

Phibro Animal Health Corporation
(PAHC) Q1 2026 Earnings Call
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PHIBRO ANIMAL HEALTH CORPORATION
Q1 2026 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

Larry L. Miller

Chief Operating Officer

ANALYSTS

Ekaterina V. Knyazkova

*JPMorgan Chase & Co, Research
Division*

Erin Elizabeth Wilson Wright

Morgan Stanley, Research Division

Navann Ty Dietschi

BNP Paribas, Research Division

Michael Ryskin (Unknown Analyst)

Bank of America (BofA)

Presentation

Operator

Hello, and thank you for standing by. Welcome to the Phibro Animal Health Corporation First Quarter 2026 Webcast and Conference Call. [Operator Instructions] I would now like to turn the conference over to Glenn David, Chief Financial Officer. You may begin.

Glenn C. David

Chief Financial Officer

Thank you, Sarah. Good day, and welcome to the Phibro Animal Health Corporation Earnings Call for our fiscal first quarter ending September 30, 2025. 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; Daniel Bendheim, Director and Executive Vice President, Corporate Strategy; and Larry Miller, our Chief Operating Officer.

Today, we will cover financial performance for our first quarter and provide updated financial guidance for our fiscal year ending June 30, 2026. 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 for 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 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, non-operational or nonrecurring items, including stock-based compensation, other income expense as separately reported in the consolidated statement of operations, including foreign currency gains and losses net, 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 Clifford Bendheim

Chairman, President & CEO

Thanks, Glenn. In the first quarter, we delivered 55% growth in Animal Health sales and an 85% increase in Animal Health adjusted EBITDA, clear evidence that our strategy is working. Medicated Feed Additives led the way with 81% growth, supported by solid gains in nutritional specialties and vaccines. This performance reflects our continued success in seamlessly integrating the acquired MFA portfolio into our operations. At the same time, our legacy Animal Health business continues to outperform, delivering 11% growth overall and 6% growth in legacy MFA and other products. These results highlight the strong demand across our diversified animal health portfolio and the enduring strength of global protein production.

We are also encouraged by emerging research showing that GLP-1 users, while spending less overall on food, are increasingly choosing high-quality animal-derived proteins. This evolving consumer preference supports our industry's long-term growth and reinforces the relevance and value of Phibro's offerings.

Our ability to translate this demand into stronger bottom line performance is being driven by our Phibro Forward initiatives. These efforts continue to enhance operational discipline, accelerate innovation and sharpen our focus on strategic growth. As a result, we're gaining the flexibility to invest in high-impact opportunity across our portfolio, positioning Phibro for sustainable long-term value creation.

Looking ahead, we remain focused on innovation and execution. The recent launch of Restoris, our proprietary dental gel for dogs, marks a major milestone in our companion animal strategy. Together with our newly licensed early-stage therapeutic compound targeting canine periodontal disease, we're building a differential oral care portfolio that we believe will drive long-term growth. As Glenn will discuss in more detail, thanks to our strong performance and disciplined approach, we're raising our full year earnings guidance and continue to invest in the future of animal health.

I'll now hand it back to Glenn, and I look forward to your questions. Glenn?

Glenn C. David
Chief Financial Officer

Thanks, Jack. Starting with our Q1 performance on Slide 4. Consolidated net sales for the quarter ended September 30, 2025, were \$363.9 million, reflecting an increase of \$103.5 million or a 40% increase over the same quarter 1 year ago. The Animal Health segment grew 55%, while Mineral Nutrition grew at 7% and the Performance Products declined by 7%. GAAP net income and diluted EPS increased significantly, driven by the successful integration of the new MFA business, increases in demand, improved gross margin due to favorable mix, 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 first quarter adjusted EBITDA increased \$31.2 million or 102% versus prior year. Adjusted net income increased 112% and adjusted diluted EPS increased 108%. 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 \$283.5 million net sales for the quarter, an increase of \$100.9 million or 55% versus the same quarter prior year. Within the Animal Health segment, we reported legacy MFA's net sales increase of \$6.9 million or an increase of 6%. The new MFA business contributed a full quarter of sales of \$80.5 million, driving the total MFA and other growth to 81%. Nutritional Specialties net sales increased \$5.5 million or 13%, mostly due to higher demand for microbial and companion animal products. Vaccine net sales grew \$8.1 million, a healthy 25% increase, driven by continued growth of poultry products in Latin America and higher international demand. Animal Health adjusted EBITDA was \$74.9 million, an 85% increase driven by the new MFA business, higher gross profit from improved mix in the legacy business, partially offset by higher SG&A.

