Phibro Animal Health Corporation (PAHC) Q2 2025 Earnings Call
February 6, 2025

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PHIBRO ANIMAL HEALTH CORPORATION
Q2 2025 Earnings Call

Call Participants

EXECUTIVES

Daniel M. Bendheim
Executive VP of Corporate Strategy & Director

Glenn C. David
Chief Financial Officer

Jack Clifford Bendheim
Chairman, President & CEO

ANALYSTS

Ekaterina V. Knyazkova
JPMorgan Chase & Co, Research Division

Linda H Bolduc
Morgan Stanley, Research Division

Mikaela Lee Franceschina
Barclays Bank PLC, Research Division

Navann Ty Dietschi
BNP Paribas Exane, Research Division

Michael Ryskin
Bank of America (BofA) Research Division

Presentation

Operator

Hello, and thank you for standing by. My name is Regina, and I will be your conference operator today. At this time, I would like to welcome everyone to the Phibro Animal Health Corporation's Second Quarter 2025 Earnings Conference Call. [Operator Instructions]

I would now like to turn the conference over to Glenn David, Chief Financial Officer. Please go ahead.

Glenn C. David
Chief Financial Officer

Thank you, Regina. Good morning, and welcome to the Phibro Animal Health Corporation's Earnings Call for our second quarter ended December 31, 2024. My name is Glenn David, and I am the Chief Financial Officer of Phibro Animal Health Corporation. I am joined on today's call by Jack Bendheim, Phibro's Chairman, President, and Chief Executive Officer; and Dani Bendheim, Director, and Executive Vice President of Corporate Strategy.

Today, we will cover our financial performance for our second quarter and provide updated financial guidance for our fiscal year ending June 30, 2025. At the conclusion of our remarks, we will open the lines for your questions. I would like to remind you that we are providing a simultaneous webcast of this call on our website, pahc.com. Also, on the Investors section of our website, you will find copies of the earnings press release and quarterly Form 10-Q as well as the transcript and slides discussed and presented on this call.

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

Our remarks include references to certain financial measures, which were not prepared in accordance with generally accepted accounting principles or U.S. GAAP. I refer you to the Non-GAAP Financial Information section in our earnings press release for a discussion of these measures. Reconciliations of these non-GAAP financial measures to the most directly comparable U.S. GAAP measures are included in the financial tables that accompany the earnings press release.

We present our results on a GAAP basis and on an adjusted basis. Our adjusted results exclude acquisition-related items, unusual, nonoperational, or nonrecurring items, including stock-based compensation, other income expense as separately reported in the consolidated statements of operations, including foreign currency losses/gains, net and income taxes related to pretax income adjustments and unusual or nonrecurring income tax items.

Now let me introduce our Chairman, President and Chief Executive Officer, Jack Bendheim, to share his opening remarks. Jack?

Jack Clifford Bendheim
Chairman, President & CEO

Thank you, Glenn, and good morning, everyone. By every measure, this was one of the strongest quarters since going public. We successfully integrated the Zoetis Medicated Feed Additive portfolio, a testament to our unwavering customer-centric approach, one that I believe Zoetis shares as well.

While no integration is without challenges, our guiding principle remains clear, serving the customer. This focus has ensured seamless execution of our most critical priorities. At the same time, our Phibro Forward initiative continues to drive operational excellence, helping us identify opportunities for growth while improving efficiency and execution.

Financially, we delivered exceptional results, driven by strong demand in our Animal Health business and 2 months of contributions from the Zoetis MFA portfolio. Total sales climbed 24%, while adjusted EBITDA surged 64%, demonstrating both topline strength and expanding profitability.

Our Animal Health segment led the way with MFA and other product sales rising 47%. Even excluding Zoetis contribution, our legacy Animal Health business delivered a double-digit growth across all 3 product categories, with MFA and other sales increasing 11%, vaccines expanding 12% and nutritional specialties up 11%.

