

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2022

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-36410

Phibro Animal Health Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-1840497

(I.R.S. Employer
Identification No.)

Glenpointe Centre East, 3rd Floor
300 Frank W. Burr Boulevard, Suite 21

Teaneck, New Jersey

(Address of Principal Executive Offices)

07666-6712

(Zip Code)

(201) 329-7300

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$0.0001 par value per share	PAHC	Nasdaq Stock Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.) Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of April 27, 2022, there were 20,337,574 shares of the registrant's Class A common stock, par value \$0.0001 per share, and 20,166,034 shares of the registrant's Class B common stock, par value \$0.0001 per share, outstanding.

PHIBRO ANIMAL HEALTH CORPORATION

TABLE OF CONTENTS

	<u>Page</u>
PART I—FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited)	3
Consolidated Statements of Operations	3
Consolidated Statements of Comprehensive Income	4
Consolidated Balance Sheets	5
Consolidated Statements of Cash Flows	6
Consolidated Statements of Changes in Stockholders' Equity	7
Notes to Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3. Quantitative and Qualitative Disclosures About Market Risk	34
Item 4. Controls and Procedures	34
PART II—OTHER INFORMATION	
Item 1. Legal Proceedings	35
Item 1A. Risk Factors	35
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 3. Defaults Upon Senior Securities	35
Item 4. Mine Safety Disclosures	35
Item 5. Other Information	35
SIGNATURES	36

PART I—FINANCIAL INFORMATION
Item 1. Financial Statements
PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Periods Ended March 31	Three Months		Nine Months	
	2022	2021	2022	2021
	(unaudited)			
	(in thousands, except per share amounts)			
Net sales	\$ 239,619	\$ 211,729	\$ 686,996	\$ 613,072
Cost of goods sold	167,993	142,564	480,020	411,523
Gross profit	71,626	69,165	206,976	201,549
Selling, general and administrative expenses	52,432	49,033	150,876	145,839
Operating income	19,194	20,132	56,100	55,710
Interest expense, net	2,925	2,933	8,767	8,957
Foreign currency (gains), net	(10,564)	(583)	(12,625)	(3,590)
Income before income taxes	26,833	17,782	59,958	50,343
Provision for income taxes	9,144	5,621	18,270	13,079
Net income	\$ 17,689	\$ 12,161	\$ 41,688	\$ 37,264
Net income per share				
basic	\$ 0.44	\$ 0.30	\$ 1.03	\$ 0.92
diluted	\$ 0.44	\$ 0.30	\$ 1.03	\$ 0.92
Weighted average common shares outstanding				
basic	40,504	40,483	40,504	40,463
diluted	40,504	40,504	40,504	40,504

The accompanying notes are an integral part of these consolidated financial statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Periods Ended March 31	Three Months		Nine Months	
	2022	2021	2022	2021
			(unaudited)	
			(in thousands)	
Net income	\$ 17,689	\$ 12,161	\$ 41,688	\$ 37,264
Change in fair value of derivative instruments	14,958	5,749	19,739	10,567
Foreign currency translation adjustment	3,514	(9,122)	(13,761)	(4,345)
Unrecognized net pension gains	120	144	354	416
Provision for income taxes	(3,770)	(1,473)	(5,023)	(2,745)
Other comprehensive income (loss)	14,822	(4,702)	1,309	3,893
Comprehensive income	\$ 32,511	\$ 7,459	\$ 42,997	\$ 41,157

The accompanying notes are an integral part of these consolidated financial statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of	March 31, 2022	June 30, 2021
	(unaudited)	
	(in thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	\$ 70,748	\$ 50,212
Short-term investments	22,100	43,000
Accounts receivable, net	156,561	146,852
Inventories, net	249,911	216,312
Other current assets	47,157	42,533
Total current assets	546,477	498,909
Property, plant and equipment, net	162,455	154,706
Intangibles, net	67,384	62,282
Goodwill	53,321	52,679
Other assets	86,544	72,749
Total assets	\$ 916,181	\$ 841,325
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	\$ 15,000	\$ 9,375
Accounts payable	89,696	68,362
Accrued expenses and other current liabilities	82,406	86,379
Total current liabilities	187,102	164,116
Revolving credit facility	124,000	95,000
Long-term debt	276,621	287,710
Other liabilities	61,513	55,970
Total liabilities	649,236	602,796
Commitments and contingencies (Note 7)		
Common stock, par value \$0.0001 per share; 300,000,000 Class A shares authorized, 20,337,574 shares issued and outstanding at March 31, 2022 and June 30, 2021; 30,000,000 Class B shares authorized, 20,166,034 shares issued and outstanding at March 31, 2022 and June 30, 2021	4	4
Preferred stock, par value \$0.0001 per share; 16,000,000 shares authorized, no shares issued and outstanding	—	—
Paid-in capital	135,803	135,803
Retained earnings	245,122	218,015
Accumulated other comprehensive loss	(113,984)	(115,293)
Total stockholders' equity	266,945	238,529
Total liabilities and stockholders' equity	\$ 916,181	\$ 841,325

The accompanying notes are an integral part of these consolidated financial statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Periods Ended March 31	Nine Months	
	2022	2021
	(unaudited) (in thousands)	
OPERATING ACTIVITIES		
Net income	\$ 41,688	\$ 37,264
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	24,300	24,042
Amortization of debt issuance costs	442	662
Stock-based compensation	—	1,129
Acquisition-related items	78	—
Deferred income taxes	(120)	18
Foreign currency (gains), net	(13,492)	(7,293)
(Gain) on sale of investment	(1,203)	—
Other	284	389
Changes in operating assets and liabilities, net of business acquisition:		
Accounts receivable, net	(10,815)	(8,410)
Inventories, net	(30,548)	(8,091)
Other current assets	(1,879)	3,746
Other assets	(2,364)	(1,019)
Accounts payable	19,961	(751)
Accrued expenses and other liabilities	3,743	3,550
Net cash provided by operating activities	30,075	45,236
INVESTING ACTIVITIES		
Purchases of short-term investments	(54,100)	(50,000)
Maturities of short-term investments	75,000	61,000
Capital expenditures	(25,154)	(22,226)
Business acquisition	(10,786)	—
Sale of investment	1,353	—
Other, net	645	(164)
Net cash used by investing activities	(13,042)	(11,390)
FINANCING ACTIVITIES		
Revolving credit facility borrowings	215,000	135,000
Revolving credit facility repayments	(186,000)	(128,000)
Payments of long-term debt and other	(5,625)	(14,063)
Dividends paid	(14,581)	(14,569)
Payment of contingent consideration	(4,840)	—
Net cash provided (used) by financing activities	3,954	(21,632)
Effect of exchange rate changes on cash	(451)	546
Net increase in cash and cash equivalents	20,536	12,760
Cash and cash equivalents at beginning of period	50,212	36,343
Cash and cash equivalents at end of period	\$ 70,748	\$ 49,103

The accompanying notes are an integral part of these consolidated financial statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Shares of Common Stock	Common Stock	Preferred Stock	Paid-in Capital (unaudited)	Retained Earnings	Accumulated Others Comprehensive Income (Loss)	Total
(in thousands, except share and per share amounts)							
As of June 30, 2021	<u>40,503,608</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$ 135,803</u>	<u>\$ 218,015</u>	<u>\$ (115,293)</u>	<u>\$ 238,529</u>
Comprehensive income (loss)	—	—	—	—	6,534	(6,898)	(364)
Dividends declared (\$0.12 per share)	—	—	—	—	(4,860)	—	(4,860)
As of September 30, 2021	<u>40,503,608</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$ 135,803</u>	<u>\$ 219,689</u>	<u>\$ (122,191)</u>	<u>\$ 233,305</u>
Comprehensive income (loss)	—	—	—	—	17,465	(6,615)	10,850
Dividends declared (\$0.12 per share)	—	—	—	—	(4,861)	—	(4,861)
As of December 31, 2021	<u>40,503,608</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$ 135,803</u>	<u>\$ 232,293</u>	<u>\$ (128,806)</u>	<u>\$ 239,294</u>
Comprehensive income	—	—	—	—	17,689	14,822	32,511
Dividends declared (\$0.12 per share)	—	—	—	—	(4,860)	—	(4,860)
As of March 31, 2022	<u>40,503,608</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$ 135,803</u>	<u>\$ 245,122</u>	<u>\$ (113,984)</u>	<u>\$ 266,945</u>

	Shares of Common Stock	Common Stock	Preferred Stock	Paid-in Capital (unaudited)	Retained Earnings	Other Comprehensive Income (Loss)	Total
(in thousands, except share and per share amounts)							
As of June 30, 2020	<u>40,453,608</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$ 135,525</u>	<u>\$ 183,060</u>	<u>\$ (130,385)</u>	<u>\$ 188,204</u>
Comprehensive income (loss)	—	—	—	—	12,302	(3,805)	8,497
Dividends declared (\$0.12 per share)	—	—	—	—	(4,854)	—	(4,854)
Stock-based compensation expense	—	—	—	565	—	—	565
As of September 30, 2020	<u>40,453,608</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$ 136,090</u>	<u>\$ 190,508</u>	<u>\$ (134,190)</u>	<u>\$ 192,412</u>
Comprehensive income	—	—	—	—	12,801	12,400	25,201
Dividends declared (\$0.12 per share)	—	—	—	—	(4,855)	—	(4,855)
Stock-based compensation expense	—	—	—	564	—	—	564
As of December 31, 2020	<u>40,453,608</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$ 136,654</u>	<u>\$ 198,454</u>	<u>\$ (121,790)</u>	<u>\$ 213,322</u>
Comprehensive income (loss)	—	—	—	—	12,161	(4,702)	7,459
Shares issued pursuant to stock incentive plan	50,000	—	—	—	—	—	—
Dividends declared (\$0.12 per share)	—	—	—	—	(4,860)	—	(4,860)
As of March 31, 2021	<u>40,503,608</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$ 136,654</u>	<u>\$ 205,755</u>	<u>\$ (126,492)</u>	<u>\$ 215,921</u>

The accompanying notes are an integral part of these consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share amounts)
(unaudited)

1. Description of Business

Phibro Animal Health Corporation (“Phibro” or “PAHC”) and its subsidiaries (together, the “Company”) is a diversified global developer, manufacturer and marketer of a broad range of animal health and mineral nutrition products for food animals including poultry, dairy and beef cattle, swine, and aquaculture. The Company is also a manufacturer and marketer of performance products for use in the personal care, industrial chemical and chemical catalyst industries. Unless otherwise indicated or the context requires otherwise, references in this report to “we,” “our,” “us,” and similar expressions refer to Phibro and its subsidiaries.

