

Phibro Animal Health Corporation
(PAHC) Q3 2025 Earnings Call
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PHIBRO ANIMAL HEALTH CORPORATION
Q3 2025 Earnings Call

Call Participants

EXECUTIVES

Glenn C. David
Chief Financial Officer

Jack Clifford Bendheim
Chairman, President & CEO

Daniel Bendheim
Director and Executive Vice President, Corporate Strategy

Larry Miller
Chief Operating Officer

ANALYSTS

Ekaterina V. Knyazkova
*JPMorgan Chase & Co, Research
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Michael Leonidovich Ryskin
BofA Securities, Research Division

Navann Ty Dietschi
*BNP Paribas Exane, Research
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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 Third 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 day, and welcome to the Phibro Animal Health Corporation Earnings Call for our third quarter ended March 31, 2025. My name is Glenn David, and I'm the Chief Financial Officer of Phibro Animal Health Corporation. I'm joined on today's call by Jack Bendheim, Phibro's Chairman, President and Chief Executive Officer; Dani Bendheim, Director and Executive Vice President of Corporate Strategy; and Larry Miller, our Chief Operating Officer.

Today, we will cover our financial performance for our third 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 those projections. For a list and description of certain factors that could cause results to differ, I refer to you 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 to you to the non-GAAP financial information section in our earnings press release for a discussion of these measures. Reconciliation 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, non-operational or non-recurring 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

Thanks, Glenn. Good morning, everyone. I'm pleased to report another solid quarter for Phibro Animal Health Corporation. Our performance this quarter reflects continued strength across the business, supported by the integration of the Zoetis MFA portfolio and steady execution across our teams. Total sales increased 32% year-over-year, while adjusted EBITDA rose 85% and adjusted diluted EPS more than doubled. These results reflect both top-line growth and improved operating leverage.

By segment, Animal Health led the way with 42% revenue growth. With that, the sales of our newly integrated MFA and other products increased 68%. Our legacy MFA and other sales had a slight decline and vaccines grew 1%, largely due to the timing of customer orders. Overall, the segment continues to perform well. The Nutritional Specialties maintained its positive momentum with 8% revenue growth, while Mineral Nutrition and Performance Products posted strong gains of 4% and 28%, respectively, highlighting the strength of our diversified portfolio.

Across all segments, this quarter's results demonstrate how our focus on execution and operational excellence, central themes of our Phibro Forward strategy is helping drive meaningful progress. While Phibro Forward is a long-term initiative, its emphasis on disciplined operations and continuous improvement is already contributing to our performance. The same focus is helping us navigate external challenges like the evolving tariff environment. While the situation remains fluid, we do not expect any material impact on our financial results for the remainder of fiscal 2025.

Through Phibro Forward, we've made targeted investments in procurement and supply chain resilience that are already helping us manage potential disruptions. Looking ahead to fiscal 2026, based on currently announced tariffs, we anticipate some pressure on certain inputs and markets in the range of \$5 million to \$10 million, but we believe we're well positioned to manage these impacts effectively and still deliver growth.

Now turning to guidance. Based on our strong third quarter results and improved visibility into the remainder of the year, we are narrowing our full year guidance ranges, and in most cases, raising the midpoint. We now expect net sales between \$1.26 billion and \$1.29 billion, adjusted EBITDA of \$177 million to \$183 million, and adjusted EPS of \$1.96 to \$2.09. GAAP EPS is projected to be in the range of \$0.98 to \$1.11. This updated guidance reflects solid execution across our businesses and continued momentum as we close out the fiscal year.

I'll now turn it back to Glenn for additional color on the quarter's performance, and I look forward to your questions at the end. Glenn?

Glenn C. David
Chief Financial Officer

Thanks, Jack. I'm starting with our Q3 performance on Slide 4. Consolidated net sales for the quarter ending March 31, 2025, were \$347.8 million, reflecting an increase of \$84.6 million or a 32% increase over the same quarter 1 year ago. The Animal Health segment grew 42%, while Mineral Nutrition grew 4% and the Performance Products segment grew by 28%. GAAP net income and diluted EPS increased significantly, driven by the integration of the new MFA business, increases in demand, improved gross margin 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, third quarter adjusted EBITDA increased \$25.2 million or 85% 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.

Moving to segment level financial performance. The Animal Health segment posted \$258.4 million of net sales for the quarter, an increase of \$77.1 million or 42% versus the same quarter prior year. Within the Animal Health segment, we reported legacy MFA and other net sales decline of \$3.5 million or negative 3% due to the timing of specific customer orders and strong performance in Q3 last year. The new MFA business contributed a full quarter of sales of \$77 million in the quarter, driving the total MFA and other growth to 68%.

