Phibro Animal Health Corporation



Financial Results

Fourth Quarter and Year Ended June 30, 2023

Webcast and Conference Call
August 31, 2023

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Important Information

Cautionary Statement Regarding Forward-Looking Statements

This communication contains forward-looking statements that are subject to risks and uncertainties, including with respect to future debt and leverage levels. All statements other than statements of historical or current fact included in this report are forward-looking statements. Forward-looking statements discuss our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “aim,” “anticipate,” “estimate,” “expect,” “forecast,” “outlook,” “potential,” “project,” “projection,” “plan,” “intend,” “seek,” “believe,” “may,” “could,” “would,” “will,” “should,” “can,” “can have,” “likely,” the negatives thereof and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. These statements are not a guarantee of future performance or actions. If one or more of these risks or uncertainties materialize, or if management’s underlying assumptions prove to be incorrect, actual results may differ materially from those contemplated by a forward-looking statement. Forward-looking statements speak only as of the date on which they are made. Phibro expressly disclaims any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. A further list and description of risks, uncertainties and other matters can be found in our Quarterly Report on Form 10-Q and Annual Report on Form 10-K, including in the sections thereof captioned “Forward-Looking Statements” and “Risk Factors.” These filings and subsequent filings are available online at www.sec.gov, www.pahc.com, or on request from Phibro.

Non-GAAP Financial Measures

We use non-GAAP financial measures, such as adjusted EBITDA and adjusted net income, to assess and analyze our operational results and trends and to make financial and operational decisions. Management uses adjusted EBITDA as its primary operating measure. We report adjusted net income to portray the results of our operations prior to considering certain income statement elements. We believe these non-GAAP financial measures are also useful to investors because they provide greater transparency regarding our operating performance. The non-GAAP financial measures included in this communication should not be considered alternatives to measurements required by GAAP, such as net income, operating income, and earnings per share, and should not be considered measures of liquidity. These non-GAAP financial measures are unlikely to be comparable with non-GAAP information provided by other companies. Reconciliation of non-GAAP financial measures and GAAP financial measures are included in the tables accompanying this communication and/or our Quarterly Report on Form 10-Q and Annual Report on Form 10-K. Reported results are presented in accordance with GAAP, whereas Adjusted results are GAAP results adjusted to exclude a) acquisition-related items, including intangible amortization, cost of goods sold and transaction costs, b) unusual, non-operational or non-recurring items, including stock-based compensation and restructuring costs, c) other (income) expense as separately reported in the consolidated statements of operations, including foreign currency (gains) losses, net and 4) income tax effects related to pre-tax adjustments and unusual or non-recurring income tax items.

Internet Posting of Information

We routinely post information that may be important to investors in the “Investors” section of our website at www.pahc.com. We encourage investors and potential investors to consult our website regularly for important information about us.

This presentation is a supplement to, and should be read in conjunction with, Phibro Animal Health Corporation’s earnings release for the quarter and year ended June 30, 2023.

Key Themes

Fourth Quarter & Fiscal Year 2023

Strong growth in our Animal Health product portfolio

Year-over-year net sales and adjusted EBITDA growth of 4% and 2% on a consolidated basis, driven by Animal Health segment growth of 9% and 10%, respectively, underpinned by net sales growth across key product categories, as follows:

- *MFAs and other, 7%,*
- *Nutritionals, 10%,*
- *Vaccines, 13%*

Successfully fueled manufacturing and innovation

Phibro remains committed to its growth strategy, moving forward with investments to expand manufacturing capacity, introducing new products most notably in the area of vaccines, adding line extensions in nutritional specialties and progressing our companion animal development pipeline

Projecting continued growth in fiscal year 2024

We are providing fiscal year 2024 guidance of $1.00 billion to $1.05 billion of net sales and adjusted EBITDA of $115 –121 million, each reflecting growth of approximately 5% at the mid-point of the guidance range

Financial Performance - Consolidated

Fourth Quarter, Year-on-Year comparison

$ in millions, except per share data

	Q4	YOY %Δ
Consolidated		
Net Sales	$ 255.0	-
Net Income	$ 11.5	54%
Diluted EPS	$ 0.28	54%
Adjusted EBITDA	$ 32.3	3%
Adjusted Net Income	$ 15.2	5%
Adjusted Diluted EPS	$ 0.38	5%