Moving on to first quarter financial performance for our other business segments on Slide 6. Starting with Mineral Nutrition. Net sales for the quarter were \$63 million, an increase of \$3.9 million or 7% due to an increase in demand for copper and trace minerals. Looking at our Performance Products segment, net sales of \$17.4 million reflects a decrease of \$1.4 million or a decrease of 7% as a result of lower demand for the ingredients used in personal care products. Mineral Nutrition and Performance Products adjusted EBITDA were \$4.5 million and \$1.6 million, respectively. Corporate expenses increased \$3.4 million, driven by higher employee-related costs.

Turning to key capitalization-related metrics on Slide 7. We generated \$34 million of positive free cash flow for the 12 months ended September 30, 2025. We generated \$77 million of operating cash flow and invested \$43 million in capital expenditures. Cash and cash equivalents and short-term investments were \$85 million at the end of the quarter. Our gross leverage ratio was 3.3x at the end of the first quarter based on \$749 million of total debt and \$227 million of trailing 12 months adjusted EBITDA. Our net leverage ratio was 2.9x at the end of the first quarter based on \$664 million of net debt and \$227 million for trailing 12 months adjusted EBITDA.

Please note that the trailing 12 months of adjusted EBITDA includes 12 months from the Zoetis Medicated Feed Additive portfolio, 1 month of Zoetis history and 11 months from Phibro ownership. On interest rates, there are no changes to our current swap agreements. 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 2026. Please note that this guidance includes a full 12 months of the Zoetis Medicated Feed Additive portfolio. Also included in this guidance for fiscal year 2026 are 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. This initiative is focused on unlocking additional areas of revenue growth and cost savings.

Our guidance for fiscal year 2026 is as follows: Net sales remain the same at \$1.425 billion to \$1.475 billion. This represents a growth range of 10% to 14% and a midpoint of approximately 12%. Total adjusted EBITDA increased from \$225 million to \$235 million to \$230 million to \$240 million. This represents a growth range of 25% to 30% and a midpoint of approximately 28%. Adjusted net income increased from \$103 million to \$110 million to \$108 million to \$115 million. This represents growth of 26% to 34% with a midpoint of approximately 31%. GAAP net income and EPS assumes constant currency and no additional gains or losses from FX movements. Also included in our GAAP net income and EPS are onetime costs related to our Phibro Forward income growth initiative.

In closing, we're excited about the strong performance and start to fiscal year 2026. We are confident in the demand for our products around the world and look forward to seeing continued improvement in our business as we move forward in the coming months. With that, Sarah, could you please open the line for questions?

Question and Answer

Operator

[Operator Instructions] Your first question comes from Erin Wright with Morgan Stanley.

Erin Elizabeth Wilson Wright

Morgan Stanley, Research Division

So first on the MFA business. So how are you thinking about the sustainability of growth in that legacy MFA business? I guess, can you break out a little bit of what you're seeing price versus volume on that front? And what I'm trying to get at here is what's the underlying run rate that we should be thinking about? And I get there's some other drivers going on, but were there any timing dynamics in the quarter? Is the Zoetis business growing faster than you would have expected at the core? So yes, just what's the appropriate run rate for that business as we lap the deal?

Larry L. Miller

Chief Operating Officer

This is Larry. Thank you for the question. So, we see continued growth, strong demand, particularly across the MFA portfolio and basically the poultry, swine as well as the beef cattle segment. As we look at indications of protein consumption growth, et cetera, we continue to see that growth. I think that we - as far as our expectations for growth in the future, we are seeing nice synergies again between the Phibro legacy products as well as the acquired products and being able to bring more products and design programs to our customers.

