terms of CapEx and the impact there?

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

I'll take the second half first. We've well, overall, we plan our CapEx a year in advance, and some of these projects are big projects. So the online expansion is finishing, we have been in it 1.5 years, in expanding and modernizing the facility that we had there. And we continue to look at CapEx all over our businesses. As you know from prior discussions, we produced approximately 70% of the things we saw, and we see business growing. So that means continued events investing in CapEx. But for the cash flow, I'm going to kick it back to Damian.

Damian Finio - Phibro Animal Health Corporation - CFO

All right. Thanks, Kevin, for the question. So you're right. Year-to-date, we're ahead of our plan. In terms of cash flow, that's driven by our stronger-than-anticipated bottom line performance. I would say, for second half of the year, given our inventory levels at December 31, coupled with the guidance for the third quarter, we should have steady cash flows in the second half of the year. I would expect some of that cash, though, would be invested back into the business more so than the first half due to 2 things: one, expected ramp-up of some of our capital improvement projects; and as Jack eluded to, continued investments in the future.

Operator

(Operator Instructions)

Our next question comes from David Risinger.

Melina Santoro

This is Melina Santoro on for Dave. First, can you maybe discuss what the key factors are to consider for the March quarter? I know guidance kind of implies a flat revenue sequentially at the midpoint, but EBITDA is expected to be down slightly at the midpoint and EPS down as well sequentially?

Damian Finio - Phibro Animal Health Corporation - CFO

Yes. I'll take that one also. So I think it's consistent with what I just said. What you're seeing in cash flows, you're also going to see in the results. So we're expecting more of the same in the third quarter in terms of sales, but when you look to profitability, we do expect a ramp-up of certain expenses to invest in the future, et cetera. So from a profitability perspective, quarter 2 to quarter 3, you're right, the bottom line is a little bit less as a percentage of topline.

Melina Santoro

Okay. That's helpful. And then my second question is, can you provide any updates on the FDA's assessment of Mecadox? And maybe any updates from the Brazilian regulatory agencies on virginiamycin?

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Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

So we're staying in touch with the FDA, but we're not hearing much back. My guess is with the change in administration and having not appointed a new commissioner yet, things will be slow. And -- but as we said earlier, we're going to rigorously defend this product because it's been a great product. It's been on the market for 40 years, safe and effective, and we are going to make sure this product stays on the market. Brazil is moving. We haven't heard anything yet, but it's Brazil. But we continue all our efforts, everything is in, all of our applications are added into the change. And right now everything is grandfathered, and that's what they tell us, and they get to us when they get to us.

Operator

There are no further questions at this time. I will now turn the call back to -- oh, we have one more question that just entered the queue from Balaji Prasad.

Balaji V. Prasad - Barclays Bank PLC, Research Division - Director

So Jack, just wanted to get an update on your Irish facility. When we last spoke, you had received the approval after the inspection. So are we still on for mid-'21 launch? And would you be able to quantify the impact of the markets this facility would open for you? And also at what point of time could we start seeing improvements in OpEx coming through from this facility?

Jack Clifford Bendheim - Phibro Animal Health Corporation - Chairman, President & CEO

So we received that first regulatory approval. We're in the midst of submitting now, getting ready for the second, which involves an inspection. So we are on target for some time, I would say, early in our next fiscal year to be able to start operating that facility. It opens up the Middle East to us on a range of products. I don't want to quantify the number because I'm not sure, but it will be -- once we start selling, it will be profitable. So it's -- as I said, we're on target. Nothing is delayed. And we're optimistic that it's a great facility for us to have.

Operator

There are no further questions at this time. I will now turn the call back to Damian Finio for closing remarks.

Damian Finio - Phibro Animal Health Corporation - CFO

Okay. Thank you everyone, for your thoughtful questions. For those interested, Jack and I will be hosting a fireside chat on February 25 at the Bank of America Merrill Lynch 2021 Virtual Animal Health Summit. Details should be issued on that via press release tomorrow. We appreciate you taking the time to join us on today's call. Have a great rest of your day and continue to stay safe.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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