Rounding out our performance, our Mineral Nutrition segment grew 3%, while our Performance Products segment posted a 7% increase. As noted in our press release, these results highlight the strength of our diversified portfolio, our relentless focus on execution and our commitment to delivering essential solutions to customers worldwide.

The momentum we've built positions us well for the remainder of fiscal 2025 and beyond. We remain confident in our ability to drive sustainable growth and create long-term value through Phibro Forward strategic innovation, targeted portfolio expansion and disciplined financial management.

The broader protein industry, both in the U.S. and globally, remains strong. We expect continued growth despite challenges such as emerging diseases like Avian Influenza and geopolitical factors, including the newly announced tariffs. We are confident that Phibro is well positioned to navigate these headwinds and capitalize on the opportunities ahead. As Glenn will discuss, we are updating our fiscal year 2025 guidance to reflect this momentum and our strengthening outlook. Glenn?

Glenn C. David
Chief Financial Officer

Thank you, Jack. Starting with our Q2 performance on Slide 4. Consolidated net sales for the quarter ended December 31, 2024, were $309.3 million, reflecting an increase of $59.3 million or a 24% increase over the same quarter 1 year ago.

The Animal Health segment grew 33%, while Mineral Nutrition grew at 3% and the Performance Products segment grew by 7%. GAAP net income and diluted EPS increased significantly, driven by the integrations of the new MFA business, increases in demand in both domestic and international regions, improved gross margins due to favorable mix and lower input costs, offset by increased SG&A due to higher employee-related costs.

After making our standard adjustments to GAAP results, including acquisition-related items, foreign currency losses and certain one-off items, the second quarter adjusted EBITDA increased $18.7 million or 64% versus prior year. Adjusted net income and adjusted diluted EPS both significantly increased as well. Increased gross profit driven by sales growth was partially offset by higher adjusted SG&A and higher adjusted interest expense.

Now moving to segment level financial performance. The Animal Health segment posted $229.4 million of net sales for the quarter, an increase of $56.3 million or 33% versus the same quarter prior year. Within the Animal Health segment, we reported legacy MFA & Other net sales growth of $11.7 million or 11% due to demand in both domestic and international regions. The new MFA business contributed 2 months of sales or $36.7 million in the quarter, driving the total MFA & Other growth to 47%.

Please note that November sales for the Zoetis MFAs were impacted by blackout periods and other transition factors. We saw a nice acceleration of sales in December with sales approximately double that of November. Nutritional Specialty Products net sales increased $4.5 million or 11%, mostly due to higher sales of microbial and companion animal products.

Vaccine net sales growth of $3.4 million, a healthy 12% increase, driven by vaccines in Latin America, plus an increase in both domestic and international demand. Animal Health adjusted EBITDA was $58.2 million, a 48% increase driven by the new MFA business, higher gross profit from increased legacy sales and partially offset by higher SG&A.

For comparison purposes only, we are providing a rough estimate of Zoetis EBITDA contribution. Please note that many expenses are not easily attributed to the new business. Our estimated EBITDA of $12 million includes only those expenses that can be directly attributed to the new MFA business.

Moving on to the second quarter financial performance for our other business segments on Slide 6. Starting with Mineral Nutrition, net sales for the quarter were $63.3 million, an increase of $1.9 million or 3% due to increased sales volume and price. Mineral Nutrition adjusted EBITDA was $5.7 million, reflecting a year-on-year increase of $2.2 million, driven by higher gross profit and improved cost positions.

Looking at our Performance Products segment, net sales of $16.6 million, reflects an increase of $1.1 million or 7% as a result of higher demand for the ingredients used in personal care products. Adjusted EBITDA was $1.9 million and grew $1.1 million versus the same quarter prior year.

Corporate expenses increased $3.4 million, driven by increased employee-related costs.

Turning to key capitalization-related metrics on Slide 7. We generated $15 million of positive free cash flow for the 12 months ended December 31, 2024. We generated $55 million of operating cash flow and invested $40 million in capital expenditures. Cash and cash equivalents were $67 million at the end of the quarter.