The unaudited consolidated financial information for the three and nine months ended March 31, 2022 and 2021, is presented on the same basis as the financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2021 (the “Annual Report”), filed with the Securities and Exchange Commission on August 25, 2021 (File no. 001-36410). In the opinion of management, these financial statements include all adjustments necessary for a fair statement of the financial position, results of operations and cash flows of the Company for the interim periods, and the adjustments are of a normal and recurring nature. The financial results for any interim period are not necessarily indicative of the results for the full year. The consolidated balance sheet information as of June 30, 2021, was derived from the audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (“GAAP”). The unaudited consolidated financial information should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations and financial condition will depend on future developments that are uncertain. Although vaccines are available, distribution efforts vary widely country-by-country and state-by-state. New information may continue to emerge concerning COVID-19, and the actions required to contain or treat it may affect the duration and severity of the pandemic. The pandemic may have significant economic impacts on customers, suppliers and markets. The pandemic may affect our future revenues, expenses, reserves and allowances, manufacturing operations and employee-related costs. Our financial statements include estimates of the effects of COVID-19 and there may be changes to those estimates in future periods.

The consolidated financial statements include the accounts of Phibro and its consolidated subsidiaries. Intercompany balances and transactions have been eliminated from the consolidated financial statements. The decision to consolidate an entity requires consideration of majority voting interests, as well as effective control over the entity.

2. Summary of Significant Accounting Policies and New Accounting Standards

Our significant accounting policies are described in the notes to the consolidated financial statements included in our Annual Report. As of March 31, 2022, there have been no material changes to any of the significant accounting policies contained therein.

Net Income per Share and Weighted Average Shares

Basic net income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the reporting period.

Diluted net income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the reporting period after giving effect to potential dilutive common shares resulting from the assumed vesting of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

restricted stock units. All common share equivalents were included in the calculation of diluted net income per share in the periods included in the consolidated financial statements. There are no outstanding restricted stock units as of March 31, 2022.

For the Periods Ended March 31	Three Months		Nine Months	
	2022	2021	2022	2021
Net income	\$ 17,689	\$ 12,161	\$ 41,688	\$ 37,264
Weighted average number of shares – basic	40,504	40,483	40,504	40,463
Dilutive effect of restricted stock units	—	21	—	41
Weighted average number of shares – diluted	40,504	40,504	40,504	40,504
Net income per share				
basic	\$ 0.44	\$ 0.30	\$ 1.03	\$ 0.92
diluted	\$ 0.44	\$ 0.30	\$ 1.03	\$ 0.92

New Accounting Standards

Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2021-10 *Government Assistance (Topic 832), Disclosures by Business Entities about Government Assistance* has established annual disclosure requirements over transactions with a government that are accounted for by applying a grant accounting model to include the nature of the transactions and the related accounting policy used to account for the transactions, the line items and the amounts included in the balance sheet and income statement, and the significant terms and conditions of the transactions (including commitments and contingencies). The disclosures are required for the annual periods beginning after December 15, 2021. We continue to evaluate the effect of adoption of this guidance on our consolidated financial statements.

ASU 2021-08, *Business Combinations (Topic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, requires revenue contract assets and liabilities acquired in a business combination be recognized and measured under the revenue standard provided in Topic 606. Under previous guidance, revenue contract assets and liabilities would have been measured at fair value. The ASU is required to be adopted for annual periods beginning after December 15, 2022. Early adoption is permitted and would be applied retrospectively in the year adopted. We continue to evaluate the effect of adoption of this guidance on our consolidated financial statements.

ASU 2020-04 and 2021-01, *Reference Rate Reform (Topic 848)*, provide optional expedients and exceptions to GAAP guidance, if certain criteria are met, for contracts, hedging relationships and derivative instruments that reference the London Interbank Offered Rate (LIBOR) and other interbank offered rates expected to be discontinued or modified by rate reform. The overall purpose of Topic 848 is to ease the financial reporting burdens related to the expected market transition to alternative reference rates. These ASUs may be applied prospectively to contract modifications made and hedging relationships entered on or before December 31, 2022. We continue to evaluate the effect of adoption of this guidance on our consolidated financial statements.

ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, removes certain exceptions and amends certain requirements in the existing income tax guidance to ease accounting requirements. ASU 2019-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, and must be applied on a retrospective basis. The adoption did not have a material effect on our consolidated financial statements.

3. Statements of Operations—Additional Information

Disaggregated revenue, deferred revenue and customer payment terms

We develop, manufacture and market a broad range of products for food animals including poultry, beef and dairy cattle, swine, and aquaculture. The products help prevent, control and treat diseases, enhance nutrition to help improve health and contribute to balanced mineral nutrition. The animal health and mineral nutrition products are sold directly to integrated poultry, cattle, and swine integrators and through commercial animal feed manufacturers, wholesalers and distributors. The animal health industry and demand

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

for many of the animal health products in a particular region are affected by changing disease pressures and by weather conditions, as product usage follows varying weather patterns and seasons. Our operations are primarily focused on regions where the majority of livestock production is consolidated in large commercial farms.

We have a diversified portfolio of products that are classified within our three business segments—Animal Health, Mineral Nutrition and Performance Products. Each segment has its own dedicated management and sales team.

Animal Health

The Animal Health business develops, manufactures and markets products in three main categories:

- **MFAs and other:** MFAs and other products primarily consist of concentrated medicated products that are administered through animal feeds, commonly referred to as Medicated Feed Additives (“MFAs”). Specific product classifications include antibacterials, which inhibit the growth of pathogenic bacteria that cause bacterial infections in animals; anticoccidials, which inhibit the growth of coccidia (parasites) that damage the intestinal tract of animals; and other related products. MFAs and other also include other processing aids used to improve production efficiency in the ethanol fermentation industry.
- **Nutritional specialties:** Nutritional specialty products enhance nutrition to help improve health and performance in areas such as immune system function and digestive health. We are also a developer, manufacturer and marketer of microbial products and bioproducts for a variety of applications serving animal health and nutrition, environmental, industrial and agricultural customers.
- **Vaccines:** Our vaccines are primarily focused on preventing diseases in poultry and swine. They protect animals from either viral or bacterial disease challenges. We develop, manufacture and market conventionally licensed and autogenous vaccine products and produce and market adjuvants to vaccine manufacturers. We have developed and market an innovative and proprietary delivery platform for vaccines.

Mineral Nutrition

The Mineral Nutrition business is comprised of formulations and concentrations of trace minerals such as zinc, manganese, copper, iron, and other compounds, with a focus on customers in North America. Our customers use these products to fortify the daily feed requirements of their livestock’s diets and maintain an optimal balance of trace elements in each animal. We manufacture and market a broad range of mineral nutrition products for food animals including beef and dairy cattle, swine and poultry.

Performance Products

The Performance Products business manufactures and markets specialty ingredients for use in the personal care, industrial chemical and chemical catalyst industries, predominantly in the United States.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following tables present our revenues disaggregated by major product category and geographic region:

Net Sales by Product Type

For the Periods Ended March 31	Three Months		Nine Months	
	2022	2021	2022	2021
Animal Health				
MFAs and other	\$ 84,330	\$ 78,530	\$ 259,812	\$ 238,810
Nutritional specialties	41,394	36,978	114,721	105,972
Vaccines	22,865	18,872	65,987	54,205
Total Animal Health	\$ 148,589	\$ 134,380	\$ 440,520	\$ 398,987
Mineral Nutrition	69,033	58,153	190,120	163,750
Performance Products	21,997	19,196	56,356	50,335
Total	<u>\$ 239,619</u>	<u>\$ 211,729</u>	<u>\$ 686,996</u>	<u>\$ 613,072</u>

Net Sales by Region

For the Periods Ended March 31	Three Months		Nine Months	
	2022	2021	2022	2021
United States	\$ 146,820	\$ 129,370	\$ 412,284	\$ 370,446
Latin America and Canada	45,048	37,386	135,722	115,808
Europe, Middle East and Africa	29,931	27,802	90,889	84,959
Asia Pacific	17,820	17,171	48,101	41,859
Total	<u>\$ 239,619</u>	<u>\$ 211,729</u>	<u>\$ 686,996</u>	<u>\$ 613,072</u>

Net sales by region are based on country of destination.

Deferred revenue was \$2,697 and \$3,674 as of March 31, 2022, and June 30, 2021, respectively. Accrued expenses and other current liabilities included \$1,383 and \$1,560 of the total deferred revenue as of March 31, 2022, and June 30, 2021, respectively. The deferred revenue resulted primarily from certain customer arrangements, including technology licensing fees and discounts on future product sales. The transaction price associated with our deferred revenue arrangements is generally based on the stand-alone sales prices of the individual products or services.

Our customer payment terms generally range from 30 to 120 days globally and do not include any significant financing components. Payment terms vary based on industry and business practices within the regions in which we operate. Our average worldwide collection period for accounts receivable is approximately 60 days after the revenue is recognized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Interest Expense and Depreciation and Amortization

For the Periods Ended March 31	Three Months		Nine Months	
	2022	2021	2022	2021
Interest expense, net				
Term loan	\$ 2,208	\$ 1,857	\$ 6,745	\$ 5,796
Revolving credit facility	690	938	1,936	3,017
Amortization of debt issuance costs	147	221	442	662
Other	67	65	156	191
Interest expense	3,112	3,081	9,279	9,666
Interest income	(187)	(148)	(512)	(709)
	<u>\$ 2,925</u>	<u>\$ 2,933</u>	<u>\$ 8,767</u>	<u>\$ 8,957</u>

For the Periods Ended March 31	Three Months		Nine Months	
	2022	2021	2022	2021
Depreciation and amortization				
Depreciation of property, plant and equipment	\$ 6,214	\$ 5,763	\$ 17,792	\$ 17,479
Amortization of intangible assets	2,231	2,155	6,508	6,563
	<u>\$ 8,445</u>	<u>\$ 7,918</u>	<u>\$ 24,300</u>	<u>\$ 24,042</u>

4. Balance Sheets—Additional Information

As of	March 31, 2022	June 30, 2021
Inventories		
Raw materials	\$ 85,255	\$ 59,775
Work-in-process	12,900	12,738
Finished goods	151,756	143,799
	<u>\$ 249,911</u>	<u>\$ 216,312</u>

As of	March 31, 2022	June 30, 2021
Other assets		
ROU operating lease assets	\$ 38,691	\$ 32,962
Deferred income taxes	4,097	9,861
Deposits	6,293	5,663
Insurance investments	6,054	5,964
Equity method investments	4,063	4,141
Derivative instruments	14,560	2,696
U.S. pension plan	2,482	1,184
Debt issuance costs	1,530	1,811
Other	8,774	8,467
	<u>\$ 86,544</u>	<u>\$ 72,749</u>

In February 2022, we acquired a business for \$13,728, of which \$3,166 is outstanding at March 31, 2022 and payable during the fourth quarter ending June 30, 2022. The business develops, manufactures and markets processing aids used to improve production efficiency in the ethanol fermentation industry. We accounted for the acquisition as a business combination in accordance with ASC 805, Business Combinations. Pro forma information giving effect to the acquisition has not been provided because the results are not material to the consolidated financial statements. Definite-lived intangible assets of \$10,833 were recognized at acquisition and included developed products, tradename, and non-compete agreements. The definite-lived intangible assets will be amortized over periods ranging from 4 to 13 years. The remaining net assets acquired include accounts receivable, inventories, prepaid and other assets, accounts payable, accrued expenses, and goodwill. Goodwill is deductible for income tax purposes. The purchase price

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

allocation is preliminary and subject to change, including final working capital adjustments. The business is included in the MFAs and other product category under the Animal Health segment.