Glenn C. David

Chief Financial Officer

Yes. The only thing I'd add, Erin, also to your question on price versus volume. When you look at the first quarter, in particular, there was limited impact on price. One of the reasons for that being is all of the legacy -- or all the Zoetis MFA growth gets put into volume just because we have no comparator for the prior year. But this has been an area of focus for us is improving the price -- the overall net price for the Zoetis products, which has helped with our overall profitability. So, as we move forward into Q2 to Q4, we will see an impact on price, particularly from the Zoetis portfolio.

Erin Elizabeth Wilson Wright

Morgan Stanley, Research Division

Okay. That's helpful. And then another run rate question just on the margin profile that definitely stood out to us and maybe that's some of what you were just speaking to. But anything to call out on that front? How do we think about the margin profile for the remainder of the year in the context of both what you were saying and any other dynamics from an expense perspective that we should be thinking about?

Glenn C. David

Chief Financial Officer

Yes. So, in terms of the margin profile, we saw good favorability in Q1. A lot of that was driven by mix. Strong growth in the vaccine portfolio of 25%, strong growth in nutritional specialties of 13%. Those tend to be higher-margin products for us. So that certainly helped with the overall margin. We also saw some favorability in our overall expenses versus our initial expectations just based on the timing of building up some of our support for some of the new products. And again, we'll also be investing in the next future quarters in some of the launches such as Restoris. So, we do -- while we've had a very good start to the year, if you look at our guidance, we would expect margins to drop a little bit as we move through the year.

Operator

The next question comes from Ekaterina Knyazkova with JPMorgan.

Ekaterina V. Knyazkova

JPMorgan Chase & Co, Research Division

So first is just on the guidance update. It seems like the EBITDA and EPS range are coming up, but I think the revenue range isn't despite what looks like a nice top line beat in the quarter. Just anything you would call out there, maybe just some degree of conservatism or some headwinds we should kind of keep in mind on the revenue side of things?

And then second question is just on the licensing you announced for the dental asset. Just elaborate a bit on what brought you to the product and how it fits into your strategy. And maybe just more broadly, your latest thoughts on the role the company can play in the companion space.

Glenn C. David

Chief Financial Officer

Yes. So, I'll start with the guidance, and then Dani will cover Restoris. In terms of the guidance, the favorability that we saw particularly in the first quarter was related to some of our expenses as well as the favorability that we saw in gross margin related to mix. Very strong performance at the top line, but we're really only 1 quarter into the year. So, we didn't find it necessary to update the revenue guidance at this point in time, but we did take the favorability that we saw in the first quarter related to expenses and the favorable mix into account in updating the guidance.

Daniel M. Bendheim

Executive VP of Corporate Strategy & Director

And with regard to our dental assets, we actually -- we've announced, obviously, 2 assets this quarter. We -- the first one, which you alluded to, the licensing, we licensed a pharmaceutical product. That will not be anything near term. It's a long-term play. But the category as a whole with -- as you see with the Restoris is something we're very excited about. We think dental is an unmet need within the vet and the dog market. Only about 15% of dog owners bring their dogs in for annual dental. Only about 4% of dog owners actually brush their teeth of their dogs every day. As a result, as you can imagine, there's tremendous need for solutions there. And we think we actually have a nice 1-2 punch here with our solution.

So Restoris, which is what we launched last week, and which is actually shipping beginning this week, will allow dentists and their vets to actually treat periodontal disease. It's a medical device, so it allowed us to get into the market quickly. But right now, the method that dentists use to treat periodontal disease is extraction, and that's the main method. And this, we believe, will allow them to offer something to their customers that will be able to avoid extraction.

And it's extremely positive from the vet perspective as well because in most states, I think in 35 states, only vets are allowed to do extractions considered oral surgery, whereas the application of Restoris will be able to be done by a vet tech. So that will free up the clinic for more high-value procedures. And then down the road, we will look to follow it up, hopefully, with our licensed product, which we believe will allow people to take -- dogs to take a daily to a weekly application and prevent the buildup of the bacteria that leads to periodontal disease.