Our gross leverage ratio was 3.1x at the end of the second quarter based on $760 million of total debt and $242 million of trailing 12-month adjusted EBITDA. Please note that the trailing 12 months of adjusted EBITDA includes 12 months from the Zoetis Medicated Feed Additive portfolio, 10 months of Zoetis history and 2 months from Phibro ownership.

Our net leverage ratio was 2.9x at the end of the second quarter based on $693 million of net debt and $242 million of trailing 12-month adjusted EBITDA.

Turning to dividends. Consistent with our history, we paid a quarterly dividend of $0.12 per share or $4.9 million in aggregate. As a reminder, $300 million of our debt is at a fixed rate of 0.51% plus the applicable margin through June 2025. In addition, in September of 2024, we entered into a new swap arrangement for $150 million at a fixed rate of 3.18% plus the applicable margin.

Let's turn to Slide 8, which lays out our guidance for fiscal year 2025. Please note that our guidance now includes the acquisition of the Zoetis Medicated Feed Additive portfolio. Included in this guidance for fiscal year 2025 are early benefits related to our Phibro Forward income growth initiative that will help drive additional EBITDA and margin growth.

Onetime costs related to this initiative are also included in our GAAP guidance and primarily consist of one-time consulting fees. The initiative is focused on unlocking additional areas of revenue growth and cost savings, areas such as potential price increases, expanded product offerings, procurement initiatives and other cost savings initiatives. Please note that we do not anticipate significant headcount reductions as part of this initiative.

Our increased guidance for fiscal year 2025 updated to include the acquisition of the Zoetis Medicated Feed Additive portfolio is as follows: total net sales of $1.250 billion to $1.3 billion. This represents a total growth range of 23% to 28% and a midpoint of approximately 25%.

Total adjusted EBITDA of $172 million to $180 million. This represents a growth range of 55% to 62% and a midpoint of approximately 58%. Total adjusted net income of $76 million to $82 million. This represents growth of 57% to 70% with a midpoint of approximately 63%.

The preliminary estimates for the Zoetis MFA contribution to fiscal year 2025 includes some of the usual impacts you would expect during an integration, such as destocking of inventory, the impact of blackout periods and incremental costs related to transition service and distribution agreements.

GAAP net income and EPS assumes constant currency and no further gains or losses from FX movements. Also included in our GAAP net income and EPS are one-time costs related to our Phibro Forward Income Growth initiative and acquisition-related costs from the new MFA products. We are confident in our ability to deliver a total adjusted diluted EPS between $1.87 and $2.01 for the full fiscal year of 2025, which represents a growth of 57% to 69% with a midpoint of approximately 63%.

In closing, with our updated financial guidance, we reaffirm our commitment to strong performance and enhancing shareholder value. We are excited to include the new MFA portfolio in our guidance, which reflects our confidence in the seamless integration and strong performance alongside improving profitability in our legacy business.

With that, Regina, could you please open the line for questions?

Question and Answer

Operator

[Operator Instructions] Our first question will come from the line of Ekaterina Knyazkova with JPMorgan.

Ekaterina V. Knyazkova
JPMorgan Chase & Co, Research Division

Congrats on the quarter. So, first question is just on the guidance update. I think you've touched upon this a little bit, but perhaps you can give a bit more color. So how much of the $0.50 increase for the EPS range? How much of that is coming from the acquisition versus the underlying business? And I guess what's the net change relative to the outlook you provided last quarter and that $0.25 number you were talking about?

And then second question is just on the Animal Health performance. It seems like another very strong quarter of growth backing out the acquisition. Just elaborate a bit on the trends you're seeing across the portfolio and which products or regions have been driving some of that performance.

Glenn C. David
Chief Financial Officer

Thanks for the question, Ekaterina. I'll start with the EPS guidance, and I'll ask Jack to comment a little bit on the business performance. So, when you look at the overall increase in EPS at both the bottom and top end of the range, it's about $0.53. The majority of that is coming from the addition of Zoetis with a portion coming from continued strong performance in our legacy business as well.