- **Net Sales** – a decrease of $0.2 million, or less than 1%, driven by declining sales in Mineral Nutrition offset by growth in Animal Health and Performance Products
- **Net Income & Diluted EPS** – Increase driven primarily by lower selling, general and administrative expenses and favorable currency movements, offset partially by lower gross profit due to lower demand for trace minerals, and higher interest and income tax expense
- **Adjusted EBITDA –** an increase of $0.8 million, or 3%, driven by growth in Animal Health, offset partially by declines in Mineral Nutrition and Performance Products
- **Adjusted Net Income and Adjusted Diluted EPS** – driven by decreases in SG&A and a lower tax provision, partially offset by lower gross profit and higher interest expense

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

Financial Performance - Consolidated

Fiscal Year 2023, Year-on-Year comparison

$ in millions, except per share data

	FY 2023	YOY %Δ
Consolidated		
Net Sales	$ 977.9	4%
Net Income	$ 32.6	(34%)
Diluted EPS	$ 0.81	(34%)
Adjusted EBITDA	$ 112.8	2%
Adjusted Net Income	$ 49.0	(8%)
Adjusted Diluted EPS	$ 1.21	(8%)

- **Net Sales** – an increase of $35.6 million, or 4%, driven by strong growth in Animal Health offset partially by sales declines in both Mineral Nutrition and Performance Products
- **Net Income & Diluted EPS** – Decrease driven primarily by higher selling, general and administrative expenses due to environmental remediation costs, higher employee-related costs, strategic investments, currency movements, and interest expense, offset partially by higher gross profit and a reduction in income tax expense
- **Adjusted EBITDA** – an increase of $1.7 million, or 2%, driven by sales and gross profit growth, partially offset by an increase in selling, general and administrative expenses and strategic investments
- **Adjusted Net Income and Adjusted Diluted EPS -** decrease driven by higher selling, general and administrative expenses, interest and income taxes, partially offset by higher gross profit

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

Financial Performance – Animal Health

Fourth Quarter, Year-on-Year comparison

$ in millions

	Q4	YOY %Δ
Animal Health		
Net Sales	**$ 176.8**	**6%**
MFAs & other	104.2	2%
Nutritional specialties	44.6	5%
Vaccines	28.0	25%
Adj. EBITDA	**$ 37.9**	**13%**
Adj. EBITDA Margin	**21.4%**	**+130 bps**

- **Net Sales – an increase of $10.2 million, or 6%**
  - MFAs and other – an increase of $2.4 million, or 2%
    - Driven by increased demand for processing aids used in the ethanol fermentation industry
  - Nutritional specialties – an increase of $2.1 million, or 5%
    - Driven by higher average selling prices and increased demand for microbial products
  - Vaccines – an increase of $5.7 million, or 25%
    - Driven by increased demand globally coupled with new product launches in Latin America
- **Adjusted EBITDA – an increase of $4.4 million, or 13%**
  - Higher revenue driving incremental gross profit and a decline in selling, general and administrative expenses

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

Financial Performance – Animal Health

Fiscal Year 2023, Year-on-Year comparison

$ in millions

	FY 2023	YOY %Δ
Animal Health		
Net Sales	**$ 659.9**	**9%**
MFAs & other	387.3	7%
Nutritional specialties	172.5	10%
Vaccines	100.0	13%
Adj. EBITDA	**$ 136.1**	**10%**
Adj. EBITDA Margin	**20.6%**	**+20 bps**

- **Net Sales – an increase of $52.8 million, or 9%**
  - MFAs and other – an increase of $25.8 million, or 7%
    - Driven by increased demand for MFAs, particularly in the US and Latin America regions, coupled with strong demand for processing aids used in the ethanol fermentation industry
  - Nutritional specialties – an increase of $15.3 million, or 10%
    - Driven by stronger demand for dairy products, coupled with growth in our companion animal product, Rejensa®
  - Vaccines – an increase of $11.7 million, or 13%
    - Driven by stronger demand globally and new product launches in Latin America
- **Adjusted EBITDA – an increase of $12.0 million, or 10%**
  - Strong sales and gross profits offset by an increase in selling, general and administrative expenses

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

Financial Performance – Other Segments

Fourth Quarter, Year-on-Year comparison

$ in millions

Mineral Nutrition

	Q4	YOY %Δ
Net Sales	$ 58.4	(16%)
Adj. EBITDA	$ 3.9	(42%)
Adj. EBITDA Margin	6.6%	-300 bps