Operator

The next question comes from Michael Ryskin with Bank of America.

Unknown Analyst

This is Alexa on for Mike. My question is on end markets. So, you've talked about the strong livestock demand you're seeing and peers have called out the same strength, especially in cattle. Can you talk about what's driving this? And how sustainable do you think it is? Is it more protein cycle driven based on input feed dynamics or consumer demand? Additionally, is it geography-specific or more broad-based? And should we be thinking about this as a 2- to 3-year phenomenon as something shorter term or something more structural?

Larry L. Miller

Chief Operating Officer

This is Larry. I'll take that question. I think you might address that really in 3 aspects. The first would be on the protein demand. And then the second would be on the livestock sector profitability and then really what Phibro's position is given those first 2 market dynamics. First, in protein demand, we continue to see a resurgence in the demand for animal-based proteins, both meat, eggs and poultry and dairy. We believe this trend is poised to continue with global population and income growth and demand is also supported by changing views on things such as dietary fats as consumers increase demand for higher quality, simpler and more wholesome proteins and move away from higher processed foods. These factors all make animal-based proteins highly compatible with consumers' dietary as well as lifestyle changes.

The second, the livestock sector profitability. Overall profitability for all livestock segments, not only in North America, but in the key segment -- key markets around the world continues to be positive in the top positive margin territory with sound poultry fundamentals, strong beef demand, disciplined pork supply and good dairy performance demand. All livestock sectors continue to benefit from lower costs of feed and grain input prices. The value of each animal is worth more, so livestock producers are willing to invest more in animal health products to prevent disease and keep their animals healthy. Every pound of protein matters more than it really ever has.

And on Phibro's position, we've had a strong geographic presence in the key livestock production markets around the world. Our market reach had complementary for expansion even went -- was complemented and got stronger with recent acquisition of the MFA business, particularly giving us a stronger base in Asia and in China, Western Europe, Middle East as well as the U.S. beef and swine sectors. We believe Phibro is really well positioned with our customers on farm, and we're in a unique position to provide customized solutions that address animal health and disease challenges, including a wide choice of MFAs, nutrition specialties and vaccine products, combined with the high level of service and animal production experience that our field team has and brings to our customers' farms.

Operator

The next question comes from Navann Ty with BNP Paribas.

Navann Ty Dietschi

BNP Paribas, Research Division

One more on the legacy business. The growth was above our expectations. So, what drove the better growth than in the 2 last quarters? Was there any nonrecurring or pull-forward items to be aware of? And then my second question is on the Lighthouse licensing agreement and Restoris. Does that signal a higher focus on companion animal? And generally, is your BD strategy to target innovation in areas that are not targeted by the big 4 players?

Glenn C. David

Chief Financial Officer

Yes, Navann, I'll take the first question in terms of the legacy portfolio. As we said, really strong performance across legacy MFA, nutritional specialty as well as vaccine. Nothing significant to call out. I think we're just seeing good underlying demand across the board. One thing I will point out within the legacy MFA, there are certain customers that make larger purchases that occurs between one quarter or another, could have a small impact on the performance. We did see some of those purchases occur in Q1, probably see a little less of that in Q2, but overall, nothing too material to results.

Daniel M. Bendheim

Executive VP of Corporate Strategy & Director

And then -- it's Dani. As far as our business development, I think we -- for a couple of years now, we have talked about our main focus remains the production animal side and specifically on the nutritional and the vaccine side of production animals, that's where we're probably going to spend our largest dollars. But we are looking at opportunities on the companion animal side. And to your point, for the most part, we are not looking to go head-to-head with the larger companion animal players in most segments. We're looking for unique opportunities that we think that we can play a real role in.

Operator

[Operator Instructions] With no further questions, this will conclude the question-and-answer session and will conclude today's conference call. We thank you for joining. You may now disconnect.

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