As you mentioned in previous calls, we guided to probably about an additional $0.25 of EPS related to Zoetis. The current guide does include more than $0.25. But again, it's a combination of both improved performance in our expectations for Zoetis, but also improved performance in our legacy business as well.

Jack Bendheim
Chairman, President/CEO

And then on the general performance of the business, this has been a great time for our customers. Our customers across the U.S. and the world, and this is true for every category in protein, whether it's in cattle, in chickens, in pigs, they're doing okay. And when they're doing okay, their concern is let's keep these animals healthy, so they perform better, and they get better to the market. And that's what we're seeing around the world, and that's basically what's driving the business.

Operator

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

This is Gemma on for Mike. Two questions related to the MFA acquisition, please. The first, on your updated revenue guidance, which now includes the MFA acquisition, this aligns with our prior expectations or estimates, but the EPS guidance came in quite a bit higher than expected. Can you walk us through the drivers behind that upside?

And then similarly, now that you've owned MFA asset for about 3 to 4 months, is there anything you'd like to call out that you've heard about the business that surprised you? I know in the release, you called out the contribution of $37 million for the last 2 months, but that seems a bit light if it's going to be $200 million in 8 months. Can you talk about if you -- how it started versus expectations? And anything unusual you're seeing in terms of stocking, destocking, transition, things like that?

Glenn C. David
Chief Financial Officer

Sure. So just to address the first part of your question in terms of the revenue guidance being aligned with the incremental $200 million, which we had initially called out for the Zoetis guidance versus the EPS guidance being a bit higher. So, 2 factors there.

One, as I mentioned, we are seeing improved performance in the underlying business. But also related to Zoetis, we did see some higher profitability than initially anticipated, and that's driven by a couple of factors: a, the timing of hiring some of the colleagues across the organization whose costs we will see a little bit more in the second half of the year. So that timing benefits us a bit as well.

And just in general, we've seen some pretty positive mix as well with the U.S. being one of the stronger performers, and we continue to expect that for the full year as well.

Related to the performance in the quarter and the $37 million that we had in the quarter, as we mentioned on the previous call, we did expect some transitionary impacts related to the integration related to destocking as well as blackout periods.

And in the prepared remarks, we mentioned a little bit how the month of November, the sales were about half of the month of December. And what that means essentially is we saw a nice acceleration from November to December as we work through some of the blackout period impacts as well as the destock impacts. We're not fully out of the destocking, but we see a nice trend moving forward that we feel confident in the $200 million that we had guided previously.

Operator

Our next question comes from the line of Balaji Prasad with Barclays.

Mikaela Lee Franceschina
Barclays Bank PLC, Research Division

This is Mikaela on for Balaji. Just a quick one. So, with the MFA deal now complete, can you guys talk to us just a bit more about your priorities in Companion Animal? Is this still a key focus area? And if so, can you provide any additional details on your pipeline here?

Daniel M. Bendheim
Executive VP of Corporate Strategy & Director

It's Dani. I'll take that. Companion Animal continues to be a key priority for us. However, we're making nice progress. We purposely, in this quarter, wanted to not call it out in our prepared remarks because we are excited as well about our Livestock business, and we want to focus on our continued strength in Livestock, continued investment in Livestock, and there's actually a lot of pipeline products within Livestock as well. So, while we continue to make progress on our pipeline in pets, I think the Livestock business is a shining star for us, and we do want people to recognize the growth that we're having and continue to have and continue to expect to have there.

Operator

Our next question comes from the line of Navann Ty with BNP Paribas.

Navann Ty Dietschi
BNP Paribas Exane, Research Division

Can you discuss the integration of Zoetis MFA portfolio to date and your plans for the rest of the year and if you expect any potential impact of the headcount reduction?