As of	March 31, 2022	June 30, 2021
Goodwill		
Balance at beginning of period	\$ 52,679	\$ 52,679
Acquisition	595	—
Foreign currency translation	47	—
Balance at end of period	<u>\$ 53,321</u>	<u>\$ 52,679</u>

As of	March 31, 2022	June 30, 2021
Accrued expenses and other current liabilities		
Employee related	\$ 30,601	\$ 35,375
Current operating lease liabilities	6,431	6,618
Commissions and rebates	6,528	6,312
Professional fees	6,057	4,380
Income and other taxes	7,890	6,107
Derivative instruments	391	3,486
Contingent consideration	—	4,840
Restructuring costs	—	735
Insurance-related	1,179	1,176
Other	23,329	17,350
	<u>\$ 82,406</u>	<u>\$ 86,379</u>

As of	March 31, 2022	June 30, 2021
Other liabilities		
Long-term operating lease liabilities	\$ 33,632	\$ 28,003
Long-term and deferred income taxes	8,848	6,646
Supplemental retirement benefits, deferred compensation and other	8,487	8,382
International retirement plans	4,821	5,345
Other long-term liabilities	5,725	7,594
	<u>\$ 61,513</u>	<u>\$ 55,970</u>

As of	March 31, 2022	June 30, 2021
Accumulated other comprehensive loss		
Derivative instruments	\$ 18,949	\$ (790)
Foreign currency translation adjustment	(113,856)	(100,095)
Unrecognized net pension losses	(19,619)	(19,973)
(Provision) benefit for income taxes on derivative instruments	(4,838)	97
Benefit for income taxes on long-term intercompany investments	8,166	8,166
Provision for income taxes on net pension losses	(2,786)	(2,698)
	<u>\$ (113,984)</u>	<u>\$ (115,293)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

5. Debt

Term Loans and Revolving Credit Facilities

In April 2021, we entered into an amended and restated credit agreement (the “2021 Credit Agreement”) under which we have a term A loan in an aggregate initial principal amount of \$300,000 (the “2021 Term A Loan”) and a revolving credit facility under which we can borrow up to an aggregate amount of \$250,000, subject to the terms of the 2021 Credit Agreement (the “2021 Revolver” and together with the 2021 Term A Loan, the “2021 Credit Facilities”). The 2021 Term A Loan is repayable in quarterly installments, with the balance payable at maturity. The 2021 Revolver contains a letter of credit facility. The interest rate per annum applicable to the loans under the 2021 Credit Facilities is based on a fluctuating rate of interest plus an applicable rate equal to 2.00%, 1.75% or 1.50%, in the case of LIBOR and Eurodollar rate loans and 1.00%, 0.75% or 0.50%, in the case of base rate loans; the applicable rates are based on the First Lien Net Leverage Ratio (as defined in the 2021 Credit Agreement). The 2021 Credit Facilities mature in April 2026.

The 2021 Credit Agreement requires, among other things, compliance with financial covenants that permit: (i) a maximum First Lien Net Leverage Ratio of 4.00:1.00 and (ii) a minimum interest coverage ratio of 3.00:1.00, each calculated on a trailing four-quarter basis. The 2021 Credit Agreement contains an acceleration clause should an event of default (as defined in the 2021 Credit Agreement) occur. As of March 31, 2022, we were in compliance with the financial covenants.

As of March 31, 2022, we had \$124,000 in borrowings drawn under the 2021 Revolver and had outstanding letters of credit of \$2,709, leaving \$123,291 available for further borrowings and letters of credit under the 2021 Revolver, subject to restrictions in our 2021 Credit Facilities. We obtain letters of credit in connection with certain regulatory and insurance obligations, inventory purchases and other contractual obligations. The terms of these letters of credit are all less than one year.

In July 2017, we entered into an interest rate swap agreement on \$150,000 of notional principal that effectively converts the floating LIBOR portion of our interest obligation on that amount of debt to a fixed interest rate of 1.8325%. The agreement matures in June 2022. We designated the interest rate swap as a highly effective cash flow hedge. For additional details, see “Note 8 — Derivatives.”

In March 2020, we entered into an interest rate swap agreement on an additional \$150,000 of notional principal that effectively converts the floating LIBOR portion of our interest obligation on that amount of debt to a fixed rate of 0.62%. In July 2022, this agreement increases to a notional principal amount of \$300,000 through June 2025, and effectively converts the floating LIBOR portion of our interest obligation on \$300,000 of debt to a fixed interest rate of 0.62%. We designated the interest rate swap as a highly effective cash flow hedge. For additional details, see “Note 8 — Derivatives.”

The 2017 and 2020 interest rate swap agreements will continue to remain in place on our interest obligations associated with the 2021 Credit Facilities.

As of March 31, 2022, the interest rates for the 2021 Revolver and the 2021 Term A Loan were 2.18% and 2.99%, respectively. The weighted-average interest rates for the 2021 Revolver and the prior revolving credit facility were 1.87% and 2.25% for the nine months ended March 31, 2022 and 2021, respectively. The weighted-average interest rates for the 2021 Term A Loan and the prior term A loan were 2.98% and 3.36% for nine months ended March 31, 2022 and 2021, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Long-Term Debt

As of	March 31, 2022	June 30, 2021
2021 Term A Loan due April 2026	\$ 292,500	\$ 298,125
Unamortized debt issuance costs	(879)	(1,040)
	291,621	297,085
Less: current maturities	(15,000)	(9,375)
	<u>\$ 276,621</u>	<u>\$ 287,710</u>

6. Related Party Transactions

Certain relatives of Jack C. Bendheim, our Chairman, President and Chief Executive Officer, provided services to the Company as employees or consultants and received aggregate compensation and benefits of approximately \$465 and \$372 during the three months ended March 31, 2022 and 2021, respectively, and \$1,765 and \$1,297 during the nine months ended March 31, 2022 and 2021, respectively. Mr. Bendheim has sole authority to vote shares of our stock owned by BFI Co., LLC, an investment vehicle of the Bendheim family.

7. Commitments and Contingencies

Environmental

Our operations and properties are subject to extensive federal, state, local and foreign laws and regulations, including those governing pollution; protection of the environment; the use, management, and release of hazardous materials, substances and wastes; air emissions; greenhouse gas emissions; water use, supply and discharges; the investigation and remediation of contamination; the manufacture, distribution, and sale of regulated materials, including pesticides; the importing, exporting and transportation of products; and the health and safety of our employees (collectively, “Environmental Laws”). As such, the nature of our current and former operations exposes us to the risk of claims with respect to such matters, including fines, penalties, and remediation obligations that may be imposed by regulatory authorities. Under certain circumstances, we might be required to curtail operations until a particular problem is remedied. Known costs and expenses under Environmental Laws incidental to ongoing operations, including the cost of litigation proceedings relating to environmental matters, are included within operating results. Potential costs and expenses may also be incurred in connection with the repair or upgrade of facilities to meet existing or new requirements under Environmental Laws or to investigate or remediate potential or actual contamination, and from time to time we establish reserves for such contemplated investigation and remediation costs. In many instances, the ultimate costs under Environmental Laws and the period during which such costs are likely to be incurred are difficult to predict.

While we believe that our operations are currently in material compliance with Environmental Laws, we have, from time to time, received notices of violation from governmental authorities, and have been involved in civil or criminal action for such violations. Additionally, at various sites, our subsidiaries are engaged in continuing investigation, remediation and/or monitoring efforts to address contamination associated with historic operations of the sites. We devote considerable resources to complying with Environmental Laws and managing environmental liabilities. We have developed programs to identify requirements under, and maintain compliance with, Environmental Laws; however, we cannot predict with certainty the effect of increased and more stringent regulation on our operations, future capital expenditure requirements, or the cost of compliance.

The nature of our current and former operations exposes us to the risk of claims with respect to environmental matters and we cannot assure we will not incur material costs and liabilities in connection with such claims. Based on our experience, we believe that the future cost of compliance with existing Environmental Laws, and liabilities for known environmental claims pursuant to such Environmental Laws, will not have a material adverse effect on our financial position, results of operations, cash flows or liquidity.

The United States Environmental Protection Agency (the “EPA”) is investigating and planning for the remediation of offsite contaminated groundwater that has migrated from the Omega Chemical Corporation Superfund Site (“Omega Chemical Site”), which is upgradient of the Santa Fe Springs, California facility of our subsidiary, Phibro-Tech, Inc. (“Phibro-Tech”). The EPA has entered

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

into a settlement agreement with a group of companies that sent chemicals to the Omega Chemical Site for processing and recycling ("OPOG") to remediate the contaminated groundwater that has migrated from the Omega Chemical Site in accordance with a general remedy selected by EPA. The EPA has named Phibro-Tech and certain other subsidiaries of PAHC as potentially responsible parties ("PRPs") due to groundwater contamination from Phibro-Tech's Santa Fe Springs facility that has allegedly commingled with contaminated groundwater from the Omega Chemical Site. In September 2012, the EPA notified approximately 140 PRPs, including Phibro-Tech and the other subsidiaries, that they have been identified as potentially responsible for remedial action for the groundwater plume affected by the Omega Chemical Site and for EPA oversight and response costs. Phibro-Tech contends that any groundwater contamination at its site is localized and due to historical operations that pre-date Phibro-Tech and/or contaminated groundwater that has migrated from upgradient properties. In addition, a successor to a prior owner of the Phibro-Tech site has asserted that PAHC and Phibro-Tech are obligated to provide indemnification for its potential liability and defense costs relating to the groundwater plume affected by the Omega Chemical Site. Phibro-Tech has vigorously contested this position and has asserted that the successor to the prior owner is required to indemnify Phibro-Tech for its potential liability and defense costs. Furthermore, the members of OPOG filed a complaint under the Comprehensive Environmental Response, Compensation, and Liability Act and the Resource Conservation and Recovery Act in the United States District Court for the Central District of California against many of the PRPs allegedly associated with the groundwater plume affected by the Omega Chemical Site (including Phibro-Tech) for contribution toward past and future costs associated with the investigation and remediation of the groundwater plume affected by the Omega Chemical Site. Due to the ongoing nature of the EPA's investigation, the preliminary stage of the ongoing litigation and Phibro-Tech's dispute with the prior owner's successor, at this time we cannot predict with any degree of certainty what, if any, liability Phibro-Tech or the other subsidiaries may ultimately have for investigation, remediation and the EPA oversight and response costs associated with the affected groundwater plume.

