Phibro Animal Health Corporation



Financial Results

Fiscal Year 2022

First Quarter Ended September 30, 2021

Webcast and Conference Call
November 3, 2021

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Important Information

Cautionary Statement Regarding Forward-Looking Statements

This communication contains forward-looking statements that are subject to risks and uncertainties, including with respect to future debt and leverage levels. All statements other than statements of historical or current fact included in this presentation 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 a guarantee 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 Measures

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 presentation 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 presentation and/or our Quarterly Report on Form 10-Q and Annual Report on Form 10-K. Reported results are presented in accordance with GAAP, whereas adjusted results are GAAP results adjusted to exclude a) acquisition-related items, including intangible amortization, cost of goods sold and transaction costs, b) unusual, non-operational or non-recurring items, including stock-based compensation and restructuring costs, c) other (income) expense as separately reported in the consolidated statements of operations, including foreign currency (gains) losses, net and d) income tax effects related to pre-tax adjustments and unusual or non-recurring income tax items.

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.

This presentation is a supplement to, and should be read in conjunction with, Phibro Animal Health Corporation’s earnings release for the quarter ended September 30, 2021.

Key Themes

First Quarter

Performance in line, encouraged by sales growth	Return on strategic investments	Supply chain and labor challenges persist	Revised financial guidance	COVID-19 variants remain a risk
We are most encouraged by 10% consolidated sales growth, driven by improvement across all segments, but particularly encouraged by growth in nutritional specialties (+10%) and vaccines (+25%)	*Vaccine growth includes our first sale from our new vaccine manufacturing facility in Sligo, Ireland, while the companion animal development pipeline continued to progress*	*Increased costs of materials, shipping and labor, coupled with unfavorable currency movements, are putting pressure on margins*	*We are raising full year sales guidance from $840-$870 million to $860-$890 million but maintaining adjusted EBITDA guidance given the supply chain and labor challenges*	*Vaccine and booster availability and administration varies and continues to have an adverse impact on many of the economies where we sell our products*

Financial Performance - Consolidated

First Quarter, Year-on-Year comparison

$ in millions, except per share data

	Q1	YOY %Δ
Consolidated		
Net Sales	$ 214.7	10%
Net Income	$ 6.5	(47%)
Diluted EPS	$ 0.16	(47%)
Adjusted EBITDA	$ 22.5	(8%)
Adjusted Net Income	$ 10.2	(6%)
Adjusted Diluted EPS	$ 0.25	(6%)

- **Net Sales** – $19.5 million, or 10%, increase driven by improvements across all three business segments: Animal Health, Mineral Nutrition and Performance Products.
- **Net Income & Diluted EPS** – Decrease driven by a $5.8 million unfavorable change in foreign currency (gains) losses reported below operating income and driven primarily by the effect of translating intercompany balances to the US dollar for reporting purposes, coupled with increased costs driving a reduction in gross profit and an increase in selling, general and administrative expenses related to incremental investments in strategic initiatives and increased travel related costs.
- **Adjusted EBITDA, adjusted Net Income and adjusted diluted EPS** – After adjusting GAAP results for one-offs, acquisition-related items and foreign currency movements, our adjusted EBITDA, adjusted Net Income and adjusted diluted EPS decreased, driven by declines in Animal Health gross profit and an increase in selling, general and administrative costs offset partially by strong performance in Mineral Nutrition and Performance Products segments

- *Year-On-Year % changes are in comparison to the same period of the prior fiscal year*
- *Adjusted results adjust GAAP results for one-off items, acquisition-related items and other (income) expense, including foreign currency (gains) losses.*

Financial Performance – Animal Health

First Quarter, Year-on-Year comparison

$ in millions

	Q1	YOY %Δ
Animal Health		
Net Sales	**$ 141.0**	**10%**
MFAs & other	83.8	6%
Nutritional specialties	36.0	10%
Vaccines	21.2	25%
Adj. EBITDA	**$ 27.6**	**(8%)**
Adj. EBITDA Margin	**19.6%**	**-380 bps**

- **Net Sales**
  - MFAs and other
    - Increased $5.1 million, or 6%, driven by stronger international demand, primarily for poultry and cattle products in the Latin America and Southeast Asia regions, partially offset by timing of certain domestic and other international customer orders.
  - Nutritional specialties
    - Increased $3.4 million, or 10%, driven by stronger international demand in dairy products.
  - Vaccines
    - Increased $4.2 million, or 25%, driven by growth across all major markets but primarily stronger demand in Eastern Europe and India.
- **Adjusted EBITDA**
  - Decreased $2.5 million, or 8%, on lower gross profit and increased SG&A costs.