Glenn C. David
Chief Financial Officer

Yes, so in terms of the integration to date, the integration is moving very smoothly. Obviously, our key priority on day 1 was to make sure that we were able to effectively support our customers, and our colleagues across the globe did a tremendous job on that. And I think we've gotten very positive feedback from our customers in terms of our ability to support them and the care that we're able to provide and their pleasure with us having a broader portfolio now and able to support their needs. So that was priority #1, and that has progressed very well.

Also, obviously, onboarding the colleagues from Zoetis into our organization. That was priority -- a key priority as well, and that's gone extremely well. There are some additional things that we need to do over the next number of months, including some system transitions on the manufacturing side as well as, as we continue to evolve with marketing authorizations. But everything is going according to plan. We're very pleased with the progress that we've made with the integration.

In terms of headcount reduction, we've never indicated that there would be headcount reductions related to this initiative. Just as a reminder, the majority of the acquisition was 6 plants globally. And obviously, we need those colleagues to continue to produce the product. So, we never had any intentions of headcount reductions as part of the acquisition.

Operator

Our next question will come from the line of Linda Bolduc with Morgan Stanley.

Linda H Bolduc
Morgan Stanley, Research Division

This is Linda on for Erin Wright. So, for the company, what is the implications of tariffs on Phibro and any potential color on the exposure that you could share with us? Also, any thoughts on EBITDA margin progression throughout the year? And additionally, what is your latest view on underlying demand trends across key species groups in Animal Health? And how do you expect those to play out for the balance of the year?

Jack Clifford Bendheim
Chairman, President & CEO

I'll take the easy one, the tariffs. So, I would say sort of based where we are on, let's just call, last night's announcement of the White House. We're just dealing with Chinese tariffs right now. And overall, looking at the portfolio and looking at the fact that most of our -- we have no production in China directly and our factories are in Brazil and in Israel and in the United States. We do import from China some stuff, but overall, we think the impacts will be very, very small.

Glenn C. David
Chief Financial Officer

And in terms of EBITDA margin and progression, we continue to see improvements in the EBITDA margin in our core business with Phibro Forward business -- with the Phibro Forward initiative as well as with the acquisition of the Zoetis portfolio. So, we saw -- in terms of adjusted EBITDA versus last year, 380 basis points improvement.

We expect that with the continued focus that we have with the Phibro Forward growth initiative as well as continuing to optimize the Zoetis portfolio that we would continue to see strong margins in the business moving forward.

And in terms of demand trends for the rest of the year, as Jack mentioned earlier, we're seeing very good profitability across many of the categories, across poultry, swine, cattle and in many of our major markets. So just we get a dashboard internally that shows green, yellow and red. And in all of our key markets, the majority of those flashlights are flashing green, which we see as very positive for us for the rest of the year.

Operator

[Operator Instructions]

Glenn C. David
Chief Financial Officer

And just to follow up on the tariff implications. As Jack said, those are -- we are working through the implications of the tariffs. We do have a plant in China that we acquired as part of the Zoetis acquisition. We've looked across all of our business units to understand the exposure there. It varies across some of the business units between Animal Health, Mineral Nutrition, and we do have mitigation plans in place in the event that some of those tariffs do become burdensome to our profitability. Whether that's passing on to the customers or looking for alternative sources, we feel very confident in our ability to mitigate the impact.

And when you look at our guidance for fiscal year 2025, the majority of the tariffs would impact our cost of goods sold. And based on inventory turns, we wouldn't really see any impact until 2026. So, we feel very confident that the guidance that we provided today would accommodate any implications of current or further tariffs.

Operator

And that will conclude our question-and-answer session. I'll turn the call back over to Glenn David for any closing remarks.

Glenn C. David
Chief Financial Officer

Thank you, Regina, and thank you, everyone, for listening in on today's call. We really appreciate your time, interest, and support of Phibro Animal Health, and we hope you have a great day. Thank you so much.

Operator
That will conclude today's call. Thank you all for joining. You may now disconnect.