Based upon information available, to the extent such costs can be estimated with reasonable certainty, we estimated the cost for further investigation and remediation of identified soil and groundwater problems at operating sites, closed sites and third-party sites, and closure costs for closed sites, to be approximately \$4,286 and \$4,293 at March 31, 2022, and June 30, 2021, respectively, which is included in current and long-term liabilities on the consolidated balance sheets. However, future events, such as new information, changes in existing Environmental Laws or their interpretation, and more vigorous enforcement policies of regulatory agencies, may give rise to additional expenditures or liabilities that could be material. For all purposes of the discussion under this caption and elsewhere in this report, it should be noted that we take and have taken the position that neither PAHC nor any of our subsidiaries are liable for environmental or other claims made against one or more of our other subsidiaries or for which any of such other subsidiaries may ultimately be responsible.

Claims and Litigation

PAHC and its subsidiaries are party to various claims and lawsuits arising out of the normal course of business including product liabilities, payment disputes and governmental regulation. Certain of these actions seek damages in various amounts. In many cases, such claims are covered by insurance. We believe that none of the claims or pending lawsuits, either individually or in the aggregate, will have a material adverse effect on our financial position, results of operations, cash flows or liquidity.

8. Derivatives

We monitor our exposure to foreign currency exchange rates and interest rates and from time-to-time use derivatives to manage certain of these risks. We designate derivatives as a hedge of a forecasted transaction or of the variability of the cash flows to be received or paid in the future related to a recognized asset or liability (cash flow hedge). All changes in the fair value of a highly effective cash flow hedge are recorded in accumulated other comprehensive income (loss).

We routinely assess whether the derivatives used to hedge transactions are effective. If we determine a derivative no longer is an effective hedge, we discontinue hedge accounting in the period of the assessment for that derivative, and immediately recognize any unrealized gains or losses related to the fair value of that derivative in the consolidated statements of operations.

We record derivatives at fair value in the consolidated balance sheets. For additional details regarding fair value, see "Note 9 — Fair Value Measurements."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In July 2017, we entered into an interest rate swap agreement on the first \$150,000 of notional principal that effectively converts the floating LIBOR portion of our interest obligation on that amount of debt to a fixed interest rate of 1.8325%. The agreement matures in June 2022. In March 2020, we entered into an interest rate swap agreement on an additional \$150,000 of notional principal that effectively converts the floating LIBOR portion of our interest obligation on that amount of debt to a fixed rate of 0.62%. Upon the maturity of the July 2017 agreement, the March 2020 agreement increases to a notional principal amount of \$300,000 through June 2025, and effectively converts the floating LIBOR portion of our interest obligation on \$300,000 of debt to a fixed interest rate of 0.62%. The forecasted transactions are probable of occurring, and the interest rate swaps have been designated as highly effective cash flow hedges.

We have entered into foreign currency option contracts to hedge cash flows related to monthly inventory purchases. The individual option contracts mature monthly through August 2023. The forecasted inventory purchases are probable of occurring and the individual option contracts were designated as highly effective cash flow hedges.

The consolidated balance sheet includes the net fair values of our outstanding foreign currency option contracts within the respective line items, based on the net financial position and maturity date of the individual contracts. The consolidated balance sheet includes the net fair values of our outstanding interest rate swaps within the respective balance sheet line items, based on the expected timing of the cash flows. The consolidated balance sheet includes assets and liabilities for the fair values of outstanding derivatives that are designated and effective as cash flow hedges as follows:

As of	March 31, 2022	June 30, 2021
Other current assets		
Brazil Real options, net	\$ 1,321	\$ —
Interest rate swaps	3,459	—
Other assets		
Brazil Real options, net	535	355
Interest rate swaps	14,025	2,341
Accrued expense and other current liabilities		
Brazil Real options, net	—	(150)
Interest rate swaps	(391)	(3,336)
Total Fair Value		
Brazil Real options, net	1,856	205
Interest rate swaps	17,093	(995)

Notional amounts of the derivatives as of the balance sheet date were:

As of	March 31, 2022
Brazil Real call options	R\$ 94,000
Brazil Real put options	R\$ 94,000
Interest rate swaps	\$ 300,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The consolidated statements of operations and statements of other comprehensive income (“OCI”) for the periods ended March 31, 2022 and 2021 included the effects of derivatives as follows:

For the Periods Ended March 31	Three Months		Nine Months	
	2022	2021	2022	2021
Brazil Real options, net				
Expense recorded in consolidated statement of operations	\$ 155	\$ 384	\$ 682	\$ 521
Consolidated statement of operations - total cost of goods sold	\$ 167,993	\$ 142,564	\$ 480,020	\$ 411,523
(Income) expense recorded in OCI	\$ (2,058)	\$ 836	\$ (1,651)	\$ (1,495)
Interest rate swaps				
Expense recorded in consolidated statements of operations	\$ 814	\$ 825	\$ 2,556	\$ 2,466
Consolidated statement of operations - total interest expense, net	\$ 2,925	\$ 2,933	\$ 8,767	\$ 8,957
(Income) recorded in OCI	\$ (12,900)	\$ (6,585)	\$ (18,088)	\$ (9,072)

We recognize gains and losses related to foreign currency derivatives as a component of cost of goods sold at the time the hedged item is sold. Inventory as of March 31, 2022, included realized net losses of \$1,688 related to matured contracts. We anticipate the net losses included in inventory will be recognized in cost of goods sold within the next eighteen months.

9. Fair Value Measurements

Short-term investments

Our short-term investments consist of cash deposits held at financial institutions. We consider the carrying amounts of these short-term investments to be representative of their fair value.

Current Assets and Liabilities

We consider the carrying amounts of current assets and current liabilities to be representative of their fair value because of the current nature of these items.

Contingent Consideration on Acquisitions

We determine the fair value of contingent consideration on acquisitions based on contractual terms, our current forecast of performance factors related to the acquired business and an applicable discount rate.

Debt

We record debt, including term loans and revolver balances, at amortized cost in our consolidated financial statements. We believe the carrying value of the debt is approximately equal to its fair value, due to the variable nature of the instruments and our evaluation of estimated market prices.

Derivatives

We determine the fair value of derivative instruments based upon pricing models using observable market inputs for these types of financial instruments, such as spot and forward currency translation rates.

Non-financial assets

Our non-financial assets, which primarily consist of goodwill, other intangible assets, property and equipment, and lease-related ROU assets, are not required to be measured at fair value on a recurring basis, and instead are reported at carrying value in the consolidated balance sheet. Assets and liabilities may be required to be measured at fair value on a non-recurring basis, either upon initial recognition or for subsequent accounting or reporting, including the initial recognition of net assets acquired in a business.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

combination. These fair value measurements involve unobservable inputs that reflect estimates and assumptions that represent Level 3 inputs.

Fair Value of Assets (Liabilities)

As of	March 31, 2022			June 30, 2021		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Short-term investments	\$ 22,100	\$ —	\$ —	\$ 43,000	\$ —	\$ —
Foreign currency derivatives	\$ —	\$ 1,856	\$ —	\$ —	\$ 205	\$ —
Interest rate swaps	\$ —	\$ 17,093	\$ —	\$ —	\$ (995)	\$ —
Contingent consideration on acquisitions	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (4,840)

There were no transfers between levels during the periods presented.

The contingent consideration on acquisitions was the minimum amount payable in accordance with the acquisition agreement for Osprey. The contingent consideration of \$4,840 was paid in October 2021.

10. Business Segments

We evaluate performance and allocate resources, based on the Animal Health, Mineral Nutrition and Performance Products segments. Certain of our costs and assets are not directly attributable to these segments and we refer to these items as Corporate. We do not allocate Corporate costs or assets to the segments because they are not used to evaluate the segments' operating results or financial position. Corporate costs include certain costs related to executive management, business technology, legal, finance, human resources and business development.

We evaluate performance of our segments based on Adjusted EBITDA. We define Adjusted EBITDA as income before income taxes plus (a) interest expense, net, (b) depreciation and amortization, (c) (income) loss from, and disposal of, discontinued operations, and (d) other expense or less other income, as separately reported on our consolidated statements of operations, including foreign currency (gains) losses, net and certain items that we consider to be unusual, non-operational or non-recurring.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The accounting policies of our segments are the same as those described in the summary of significant accounting policies included herein.