Nutritional Specialty Products' net sales increased \$3.2 million or 8%, mostly due to higher sales of microbial and companion animal products. Vaccine net sales growth of \$0.5 million or 1% was driven by vaccines in Latin America, plus an increase in domestic demand, offset by timing of specific international market registration renewals, which was expected and resolved but limited sales for the quarter. Animal Health adjusted EBITDA was \$63.1 million, a 73% increase, driven by the new MFA business, higher gross profit from improved mix in the legacy business, 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 \$23.4 million includes only those expenses that can be directly attributed to the new MFA business.

Moving on to the third quarter financial performance of our other business segments on Slide 6. Starting with Mineral Nutrition. Net sales for the quarter was \$66.8 million, an increase of \$2.5 million or 4% due to increased sales volume and price. Mineral Nutrition adjusted EBITDA was \$5.8 million, reflecting a year-on-year increase of \$1.1 million, driven by higher gross profit and improved cost positions. Looking at our Performance Products segment. Net sales of \$22.7 million reflects an increase of \$5 million or 28% as a result of higher demand for the ingredients used in personal care products. Adjusted EBITDA was \$3.3 million and grew \$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 \$49 million of positive free cash flow for the 12 months ended March 31, 2025. We generated \$87 million of operating cash flow and invested \$38 million in capital expenditure. Cash and cash equivalents were \$70 million at the end of the quarter. Our gross leverage ratio was 3.0x at the end of the third quarter based on \$734 million of total debt and \$245 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, 7 months of Zoetis history and 5 months from Phibro ownership. Our net leverage ratio was 2.7x at the end of the third quarter based on \$664 million of net debt and \$245 million of trailing 12-month adjusted EBITDA. As a reminder, \$300 million of our debt is at a fixed rate of 0.51% plus the applicable margin through June 2025.

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 that runs through September 2029. In March of 2025, we entered into a new swap arrangement for \$275 million at a fixed rate of 3.64% plus the applicable margin that runs through February 2030. In March 2025, we also entered into a forward starting interest rate collar starting in July 2025 for \$250 million with an interest rate cap and floor of 4.75% and 1.99%, respectively, through June 2026.

Turning to dividends. Consistent with our history, we paid a quarterly dividend of \$0.12 per share or \$4.9 million in aggregate.

Let's turn to Slide 8, which lays out our guidance for fiscal year 2025. Please note that our guidance 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 onetime 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.

Our revised guidance for fiscal year 2025 is as follows: Total net sales of \$1.26 billion to \$1.29 billion. This represents a total growth range of 24% to 27% and a midpoint of approximately 25%. Total adjusted EBITDA of \$177 million to \$183 million. This represents a growth range of 59% to 66% and a midpoint of approximately 62%. Total adjusted net income of \$80 million to \$85 million. This represents growth of 65% to 76% with a midpoint of approximately 70%. The estimates for the Zoetis MFA contribution to fiscal year 2025 include 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 service 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 total adjusted diluted EPS between \$1.96 and \$2.09 for the fiscal year 2025, which represents a growth of 65% to 76% with a midpoint of approximately 70%.

Regarding tariffs, as Jack mentioned, and based on what we know today, we expect a very limited impact from tariffs to our fiscal year 2025 results and expect the impact to fiscal year 2026 to be manageable and remain confident in our ability to drive strong income growth next year. This growth will come from continued strong performance in our legacy business, driving revenue growth at or above the livestock market rate, accelerated EBITDA growth from our Phibro Forward income growth initiatives and a full year of revenue and adjusted net income contribution from the Zoetis MFA portfolio versus 8 months in fiscal year 2025.

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

So first, just on tariffs, you've touched upon this, but maybe you can elaborate and give a little more color as to how you're thinking about exposure for the company. I think specifically around the upcoming pharma tariffs. How much of the U.S. Animal Health business do you think could be potentially exposed from a manufacturing standpoint? And just can you potentially mitigate some of the headwinds via price?

And then the second question is just around the medicated feed additive business. Just kind of adjusting for the Zoetis acquisition, I think the core business performed a little bit worse than recent trends. Just elaborate a bit on what drove that and maybe how to think about performance for that segment going forward?

Glenn C. David

Chief Financial Officer

Sure. So, I'll start with the tariffs and the growth in MFAs and others will certainly add on from a tariff's perspective, Ekaterina. One of the things when you look at our manufacturing, the majority of our manufacturing is done in the U.S. as well as with manufacturing in Brazil and Israel. We do have manufacturing sites in Italy and China as well. But the majority of our manufacturing is done locally and provided for local markets.

There are certain inputs, as we called out in our prepared remarks, that we do get from other markets, and those tariffs are reflected in our guidance and our estimates. But we believe there are ways to mitigate impacts of tariffs there, and we've taken many of those actions. So, some of the ways that we do that are we have built inventory on certain of those inputs. We've also switched suppliers to other markets where we could. We've also renegotiated with a number of suppliers to absorb the tariff impact. And as you mentioned, we do have the ability to take price increases, and we have announced price increases on products that have been particularly impacted by the tariffs. So, there are a number of mitigation items and areas that we've been able to implement already.