- *Year-On-Year % changes are in comparison to the same period of the prior fiscal year*
- *Adjusted results adjust GAAP results for one-off items, acquisition-related items and other (income) expense, including foreign currency (gains) losses.*

Financial Performance – Animal Health

First Quarter, Year-on-Year reconciliation

$ in millions

Animal Health	Net Sales	Adjusted EBITDA	Adjusted EBITDA Margin
Q1 FY 2021	**$ 128.4**	**$ 30.1**	**23.4%**
MFAs & other	**5.6**		
Nutritional specialties	**2.8**		
Vaccines	**4.2**		
Volume		**2.7**	
Price		**2.6**	
Cost of goods sold		**(6.7)**	
SG&A expenses		**(1.1)**	
Total	**$ 12.6**	**$ (2.5)**	**(3.8%)**
Q1 FY 2022	**$ 141.0**	**$ 27.6**	**19.6%**

- The $12.6 million of incremental sales drove resulted in $5.3 million of adjusted EBITDA; $2.7 million and $2.6 million attributable to volume and price, respectively.
- The $5.3 million of incremental adjusted EBITDA on $12.6 million of incremental sales equates to a 42% gross margin.
- However, this incremental $5.3 million of adjusted EBITDA was more than offset by:
  - an increase in cost of goods of $6.7 million driven by increases in materials, labor, and freight costs totaling $5.1 million, and $1.6 million of unfavorable foreign currency movements
  - an increase in SG&A expenses of $1.1 million driven by investments in market expansion initiatives and sales and marketing related travel costs
- Subject to normal competitive conditions, we will continue taking steps to adjust pricing to reflect the increased costs, and pass-through incremental freight costs in the form of a surcharge, the benefit of which we project will be realized primarily in the second half of the current fiscal year.

- *The non-GAAP reconciling items presented herein represent management's best estimate and judgment as of the date herein and should be considered approximations, inclusive of the effect of changes in currency exchange rates.*

Financial Performance – Other Segments

First Quarter, Year-on-Year comparison

$ in millions

	Q1	YOY %Δ
Mineral Nutrition		
Net Sales	$ 54.4	6%
Adj. EBITDA	$ 4.5	49%
Adj. EBITDA Margin	8.3%	+240 bps
Performance Products		
Net Sales	$ 19.2	25%
Adj. EBITDA	$ 2.1	8%
Adj. EBITDA Margin	11.1%	-170 bps
Corporate		
Adj. EBITDA	$ (11.8)	(9%)

- **Mineral Nutrition**
  - Net Sales increased $3.0 million, or 6%, driven by increased average selling prices, partially offset by lower volumes
  - Adjusted EBITDA growth of 49% driven by increased average selling prices, partially offset by lower volumes
- **Performance Products**
  - Net Sales increased $3.8 million, or 25%, driven by strong demand for copper-based products coupled with increased selling prices correlated with underlying raw material costs
  - Adjusted EBITDA growth of 8%, driven by increased gross profit
- **Corporate**
  - Adjusted EBITDA decline of 9% due to incremental investments in strategic initiatives and higher compensation costs

- *Year-On-Year % changes are in comparison to the same period of the prior fiscal year*
- *Adjusted results adjust GAAP results for one-off items, acquisition-related items and other (income) expense, including foreign currency (gains) losses.*

Key Capitalization Metrics

First Quarter Highlights

Free Cash Flow[1]	**$21.1 million of trailing 12-month free cash flow;** operating cash flow $50.4 million less capital expenditures of $29.3 million
Leverage	**3.8x gross leverage ratio;** $406 million total debt / $106 million trailing 12-month adjusted EBITDA
Liquidity	**$234 million;** $97 million of cash and short-term investments + $137 million of available revolving credit[2]
Dividend	**Quarterly Dividend of $0.12 per share;** $4.9 million dividend paid

[1] Free cash flow equals cash flows from operating activities less capital expenditures for the trailing 12-months ending September 30, 2021

[2] Available revolving credit is shown net of letters of credit outstanding and subject to leverage ratio limitations. For more information regarding our credit facility, see the Company's Form 8-K filed with the SEC on April 22, 2021 and the exhibits thereto.

Revised Financial Guidance

Fiscal Year 2022

$ in millions, except per share data

			FY 2022 Guidance			
			Previous		*Revised*	
	FY21	Q1 FY22	Low	High	Low	High
Consolidated						
Net Sales	$ 833.4	$ 214.7	$ 840.0	$ 870.0	$ 860.0	$ 890.0
Adjusted EBITDA	$ 107.9	$ 22.5	$ 110.0	$ 114.0	$ 110.0	$ 114.0
Adjusted Net Income	$ 51.3	$ 10.2	$ 50.7	$ 53.3	$ 50.7	$ 53.3
Adjusted Diluted EPS	$ 1.27	$ 0.25	$ 1.25	$ 1.32	$ 1.25	$ 1.32
Adjusted EBITDA Margin	12.9%	10.5%	13.1%	13.1%	12.8%	12.8%
GAAP Effective Tax Rate (1)	18.2%	31.9%	29.0%	31.0%	29.0%	31.0%
Adjusted Effective Tax Rate	29.5%	26.4%	29.0%	31.0%	29.0%	31.0%

- The potential economic impact of COVID-19 variants remain a risk.
- We are raising the range of net sales financial guidance by $20 million but maintaining all other financial metrics.
- Revised financial guidance assumes:
  - sales growth across all three business segments
  - price increases, subject to normal competitive conditions
  - freight surcharges, where applicable
  - return to a normalized effective tax rate
  - note, reductions to manufacturing related costs will be reflected in our bottom-line results, contingent upon when the products are sold

(1) *The FY21 GAAP Effective Tax Rate included one-off tax benefits related to favorable changes in uncertain international tax positions and valuation allowances that are not anticipated in FY 22.*

Note: *We are not providing revised forward-looking guidance for certain GAAP financial measures or a quantitative reconciliation of forward-looking non-GAAP financial measures to the most directly comparable GAAP measure because we are unable to predict with reasonable certainty the ultimate outcome of certain significant items, including but not limited to the impact of foreign currency exchange gains or losses.*

Q&A

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