For the Periods Ended March 31	Three Months		Nine Months	
	2022	2021	2022	2021
Net sales				
Animal Health	\$ 148,589	\$ 134,380	\$ 440,520	\$ 398,987
Mineral Nutrition	69,033	58,153	190,120	163,750
Performance Products	21,997	19,196	56,356	50,335
Total segments	<u>\$ 239,619</u>	<u>\$ 211,729</u>	<u>\$ 686,996</u>	<u>\$ 613,072</u>
Depreciation and amortization				
Animal Health	\$ 6,935	\$ 6,457	\$ 19,872	\$ 19,476
Mineral Nutrition	661	646	1,960	2,042
Performance Products	436	416	1,292	1,284
Total segments	<u>\$ 8,032</u>	<u>\$ 7,519</u>	<u>\$ 23,124</u>	<u>\$ 22,802</u>
Adjusted EBITDA				
Animal Health	\$ 29,232	\$ 30,962	\$ 90,565	\$ 94,412
Mineral Nutrition	7,303	5,232	17,361	12,464
Performance Products	2,865	2,929	6,327	7,167
Total segments	<u>\$ 39,400</u>	<u>\$ 39,123</u>	<u>\$ 114,253</u>	<u>\$ 114,043</u>
Reconciliation of income before income taxes to Adjusted EBITDA				
Income before income taxes	\$ 26,833	\$ 17,782	\$ 59,958	\$ 50,343
Interest expense, net	2,925	2,933	8,767	8,957
Depreciation and amortization – Total segments	8,032	7,519	23,124	22,802
Depreciation and amortization – Corporate	413	399	1,176	1,240
Corporate costs	11,404	11,073	34,699	33,162
Gain on sale of investment	—	—	(1,203)	—
Acquisition-related costs of goods sold	78	—	78	—
Acquisition-related transaction costs	279	—	279	—
Stock-based compensation	—	—	—	1,129
Foreign currency (gains) , net	(10,564)	(583)	(12,625)	(3,590)
Adjusted EBITDA – Total segments	<u>\$ 39,400</u>	<u>\$ 39,123</u>	<u>\$ 114,253</u>	<u>\$ 114,043</u>
As of				
			March 31, 2022	June 30, 2021
Identifiable assets				
Animal Health			\$ 647,490	\$ 595,315
Mineral Nutrition			82,378	67,338
Performance Products			38,395	36,847
Total segments			<u>768,263</u>	<u>699,500</u>
Corporate			147,918	141,825
Total			<u>\$ 916,181</u>	<u>\$ 841,325</u>

The Animal Health segment includes all goodwill of the Company. Corporate assets include cash and cash equivalents, short-term investments, debt issuance costs, income tax-related assets and certain other assets.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Introduction

Our management’s discussion and analysis of financial condition and results of operations (“MD&A”) is provided to assist readers in understanding our performance, as reflected in the results of our operations, our financial condition and our cash flows. The following discussion summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and cash flows as of and for the periods presented below. This MD&A should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q. Our future results could differ materially from our historical performance as a result of various factors, such as those discussed in “Risk Factors” in Item 1A of our Annual Report and “Forward-Looking Statements.”

Overview of our business

Phibro Animal Health Corporation is a global diversified animal health and mineral nutrition company. We develop, manufacture and market a broad range of products for food animals including poultry, beef and dairy cattle, swine, and aquaculture. Our products help prevent, control and treat diseases, enhance nutrition to help improve health and performance and contribute to balanced mineral nutrition. In addition to animal health and mineral nutrition products, we manufacture and market specific ingredients for use in the personal care, industrial chemical and chemical catalyst industries.

Conflict between Russia and Ukraine

In response to the military conflict between Russia and Ukraine that began in February 2022, our Company and employees have provided support to Ukraine in the form of monetary donations, free product and humanitarian services. Our limited intent for the Russian market is to continue to provide medicines and vaccines, and related regulatory and technical support, to help existing customers combat disease challenges in the production of food animals on their farms. We have no production or direct distribution operations and no planned investments in Russia.

Since the conflict began, the United States and other North Atlantic Treaty Organization (NATO) member states, as well as non-member states, announced targeted economic sanctions on Russia, including certain Russian citizens and enterprises. The continuation of the conflict may trigger additional economic and other sanctions, as well as broader military conflicts. The potential impact of the conflict and any resulting bans, sanctions, boycotts or broader military conflicts on our business is uncertain at the current time due to the fluid nature of the conflict. The potential impacts could include supply chain and logistics disruptions, macroeconomic impacts resulting from the exclusion of Russian financial institutions from the global banking system, volatility in foreign exchange rates and interest rates, inflationary pressures on raw materials and energy as well as heightened cybersecurity threats. Our sales to Russia and Ukraine represent approximately 1% of annual consolidated net sales.

We cannot know if the conflict, which is unfolding in real-time, could escalate and result in broader economic and security concerns that could adversely affect our business, financial condition, or results of operations.

Effects of the COVID-19 pandemic

The global food and animal production industry has experienced demand disruption, production impacts, price volatility and international currency volatility due to the COVID-19 pandemic. The response to the global outbreak of COVID-19 continues to evolve. Governmental authorities continue to implement measures to contain virus outbreaks, such as travel bans, quarantines, shelter-in-place orders, site closures and business shutdowns. Although vaccines are now available, distribution efforts vary widely country-by-country and state-by-state. The pandemic has had significant economic impacts on customers, suppliers and markets. New information may continue to emerge concerning COVID-19 and the actions required to contain or treat it may affect the duration and severity of the economic impact. We believe the global food and animal production industry is returning to stability, but the potential impact of COVID-19 continues to evolve and future industry outlooks remain uncertain.

Phibro is an integral participant in the essential production of meat, milk, eggs and fish for human consumption. In the face of the pandemic, we have focused on the safety of our employees, while continuing to supply our customers. Our global production facilities have continued to operate without interruption, despite supply chain and logistical challenges. Our sales and technical service

people remain in close virtual contact with our customers in instances where face-to-face interactions are not available. Some of our administrative and management staff are still working remotely, while others have returned to the office with varying frequency. We have experienced some cost increases from supply chain disruptions as well as the safety measures implemented to protect our employees. We have maintained headcount and compensation at or above constant levels. We continue to monitor sales trends, cash flow and liquidity.

The uncertainties surrounding the COVID-19 pandemic remain fluid, particularly regarding the emergence of virus variants and the effectiveness of vaccines against the current and any future variants. We are still unable to predict with confidence the effectiveness of measures to contain COVID-19 and hence the impact on the economies where we manufacture and sell our products. While we continue to adapt our operations and mitigate the risks and challenges posed by COVID-19, the demand for our products will be dependent upon economic conditions and the ability of our customers and end users of our products to operate their businesses and production facilities. Our current operational results have been impacted while our future operational results may continue to be impacted by government-mandated response efforts, supply chain and manufacturing disruptions, increased volatility in raw material costs and decreased demand due to changes in our customer purchasing patterns and preferences. We are unable to predict with confidence the nature and timing of when any of these events may occur and the effects COVID-19 will have on our business, our consolidated results and the broader economic environment going forward. We will continue to evaluate the nature and extent of the effects of COVID-19 on our business, consolidated results of operations, financial condition, and liquidity. For additional considerations and risks associated with COVID-19 on our business, see "Risk Factors" in Item 1A of our Annual Report.

Trends and uncertainties

In April 2016, the Food and Drug Administration ("FDA") began initial steps to withdraw approval of carbadox via a regulatory process known as a Notice of Opportunity for Hearing ("NOOH"), due to concerns that certain residues from the product may persist in animal tissues for longer than previously determined. The NOOH process provided Phibro with an opportunity to defend the safety of carbadox prior to the FDA taking final steps to remove carbadox from the market. Over the next four years, as part of an ongoing process of responding to the inquiries from the FDA's Center for Veterinary Medicine ("CVM"), we provided extensive and meticulous research and data that confirmed the safety of carbadox. In March 2018, the FDA indefinitely stayed the withdrawal proceedings. In July 2020, the FDA announced it does not agree with Phibro's scientific conclusions that carbadox is safe under the current conditions of use. Instead of proceeding to a hearing on the scientific concerns raised in the 2016 NOOH, consistent with the normal regulatory procedure, the FDA announced that it was withdrawing the current NOOH, and issuing a proposed order to review the regulatory method for carbadox. The approved regulatory method determines if there are residues of carcinogenic concern in animal tissue at the time of slaughter. If the order is finalized, the FDA has indicated it plans to issue a new NOOH proposing the withdrawal of carbadox from the market because of a lack of an approved regulatory method.

In September 2020, Phibro commented on the proposed order, reiterating the safety of carbadox and the appropriateness of the regulatory method, and further offered to work with the CVM to generate additional data to support the existing regulatory method or select a suitable alternative regulatory method. Phibro disagreed with the agency's actions and submitted a request to the FDA Office of the Commissioner that the agency continue the NOOH process it started in 2016 and proceed with a hearing to review the substantial body of data supporting the safety of carbadox.

On March 10, 2022, the FDA held a virtual public hearing seeking data and information related to the safety of carbadox. Phibro has continued an ongoing process of responding collaboratively and transparently to CVM's inquiries to provide extensive and meticulous research and data that confirm the safety of carbadox. Carbadox has been approved and sold in the United States for 50 years and is a widely used treatment for controlling bacterial diseases in swine, including Salmonella and swine dysentery. In the event the FDA continues to assert that carbadox should be removed from the market, we will argue that we are entitled to and expect to have a full evidentiary hearing on the merits before an administrative law judge. Should we be unable to successfully defend the safety of the product, the loss of carbadox sales will have an adverse effect on our financial condition and results of operations. Sales of Mecadox (carbadox) for the twelve months ended March 31, 2022, were \$20 million. As of the date of this Quarterly Report on Form 10-Q, Mecadox continues to be available for use by swine producers.

Analysis of the consolidated statements of operations

Summary Results of Operations

For the Periods Ended March 31	Three Months				Nine Months			
	2022	2021	Change (in thousands, except per share amounts and percentages)		2022	2021	Change	
Net sales	\$ 239,619	\$ 211,729	\$ 27,890	13 %	\$ 686,996	\$ 613,072	\$ 73,924	12 %
Gross profit	71,626	69,165	2,461	4 %	206,976	201,549	5,427	3 %
Selling, general and administrative expenses	52,432	49,033	3,399	%	150,876	145,839	5,037	3 %
Operating income	19,194	20,132	(938)	(5)%	56,100	55,710	390	1 %
Interest expense, net	2,925	2,933	(8)	— %	8,767	8,957	(190)	(2)%
Foreign currency (gains), net	(10,564)	(583)	(9,981)	*	(12,625)	(3,590)	(9,035)	*
Income before income taxes	26,833	17,782	9,051	51 %	59,958	50,343	9,615	19 %
Provision for income taxes	9,144	5,621	3,523	63 %	18,270	13,079	5,191	40 %
Net income	<u>\$ 17,689</u>	<u>\$ 12,161</u>	<u>\$ 5,528</u>	<u>45 %</u>	<u>\$ 41,688</u>	<u>\$ 37,264</u>	<u>\$ 4,424</u>	<u>12 %</u>
Net income per share								
Basic	\$ 0.44	\$ 0.30	\$ 0.14	47 %	\$ 1.03	\$ 0.92	\$ 0.11	12 %
Diluted	\$ 0.44	\$ 0.30	\$ 0.14	47 %	\$ 1.03	\$ 0.92	\$ 0.11	12 %
Weighted average number of shares outstanding								
Basic	40,504	40,483			40,504	40,463		
Diluted	40,504	40,504			40,504	40,504		
Ratio to net sales								
Gross profit	29.9 %	32.7 %			30.1 %	32.9 %		
Selling, general and administrative expenses	21.9 %	23.2 %			22.0 %	23.8 %		
Operating income	8.0 %	9.5 %			8.2 %	9.1 %		
Income before income taxes	11.2 %	8.4 %			8.7 %	8.2 %		
Net income	7.4 %	5.7 %			6.1 %	6.1 %		
Effective tax rate	34.1 %	31.6 %			30.5 %	26.0 %		

Certain amounts and percentages may reflect rounding adjustments.