Regarding the slower MFA growth of negative 3% in this quarter, that was driven by a number of factors. The main one just being the timing of orders to some of our larger customers, which negatively impacted growth for the quarter. But overall, our MFA and other segment, the year-to-date perspective has grown 7%. The other thing to think about in the quarter is we had particularly strong growth in Q3 of last year. So in Q3 of last year, our MFA and other segment grew over 16%. So, it was a very difficult comparative quarter for this year. But overall, we remain confident in the performance of that segment and the underlying demand with our customers.

Operator

[Operator Instructions] Our next question will come from the line of Michael Ryskin at Bank of America.

Michael Leonidovich Ryskin

BofA Securities, Research Division

Congrats on the quarter, guys. I want to talk about the guide update. You're keeping revenues more or less unchanged, so the midpoint is the same. But you took up your EBITDA and EPS guide pretty meaningfully for where we are in the year. Could you just talk about what's driving that? Is it mix? Is it the Phibro Forward initiative? Just sort of unpack that a little bit, just given how late we are in the year, it is a pretty impressive bump. And I've got a follow-up.

Glenn C. David

Chief Financial Officer

Yes, Mike, thanks for the question. I think there are a number of factors that are driving the increase in the guide. To your point, a bit of it is mix and continued strong performance that we expect for the year in our vaccine portfolio. It is Phibro Forward income growth initiative continuing to drive incremental growth for the year, but also equal or perhaps the greatest contributor would be the Zoetis MFA portfolio and the improved margins that we continue to see.

I think we've been able to leverage our global infrastructure even to a greater extent than we initially anticipated, and we're seeing very positive margin contribution from that. Again, we'll caution that the numbers that we share are estimates. They don't fully reflect costs that aren't 100% dedicated to the Zoetis portfolio. But overall, we're seeing greater profitability come from the inclusion of that portfolio into our business.

Michael Leonidovich Ryskin

BofA Securities, Research Division

Okay. That's helpful. And a follow-up on tariffs. I know this was previously asked, but could you give us a little more color on -- you mentioned the geos, but is there any particular product or product category where the tariff is coming from? Is it more from sort of the API and the raw underlying chemicals or subcomponents? Is it specific to China? Just trying to think of not only what's been seen now, but potential future tariffs, whether it's pharma tariffs or regional tariffs, just so we can continue to model this as the situation evolves.

Jack Clifford Bendheim

Chairman, President & CEO

I'll take it, Mike. It's Jack. Thank you. And it's a great question. I think the impact we're seeing are not necessarily from China. I think as Glenn has said, we produce most of our active ingredients in the U.S. and Brazil and Israel. And we get very, very little of the active ingredients from China. It's more of the inputs that come from the overall sort of 10% tariffs across the board that we're seeing from inputs from all over the world. So there, it's a combination of looking at how we use those products, can we use a few of those products. It's going back to suppliers and asking them to absorb the cost and maybe changing some raw materials. So, it's not a huge amount of money, but we're reflecting it in the sort of de minimis discussion of how we have to handle it, but we're working on it.

Operator

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

Navann Ty Dietschi

BNP Paribas Exane, Research Division

Just a follow-up on tariffs. If you do expect or are you lobbying for an exception for animal health from potential pharma tariffs, we know that the bigger players are discussing that. And second, if you can discuss the FX impact on the quarter and the rest of the year.

Jack Clifford Bendheim

Chairman, President & CEO

So to the first question, we're involved with all of the animal health companies in lobbying in the various markets for exceptions for the animal health. And as you're well aware, the end result of these products are in the price of food, at least for our sector of the business. And to that extent, no one is really eager to increase the inputs. So, I think we are lobbying. And as of right now, the initial reactions we're seeing are positive, but we'll know in the next couple of weeks where this thing ends.

Glenn C. David

Chief Financial Officer

And regarding FX for the quarter, we saw a limited impact in the quarter. One of the things we've talked about and discussed in the past is in many of our international markets, particularly at the revenue line, we try to act and transact in U.S. dollars and match our pricing to U.S. dollars, so that we see limited impact from FX. On a year-over-year basis, there is some favorability within our cost related to FX, but overall, limited impact for the quarter and the year.

Operator

[Operator Instructions] And we have no further questions at this time. I will hand the call back over to Glenn David for any closing comments.

Glenn C. David

Chief Financial Officer

Thank you, Regina, and thank you, everyone, for listening to today's call. We really appreciate the time, attention and interest and support of Phibro Animal Health. Have a great day.

Operator

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

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