Performance Products

Net Sales	$ 19.9	3%
Adj. EBITDA	$ 2.3	(4%)
Adj. EBITDA Margin	11.5%	-80 bps

Corporate

Adj. EBITDA	$ (11.7)	(6%)

- **Mineral Nutrition**
  - Net Sales decreased $10.9 million, or 16%, driven by a decrease in demand for trace minerals, partially offset by higher average selling prices. The increase in average selling prices is correlated to the movement of the underlying raw material costs.
  - Adjusted EBITDA decreased $2.8 million, or 42%, driven by lower gross profit, partially offset by a decline in selling, general and administrative expenses
- **Performance Products**
  - Net Sales increased $0.5 million, or 3%, driven by stronger demand and pricing for copper-related products
  - Adjusted EBITDA decreased $0.1 million, or 4% due to lower gross profit
- **Corporate**
  - Corporate expenses increased $0.6 million, or 6%, primarily driven by an increase in investments relating to strategic initiatives

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

Financial Performance – Other Segments

Fiscal Year 2023, Year-on-Year comparison

$ in millions

Mineral Nutrition

	FY 2023	YOY %Δ
Net Sales	$ 242.7	(6%)
Adj. EBITDA	$ 17.4	(28%)
Adj. EBITDA Margin	7.2%	-210 bps

Performance Products

Net Sales	$ 75.4	-
Adj. EBITDA	$ 9.3	7%
Adj. EBITDA Margin	12.4%	+90 bps

Corporate

Adj. EBITDA	$ (50.1)	(10%)

- **Mineral Nutrition**
  - Net Sales decreased $16.9 million, or 6%, driven by a decrease in demand for trace minerals, partially offset by higher average selling prices. The increase in average selling prices is correlated to the movement of the underlying raw material costs.
  - Adjusted EBITDA decreased $6.6 million, or 28%, driven by lower sales volume and higher raw material costs
- **Performance Products**
  - Net Sales decreased $0.3 million, or less than 1%, because of decreased demand for both personal care product ingredients and copper-related products, partially offset by higher average selling prices
  - Adjusted EBITDA increased $0.6 million, or 7%, due to higher gross profit, partially offset by an increase in selling, general and administrative expenses
- **Corporate**
  - Corporate expenses increased $4.4 million, or 10%, due to increased employee-related costs and strategic investments

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

Key Capitalization Metrics

Fiscal Year 2023 Highlights

Free Cash Flow	**-$24 million of trailing 12-month free cash flow;** operating cash flow of $13 million, less capital expenditures of $37 million[1]
Liquidity	**$248 million;** $81 million of cash and short-term investments + $167 million of available revolving credit[2]
Dividend	**Quarterly dividend of $0.12 per share; $4.9 million dividend paid**
Leverage	**4.2x gross leverage ratio;** $476 million total debt / $113 million trailing 12-month adjusted EBITDA
Interest Rate Swap	**$300 million of total debt at 0.61% SOFR + margin**

$m	Trailing 12-Months	Quarter Ending 06.30.23	03.31.23	12.31.22	09.30.22
Operating Cash Flow	**$ 13**	**$ 20**	**$ 6**	**$ (2)**	**$ (11)**
Less: Capital Expenditures	**(37)**	(11)	(8)	(10)	(8)
TTM Free Cash Flow	**$ (24)**	**$ 9**	**$ (2)**	**$ (12)**	**$ (19)**

- **Three consecutive quarters of improved operating and free cash flow**
- **Trailing twelve-months free cash flow of -$24 million driven primarily by the $18 million inventory build over the same period**
- **Secured a $50 million incremental term loan and an increase in the leverage ratio covenant to 4.25x for all fiscal year 2024 quarters, providing liquidity in the event the economy worsens**

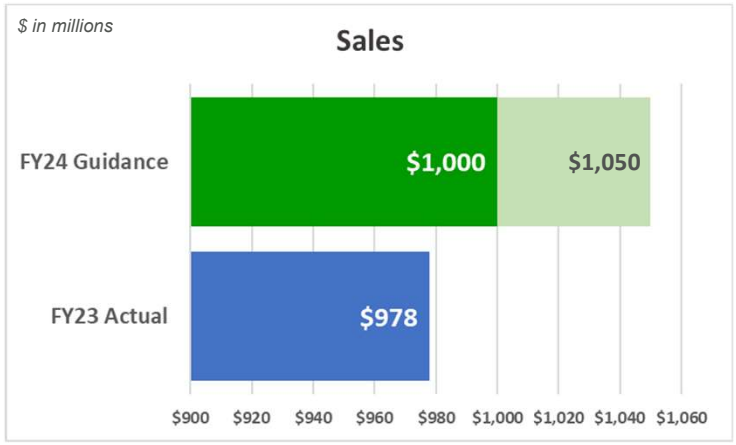
[1] Free cash flow equals cash flow from operating activities less capital expenditures for the trailing 12-months ended June 30, 2023, excluding a $15 million purchase of property financed in part by a secured term loan during the quarter ended September 30, 2022, included within capital expenditures in the Consolidated Statements of Cash Flows.