* Calculation not meaningful

Net sales, Adjusted EBITDA and reconciliation of GAAP net income to Adjusted EBITDA

We report Net sales and Adjusted EBITDA by segment to understand the operating performance of each segment. This enables us to monitor changes in net sales, costs and other actionable operating metrics at the segment level. See “—General description of non-GAAP financial measures.”

Segment net sales and Adjusted EBITDA:

For the Periods Ended March 31	Three Months			Nine Months		
	2022	2021	Change	2022	2021	Change
Net sales	(in thousands, except percentages)					
MFAs and other	\$ 84,330	\$ 78,530	\$ 5,800 7 %	\$ 259,812	\$ 238,810	\$ 21,002 9 %
Nutritional specialties	41,394	36,978	4,416 12 %	114,721	105,972	8,749 8 %
Vaccines	22,865	18,872	3,993 21 %	65,987	54,205	11,782 22 %
Animal Health	148,589	134,380	14,209 11 %	440,520	398,987	41,533 10 %
Mineral Nutrition	69,033	58,153	10,880 19 %	190,120	163,750	26,370 16 %
Performance Products	21,997	19,196	2,801 15 %	56,356	50,335	6,021 12 %
Total	<u>\$ 239,619</u>	<u>\$ 211,729</u>	<u>\$ 27,890 13 %</u>	<u>\$ 686,996</u>	<u>\$ 613,072</u>	<u>\$ 73,924 12 %</u>

Adjusted EBITDA

Animal Health	\$ 29,232	\$ 30,962	\$ (1,730) (6)%	\$ 90,565	\$ 94,412	\$ (3,847) (4)%
Mineral Nutrition	7,303	5,232	2,071 40 %	17,361	12,464	4,897 39 %
Performance Products	2,865	2,929	(64) (2)%	6,327	7,167	(840) (12)%
Corporate	(11,404)	(11,073)	(331) (3)%	(34,699)	(33,162)	(1,537) (5)%
Total	<u>\$ 27,996</u>	<u>\$ 28,050</u>	<u>\$ (54) — %</u>	<u>\$ 79,554</u>	<u>\$ 80,881</u>	<u>\$ (1,327) (2)%</u>

Adjusted EBITDA ratio to segment net sales

Animal Health	19.7 %	23.0 %	20.6 %	23.7 %
Mineral Nutrition	10.6 %	9.0 %	9.1 %	7.6 %
Performance Products	13.0 %	15.3 %	11.2 %	14.2 %
Corporate ⁽¹⁾	(4.8)%	(5.2)%	(5.1)%	(5.4)%
Total ⁽¹⁾	11.7 %	13.2 %	11.6 %	13.2 %

(1) Reflects ratio to total net sales

[Table of Contents](#)

The table below sets forth a reconciliation of net income, as reported under GAAP, to Adjusted EBITDA:

For the Periods Ended March 31	Three Months				Nine Months			
	2022	2021	Change		2022	2021	Change	
	(in thousands, except percentages)							
Net income	\$ 17,689	\$ 12,161	\$ 5,528	45 %	\$ 41,688	\$ 37,264	\$ 4,424	12 %
Interest expense, net	2,925	2,933	(8)	— %	8,767	8,957	(190)	(2)%
Provision for income taxes	9,144	5,621	3,523	63 %	18,270	13,079	5,191	40 %
Depreciation and amortization	8,445	7,918	527	7 %	24,300	24,042	258	1 %
EBITDA	38,203	28,633	9,570	33 %	93,025	83,342	9,683	12 %
Gain on sale of investment	—	—	—	*	(1,203)	—	(1,203)	*
Acquisition-related cost of goods sold	78	—	78	*	78	—	78	*
Acquisition-related transaction costs	279	—	279	*	279	—	279	*
Stock-based compensation	—	—	—	*	—	1,129	(1,129)	*
Foreign currency (gains), net	(10,564)	(583)	(9,981)	*	(12,625)	(3,590)	(9,035)	*
Adjusted EBITDA	<u>\$ 27,996</u>	<u>\$ 28,050</u>	<u>\$ (54)</u>	<u>— %</u>	<u>\$ 79,554</u>	<u>\$ 80,881</u>	<u>\$ (1,327)</u>	<u>(2)%</u>

Certain amounts may reflect rounding adjustments.

* Calculation not meaningful

Comparison of three months ended March 31, 2022 and 2021

Net sales

Net sales of \$239.6 million for the three months ended March 31, 2022, increased \$27.9 million, or 13%, as compared to the three months ended March 31, 2021. Animal Health, Mineral Nutrition, and Performance Products increased \$14.2 million, \$10.9 million, and \$2.8 million, respectively.

Animal Health

Net sales of \$148.6 million for the three months ended March 31, 2022, increased \$14.2 million, or 11%. Net sales of MFAs and other increased \$5.8 million, or 7%, driven by increased sales of processing aids used to improve production efficiency in the ethanol fermentation industry. Net sales of nutritional specialty products increased \$4.4 million, or 12%, due to higher demand in dairy and microbial products, plus increased revenues from our companion animal product. Net sales of vaccines increased \$4.0 million, or 21%, due to increased domestic and international volumes.

Mineral Nutrition

Net sales of \$69.0 million for the three months ended March 31, 2022, increased \$10.9 million, or 19%, primarily driven by higher average selling prices of trace minerals. The increase in average selling prices is due to the movement of the underlying raw material costs.

Performance Products

Net sales of \$22.0 million for the three months ended March 31, 2022, increased \$2.8 million, or 15%, as a result of higher volumes of ingredients for personal care products and higher volumes and average selling prices of copper-based products.

Gross profit

Gross profit of \$71.6 million for the three months ended March 31, 2022, increased \$2.5 million, or 4%, as compared to the three months ended March 31, 2021. Gross margin decreased 280 basis points to 29.9% of net sales for the three months ended March 31, 2022, as compared to 32.7% for the three months ended March 31, 2021.

Animal Health gross profit increased \$0.5 million, primarily driven by higher sales volume, offset by increased raw material and logistics costs. Mineral Nutrition gross profit increased \$2.2 million, driven primarily by higher average selling prices, partially offset by an increase in raw material costs. Performance Products gross profit decreased \$0.2 million, as a result of higher raw material and production costs.

Selling, general and administrative expenses

Selling, general and administrative expenses ("SG&A") of \$52.4 million for the three months ended March 31, 2022, increased \$3.4 million, or 7%, as compared to the three months ended March 31, 2021. SG&A for the three months ended March 31, 2022, included acquisition-related costs of \$0.3 million.

Animal Health SG&A increased \$2.8 million, primarily due to an increase in the number of employees and employee-related costs, in addition to travel expenses. Mineral Nutrition and Performance Products SG&A were comparable to the prior year. Excluding the acquisition-related costs, Corporate costs increased by \$0.3 million primarily due to increased technology-related costs.

Interest expense, net

Interest expense, net of \$2.9 million for the three months ended March 31, 2022, was comparable to the three months ended March 31, 2021.

Foreign currency (gains), net

Foreign currency (gains), net for the three months ended March 31, 2022, amounted to net gains of \$10.6 million, as compared to \$0.6 million of net gains for the three months ended March 31, 2021. Foreign currency (gains), net primarily arose from intercompany balances. Current period gains were driven by the movement of the Turkish and Brazilian currencies relative to the U.S. dollar.

Provision for income taxes

The provision for income taxes was \$9.1 million and \$5.6 million for the three months ended March 31, 2022 and 2021, respectively. The effective income tax rate was 34.1% and 31.6% for the three months ended March 31, 2022 and 2021, respectively. The provision for income taxes during the three months ended March 31, 2022, included a \$0.4 million expense for a change in deferred taxes, a \$0.1 million expense related to the finalized regulations for the Global Intangible Low-Taxed Income ("GILTI") tax, and a \$0.1 million expense related to an uncertain tax position adjustment. The effective income tax rate, without these items, would have been 31.8% for the three months ended March 31, 2022. The provision for income taxes during the three months ended March 31, 2021, included a \$0.6 million expense related to a detailed deferred tax analysis of property, plant, and equipment and intangible assets. The effective income tax rate, without this expense, would have been 27.9% for the three months ended March 31, 2021.

Net income

Net income of \$17.7 million for the three months ended March 31, 2022, increased \$5.5 million, as compared to net income of \$12.2 million for the three months ended March 31, 2021. Operating income decreased \$0.9 million, driven by higher SG&A, partially offset by favorable gross profit. The increase in gross profit in the Animal Health and Mineral Nutrition segments was due to higher product demand and higher selling prices, respectively. Gross profit in the Performance Products segment decreased due to higher raw material and production costs. Interest expense was comparable, while foreign currency (gains), net increased \$10.0 million. Income tax expense increased \$3.5 million.

Adjusted EBITDA

Adjusted EBITDA of \$28.0 million for the three months ended March 31, 2022, was comparable to the three months ended March 31, 2021. Animal Health Adjusted EBITDA decreased \$1.7 million due to higher SG&A, partially offset by higher revenue and gross profit. Mineral Nutrition Adjusted EBITDA increased \$2.1 million, driven by increased gross profit. Performance Products Adjusted EBITDA was comparable to the three months ended March 31, 2021. Corporate expenses increased \$0.3 million, primarily due to increased technology-related costs.

Comparison of nine months ended March 31, 2022 and 2021

Net sales

Net sales of \$687.0 million for the nine months ended March 31, 2022, increased \$73.9 million, or 12%, as compared to the nine months ended March 31, 2021. Animal Health, Mineral Nutrition, and Performance Products sales increased \$41.5 million, \$26.4 million, and \$6.0 million, respectively.

Animal Health

Net sales of \$440.5 million for the nine months ended March 31, 2022, increased \$41.5 million, or 10%. Net sales of MFAs and other increased \$21.0 million, or 9%, due to higher demand in international markets and higher sales of processing aids used to improve production efficiency in the ethanol fermentation industry. Net sales of nutritional specialty products grew \$8.7 million, or 8%, driven by higher demand in dairy and microbial products, plus increased revenues from our companion animal product. Net sales of vaccines increased \$11.8 million, or 22%, due to increased domestic and international volumes.

Mineral Nutrition

Net sales of \$190.1 million for the nine months ended March 31, 2022, increased \$26.4 million, or 16%. The increase was mainly attributable to an increase in average selling prices. The increase in average selling prices is correlated with the movement of the underlying raw material costs.

Performance Products

Net sales of \$56.4 million for the nine months ended March 31, 2022, increased \$6.0 million, or 12%, driven by higher demand for industrial chemicals and ingredients for personal care products and by higher average selling prices of the underlying raw materials.

Gross profit

Gross profit of \$207.0 million for the nine months ended March 31, 2022, increased \$5.4 million, or 3%, as compared to the nine months ended March 31, 2021. Gross margin decreased 280 basis points to 30.1% of net sales for the nine months ended March 31, 2022, as compared to 32.9% for the nine months ended March 31, 2021.

Animal Health gross profit increased \$1.2 million as increases in product demand and average selling prices were largely offset by higher raw material and logistics costs. Mineral Nutrition gross profit increased \$5.2 million, with increases in average selling prices, partially offset by increased raw material costs. Performance Products gross profit decreased \$1.0 million due to higher raw material costs and production costs.

Selling, general and administrative expenses

SG&A of \$150.9 million for the nine months ended March 31, 2022, increased \$5.0 million, or 3%, as compared to the nine months ended March 31, 2021. SG&A for the nine months ended March 31, 2022, included a gain on sale of investment of \$1.2 and acquisition-related costs of \$0.3 million. SG&A for the nine months ended March 31, 2021, included \$1.1 million of stock-based compensation expense. Without these items, SG&A for the nine months ended March 31, 2022 increased \$7.4 million, or 5%.

Animal Health SG&A increased \$5.5 million primarily due to an increase in the number of employees and employee-related costs, in addition to travel expenses. Mineral Nutrition and Performance Products SG&A were comparable to the prior year. Excluding the gain on sale of investment, acquisition-related costs, and stock-based compensation, Corporate expenses increased \$1.5 million due to strategic investments and increased technology-related costs.

Interest expense, net

Interest expense, net of \$8.8 million for the nine months ended March 31, 2022, decreased \$0.2 million, or 2%, as compared to the nine months ended March 31, 2021, due to reduced amortization of debt issuance costs subsequent to the April 2021 debt refinancing.

Foreign currency (gains), net

Foreign currency (gains), net for the nine months ended March 31, 2022, amounted to net gains of \$12.6 million, as compared to net gains of \$3.6 million for the nine months ended March 31, 2021. Foreign currency (gains), net primarily arose from intercompany balances. Current period gains were driven by the movement of the Turkish and Brazilian currencies relative to the U.S. dollar.

Provision for income taxes

The provision for income taxes was \$18.3 million and \$13.1 million for the nine months ended March 31, 2022 and 2021, respectively. The effective income tax rate was 30.5% and 26.0% for the nine months ended March 31, 2022 and 2021, respectively. The provision for income taxes for the nine months ended March 31, 2022, included a \$0.4 million expense for a change in deferred taxes, a \$0.6 million expense from changes in uncertain tax positions related to prior years, and a \$0.1 million benefit related to final regulations for the GILTI tax. The effective income tax rate, without these items, would have been 29.0% for the nine months ended March 31, 2022. The provision for income taxes during the nine months ended March 31, 2021, included (i) a \$1.5 million benefit for the years ended June 30, 2020 and 2019, related to final regulations issued in July 2020 for the Global Intangible Low-Taxed Income (“GILTI”) tax, (ii) an \$0.8 million benefit related to exchange rate differences on intercompany dividends, (iii) a \$0.6 million benefit for the reversal of an uncertain tax position, and (iv) a \$0.6 million expense related to a detailed deferred tax analysis of property, plant, and equipment and intangible assets. The effective income tax rate, without these items, would have been 30.3% for the nine months ended March 31, 2021.

Net income

Net income of \$41.7 million for the nine months ended March 31, 2022, increased \$4.4 million, as compared to net income of \$37.3 million for the nine months ended March 31, 2021. Operating income increased \$0.4 million, driven by higher gross profit, offset by higher SG&A. The increase in gross profit was primarily driven by higher average selling prices in Mineral Nutrition, offset by a decrease in gross profit in Performance Products due to higher raw material and production costs. SG&A expenses increased due to higher employee-related costs and strategic investments. The variance in foreign currency (gains), net resulted in a \$9.0 million increase in income before income taxes. Income tax expense increased \$5.2 million.

Adjusted EBITDA

Adjusted EBITDA of \$79.6 million for the nine months ended March 31, 2022, decreased \$1.3 million, or 2%, as compared to the nine months ended March 31, 2021. Animal Health Adjusted EBITDA decreased \$3.8 million, resulting from an increase in SG&A, partially offset by higher sales and increased gross profit. Mineral Nutrition Adjusted EBITDA increased \$4.9 million with higher sales and related gross profit. Performance Products Adjusted EBITDA decreased \$0.8 million with lower gross profit. Corporate expenses increased \$1.5 million due to increased strategic investments and technology-related costs.

Analysis of financial condition, liquidity and capital resources

Net increase in cash and cash equivalents was:

For the Periods Ended March 31	2022	Nine Months	
		2021	Change
		(in thousands)	
Cash provided (used) by:			
Operating activities	\$ 30,075	\$ 45,236	\$ (15,161)
Investing activities	(13,042)	(11,390)	(1,652)
Financing activities	3,954	(21,632)	25,586
Effect of exchange-rate changes on cash and cash equivalents	(451)	546	(997)
Net increase in cash and cash equivalents	<u>\$ 20,536</u>	<u>\$ 12,760</u>	<u>\$ 7,776</u>

Certain amounts may reflect rounding adjustments.

Net cash provided by operating activities was comprised of:

For the Periods Ended March 31	2022	Nine Months	
		2021	Change
		(in thousands)	
EBITDA	\$ 93,025	\$ 83,342	\$ 9,683
Adjustments:			
Gain on sale of investment	(1,203)	—	(1,203)
Acquisition-related cost of goods sold	78	—	78
Acquisition-related transaction costs	279	—	279
Stock-based compensation	—	1,129	(1,129)
Foreign currency (gains), net	(12,625)	(3,590)	(9,035)
Interest paid, net	(8,220)	(8,123)	(97)
Income taxes paid	(13,432)	(14,335)	903
Changes in operating assets and liabilities and other items	(27,827)	(13,187)	(14,640)
Net cash provided by operating activities	<u>\$ 30,075</u>	<u>\$ 45,236</u>	<u>\$ (15,161)</u>

Certain amounts may reflect rounding adjustments.

Operating activities

Operating activities provided \$30.1 million of net cash for the nine months ended March 31, 2022. Cash provided by net income and non-cash items, including depreciation and amortization, was \$52.0 million. Cash used in the ordinary course of business for changes in operating assets and liabilities and other items was \$27.8 million. Cash used for receivables was \$10.8 million as a result of the increase in revenue. Cash used for inventory was \$30.5 million. Inventory increases were primarily due to forecasted future demand and internal production schedules. For certain products, we are maintaining safety stocks to mitigate potential disruptions in production. Accounts payable provided \$20.0 million of cash due to timing of purchases and payments. Accrued expenses and other liabilities provided cash of \$3.7 million primarily due to employee-related liabilities.

[Table of Contents](#)*Investing activities*

Investing activities used \$13.0 million of net cash for the nine months ended March 31, 2022. Capital expenditures were \$25.2 million as we continued to invest in expanding production capacity and productivity improvements. We used \$10.8 million for the acquisition of a business. Reductions of our short-term investments provided \$20.9 million of cash. We received \$1.4 million of cash proceeds from the sale of an investment.

Financing activities

Financing activities provided \$4.0 million of net cash for the nine months ended March 31, 2022. Net borrowings on our 2021 Revolver provided \$29.0 million. We paid \$14.6 million in dividends to holders of our Class A and Class B common stock. We paid \$5.6 million in scheduled debt maturities and other requirements. In October 2021, we made a \$4.8 million payment for the contingent consideration related to a previous acquisition.

Liquidity and capital resources

We believe our cash on hand, operating cash flows and financing arrangements, including the availability of borrowings under the 2021 Revolver and foreign credit lines, will be sufficient to support our ongoing cash needs. We are aware of the current and potential future effects of COVID-19 on the financial markets. We expect adequate liquidity for at least the next twelve months. However, we can provide no assurance that our liquidity and capital resources will be adequate for future funding requirements. We believe we will comply with the terms of the covenants under the 2021 Credit Facilities and foreign credit lines based on our operating plan. In the event of adverse operating results and/or violation of covenants under the facilities, there can be no assurance we would be able to obtain waivers or amendments. Other risks to our meeting future funding requirements include global economic conditions and macroeconomic, business and financial disruptions that could arise, including those caused by COVID-19, as well as shipping and labor costs and material availability. There can be no assurance that a challenging economic environment or an economic downturn would not affect our liquidity or ability to obtain future financing or fund operations or investment opportunities. In addition, our debt covenants may restrict our ability to invest.

Certain relevant measures of our liquidity and capital resources follow:

As of	March 31, 2022 (in thousands, except ratios)	June 30, 2021 (in thousands, except ratios)
Cash and cash equivalents and short-term investments	\$ 92,848	\$ 93,212
Working capital	281,527	250,956
Ratio of current assets to current liabilities	2.64:1	2.62:1

We define working capital as total current assets (excluding cash and cash equivalents and short-term investments) less total current liabilities (excluding current portion of long-term debt). We calculate the ratio of current assets to current liabilities based on this definition.

As of March 31, 2022, we had \$124.0 million in outstanding borrowings under the 2021 Revolver and had outstanding letters of credit and other commitments of \$2.7 million, leaving \$123.3 million available for further borrowings and letters of credit, subject to restrictions in our 2021 Credit Facilities.

We currently intend to pay quarterly dividends on our Class A and Class B common stock, subject to approval from the Board of Directors. Our Board of Directors declared a cash dividend of \$0.12 per share on Class A and Class B common stock, payable on June 22, 2022. Our future ability to pay dividends will depend upon our results of operations, financial condition, capital requirements, our ability to obtain funds from our subsidiaries and other factors that our Board of Directors deems relevant. Additionally, the terms of our current and any future agreements governing our indebtedness could limit our ability to pay dividends or make other distributions.