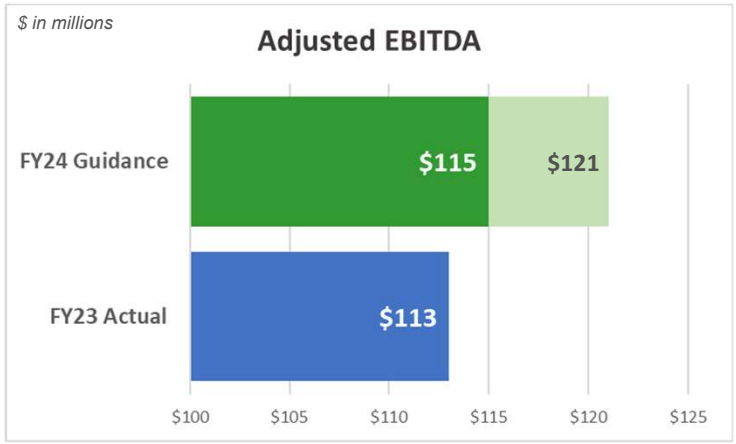
[2] Available revolving credit is subject to leverage ratio limitations as defined in the 2021 Loan Agreement, recently increased to 4.25x for four consecutive quarters beginning with the quarter end September 30, 2023.

Fiscal Year 2024 Guidance

Financial Guidance, highlights

Fiscal Year 2024 Projected Sales & Adjusted EBITDA, consolidated





On a consolidated basis, we are projecting another year of profitable growth:

- Projected consolidated growth is driven by Animal Health, while Mineral Nutrition & Performance Products financial performance in anticipated to be in line with last year
- Sales
  - We are projecting Sales in the range of $1.0 to $1.05 billion, reflecting approximately 5% growth at the mid-point of the range vs. last year Sales of $978 million
- Adjusted EBITDA
  - We are projecting Adjusted EBITDA in the range of $115 to $121 million, reflecting approximately 5% growth at the mid-point of the range vs. last year adjusted EBITDA of $113 million
  - This projection assumes a modest increase in Animal Health related strategic investments

Financial Guidance

Fiscal Year 2024

$ in millions, except earnings per share (EPS) data

	FY 2023	FY 2024 Full Year Guidance	
	Actual	Low	High
Consolidated			
Net Sales	$ 978	$ 1,000	$ 1,050
Net Income	$ 33	$ 31	$ 36
Diluted EPS	$ 0.81	$ 0.76	$ 0.90
Adjusted EBITDA	$ 113	$ 115	$ 121
Adjusted Net Income	$ 49	$ 45	$ 51
Adjusted Diluted EPS	$ 1.21	$ 1.12	$ 1.27
Adjusted Effective Tax Rate	33.0%	35.0%	33.0%

At guidance mid-points, we are projecting:

- Net Sales & Adjusted EBITDA, 5% growth
  - Fueled by 8% and 9% growth in Animal Health net sales and Adjusted EBITDA, respectively,
  - Profitability metrics assume
    - a $3m increase in strategic investments
    - flat performance in both Mineral Nutrition and Performance Product segments, given incremental strategic focus on Animal Health
- Net Income / Diluted EPS, 2% growth
  - Includes a one-time $10 million expense related to the irrevocable transfer of a portion of our pension benefit obligation to a 3rd insurance company executed in July 2023
- Adjusted Net Income / Adjusted Diluted EPS, 2% decline
  - Assumes an add-back relating to the one-time $10 million expense related to the irrevocable transfer of a portion of our pension benefit obligation to a third-party insurance company executed in July 2023, among other adjustments
- Adjusted Effective Tax Rate, slight increase
  - Potentially a slight increase relating to changes in legislation and jurisdictional mix of taxable income, and the resulting impact on US federal GILTI liability

Q&A

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