As of March 31, 2022, our cash and cash equivalents and short-term investments included \$91.9 million held by our international subsidiaries. There are no restrictions on cash distributions to PAHC from our international subsidiaries.

Contractual obligations

As of March 31, 2022, there were no material changes in payments due under contractual obligations from those disclosed in the Annual Report. During the nine months ended March 31, 2022, we executed a lease amendment for certain land and manufacturing facilities that provides options to extend the lease an additional 10 years. The future lease payments have been discounted and included in our lease liabilities as of March 31, 2022. The lease payments for years 2036 through 2045 range between \$0.7 million and \$0.8 million annually.

Off-balance sheet arrangements

We do not currently use off-balance sheet arrangements for the purpose of credit enhancement, hedging transactions, investment or other financial purposes.

In the ordinary course of business, we may indemnify our counterparties against certain liabilities that may arise. These indemnifications typically pertain to environmental matters. If the indemnified party were to make a successful claim pursuant to the terms of the indemnification, we would be required to reimburse the loss. These indemnifications generally are subject to certain restrictions and limitations.

General description of non-GAAP financial measures

Adjusted EBITDA

Adjusted EBITDA is an alternative view of performance used by management as our primary operating measure, and we believe that investors' understanding of our performance is enhanced by disclosing this performance measure. We report Adjusted EBITDA to portray the results of our operations prior to considering certain income statement elements. We have defined EBITDA as net income (loss) plus (i) interest expense, net, (ii) provision for income taxes or less benefit for income taxes, and (iii) depreciation and amortization. We have defined Adjusted EBITDA as EBITDA plus (a) (income) loss from, and disposal of, discontinued operations, (b) other expense or less other income, as separately reported on our consolidated statements of operations, including foreign currency gains and losses, and (c) certain items that we consider to be unusual, non-operational or non-recurring. The Adjusted EBITDA measure is not, and should not be viewed as, a substitute for GAAP reported net income.

The Adjusted EBITDA measure is an important internal measurement for us. We measure our overall performance on this basis in conjunction with other performance metrics. The following are examples of how our Adjusted EBITDA measure is utilized:

- senior management receives a monthly analysis of our operating results that is prepared on an Adjusted EBITDA basis;
- our annual budgets are prepared on an Adjusted EBITDA basis; and
- other goal setting and performance measurements are prepared on an Adjusted EBITDA basis.

Despite the importance of this measure to management in goal setting and performance measurement, Adjusted EBITDA is a non-GAAP financial measure that has no standardized meaning prescribed by GAAP and, therefore, has limits in its usefulness to investors. Because of its non-standardized definition, Adjusted EBITDA, unlike GAAP net income, may not be comparable to the calculation of similar measures of other companies. Adjusted EBITDA is presented to permit investors to more fully understand how management assesses performance.

We also recognize that, as an internal measure of performance, the Adjusted EBITDA measure has limitations, and we do not restrict our performance management process solely to this metric. A limitation of the Adjusted EBITDA measure is that it provides a view of our operations without including all events during a period, such as the depreciation of property, plant and equipment or amortization of purchased intangibles, and does not provide a comparable view of our performance to other companies.

Certain significant items

Adjusted EBITDA is calculated prior to considering certain items. We evaluate such items on an individual basis. Such evaluation considers both the quantitative and the qualitative aspect of their unusual or non-operational nature. Unusual, in this context, may represent items that are not part of our ongoing business and items that, either as a result of their nature or size, we would not expect to occur as part of our normal business on a regular basis.

We consider acquisition-related activities and business restructuring costs related to productivity and cost-saving initiatives, including employee separation costs, to be unusual items that we do not expect to occur as part of our normal business on a regular basis. We consider foreign currency gains and losses to be non-operational because they arise principally from intercompany transactions and are largely non-cash in nature.

New accounting standards

For discussion of new accounting standards, see “Notes to Consolidated Financial Statements—Summary of Significant Accounting Policies and New Accounting Standards.”

Critical Accounting Policies

Critical accounting policies are those that require application of management’s most difficult, subjective and/or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Not all accounting policies require management to make difficult, subjective or complex judgments or estimates. In presenting our consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (GAAP), we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results that differ from our estimates and assumptions could have an unfavorable effect on our financial position and results of operations. Critical accounting policies include revenue recognition, business combinations, long-lived assets, goodwill, and income taxes.

The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations and financial condition will depend on future developments that are uncertain. The pandemic may affect our future sales, expenses, reserves and allowances, manufacturing operations and employee-related costs. The pandemic may have significant economic impacts on our customers, suppliers and markets where we compete and operate. New information may continue to emerge concerning COVID-19, and the actions required to contain or treat it may affect the duration and severity of the pandemic. Our financial statements include estimates of the effects of COVID-19 and there may be changes to those estimates in future periods.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical or current fact included in this report are forward-looking statements. Forward-looking statements discuss our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “aim,” “anticipate,” “believe,” “estimate,” “expect,” “forecast,” “outlook,” “potential,” “project,” “projection,” “plan,” “intend,” “seek,” “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. For example, all statements we make relating to our estimated and projected earnings, revenues, costs, expenditures, cash flows, growth rates and financial results, our plans and objectives for future operations, growth or initiatives, strategies, or the expected outcome or impact of pending or threatened litigation are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected. Examples of such risks and uncertainties include:

- the negative effects of a pandemic, epidemic, or outbreak of an infectious disease in humans, such as COVID-19, on our business, financial results, manufacturing facilities and supply chain, as well as our customers, protein processors and markets;

[Table of Contents](#)

- perceived adverse effects on human health linked to the consumption of food derived from animals that utilize our products could cause a decline in the sales of those products;
- restrictions on the use of antibacterials in food-producing animals may become more prevalent;
- the potential FDA withdrawal of approval of our Mecadox (carbadox) product;
- a material portion of our sales and gross profits are generated by antibacterials and other related products;
- competition in each of our markets from a number of large and small companies, some of which have greater financial, research and development (“R&D”), production and other resources than we have;
- outbreaks of animal diseases could significantly reduce demand for our products;
- our business may be negatively affected by weather conditions and the availability of natural resources;
- climate change could have a material adverse impact on our operations and our customers’ businesses;
- the continuing trend toward consolidation of certain customer groups as well as the emergence of large buying groups;
- our ability to control costs and expenses;
- any unforeseen material loss or casualty;
- exposure relating to rising costs and reduced customer income;
- competition deriving from advances in veterinary medical practices and animal health technologies;
- unanticipated safety or efficacy concerns;
- our dependence on suppliers having current regulatory approvals;
- our raw materials are subject to price fluctuations and their availability can be limited;
- natural and man-made disasters, including but not limited to fire, snow and ice storms, flood, hail, hurricanes, and earthquakes;
- business interruption from political and social instability, including crime, civil disturbance, terrorist activities, outbreaks of disease and pandemics and armed conflicts, such as the current armed conflict between Russia and Ukraine;
- terrorist attacks, particularly attacks on or within markets in which we operate;
- our ability to successfully implement our strategic initiatives;
- our reliance on the continued operation of our manufacturing facilities and application of our intellectual property;
- adverse U.S. and international economic market conditions, including currency fluctuations;
- failure of our product approval, R&D, acquisition and licensing efforts to generate new products;
- the risks of product liability claims, legal proceedings and general litigation expenses;

- the impact of current and future laws and regulatory changes;
- modification of foreign trade policy may harm our food animal product customers;
- our dependence on our Israeli and Brazilian operations;
- our substantial level of indebtedness and related debt-service obligations;
- restrictions imposed by covenants in our debt agreements;
- the risk of work stoppages; and
- other factors as described in “Risk Factors” in Item 1A of our Annual Report.

While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from our expectations, or cautionary statements, are disclosed under “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” All forward-looking statements are expressly qualified in their entirety by these cautionary statements. You should evaluate all forward-looking statements made in this report in the context of these risks and uncertainties.

We caution you that the important factors referenced above may not contain all of the factors that are important to you. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences we anticipate or affect us or our operations in the way we expect. The forward-looking statements included in this report are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. If we do update one or more forward-looking statements, no inference should be made that we will make additional updates with respect to those or other forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

In the normal course of operations, we are exposed to market risks arising from adverse changes in interest rates, foreign currency exchange rates and commodity prices. As a result, future earnings, cash flows and fair values of assets and liabilities are subject to uncertainty. We use, from time to time, foreign currency contracts and interest rate swaps as a means of hedging exposure to foreign currency risks and fluctuating interest rates, respectively. We do not utilize derivative instruments for trading or speculative purposes. We do not hedge our exposure to market risks in a manner that eliminates the effects of changing market conditions on earnings, cash flows and fair values. We monitor the financial stability and credit standing of our major counterparties.

For financial market risks related to changes in interest rates and foreign currency exchange rates, reference is made to the “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Qualitative and Quantitative Disclosures about Market Risk” section in the Annual Report and to the notes to the consolidated financial statements included therein. As of the date of this report, there were no material changes in the Company’s financial market risks from the risks disclosed in the Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Company’s management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”). Based upon that evaluation as of March 31, 2022, our Chief Executive Officer and Chief Financial Officer each concluded that, as of the end of such period, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the quarter ended March 31, 2022.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

Information required by this Item is incorporated herein by reference to “Notes to the Consolidated Financial Statements—*Commitments and Contingencies*” in Part I, Item 1, of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in the “Risk Factors” section in the Annual Report, which could materially affect our business, financial condition or future results.

There were no material changes in the Company’s risk factors from the risks disclosed in the Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit 31.1	Chief Executive Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 302
Exhibit 31.2	Chief Financial Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 302
Exhibit 32.1	Chief Executive Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 906
Exhibit 32.2	Chief Financial Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 906
Exhibit 101 .INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Phibro Animal Health Corporation

May 4, 2022

By: /s/ Jack C. Bendheim

Jack C. Bendheim

Chairman, President and Chief Executive Officer

May 4, 2022

By: /s/ Damian Finio

Damian Finio

Chief Financial Officer

CERTIFICATIONS

I, Jack C. Bendheim, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Phibro Animal Health Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 4, 2022

/s/ Jack C. Bendheim

Jack C. Bendheim

Chairman, President and Chief Executive Officer

CERTIFICATIONS

I, Damian Finio, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Phibro Animal Health Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 4, 2022

/s/ Damian Finio

Damian Finio
Chief Financial Officer

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Dated: May 4, 2022

/s/ Jack C. Bendheim

Jack C. Bendheim

Chairman, President and Chief Executive Officer

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Dated: May 4, 2022

/s/ Damian Finio

Damian Finio

Chief Financial Officer
