

Phibro Animal Health Corporation



Second Quarter – December 31, 2018
Webcast and Conference Call
February 7, 2019

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HEALTHY ANIMALS. HEALTHY FOOD. HEALTHY WORLD.®

Phibro
ANIMAL HEALTH CORPORATION™

Cautionary Statements



Forward-Looking Statements

This communication 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,” “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 guarantees 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 Information

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.

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.

Opening Remarks and Financial Review



- Jack Bendheim

Chairman, President, Chief Executive Officer

- Richard Johnson

Chief Financial Officer



GAAP and Non-GAAP Financial Information



- *Reported* results are presented in accordance with GAAP
- *Adjusted* results are GAAP results adjusted to exclude
 - Acquisition-related items, including intangible amortization, cost of goods sold, accrued compensation costs, transaction costs and accrued interest
 - 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 (gains) losses, net
 - Income tax effects related to pre-tax adjustments and unusual or non-recurring income tax items

Highlights

Q2 – December 2018



For the three months ended
December 31

	2018	2017	Change	
	<i>(in millions, except per share amounts and percentages)</i>			
Net sales	\$ 218.2	\$ 205.9	\$ 12.3	6%
Net income	14.7	7.0	7.7	110%
Diluted EPS	\$ 0.36	\$ 0.17	\$ 0.19	112%
Adjusted EBITDA	\$ 31.6	\$ 32.5	\$ (0.9)	(3)%
Adjusted net income	16.5	17.8	(1.3)	(7)%
Adjusted diluted EPS	\$ 0.41	\$ 0.44	\$ (0.03)	(7)%

- Sales growth across all segments
- Net income and diluted EPS increased due to income taxes. Last year income taxes included costs of U.S. Tax Reform and other items

Selected Line Items

Q2 – December 2018

For the three months ended December 31	2018	2017	Change	
	<i>(in millions, except per share amounts and percentages)</i>			
Net sales	\$ 218.2	\$ 205.9	\$ 12.3	6%
Adjusted gross profit	70.0	69.6	0.3	0%
Adjusted SG&A	43.7	42.4	1.3	3%
Adjusted EBITDA	\$ 31.6	\$ 32.5	\$ (0.9)	(3)%
Depreciation expense	5.3	5.2	0.1	2%
Adjusted interest expense, net	3.0	2.8	0.2	6%
Adjusted income before income taxes	23.3	24.4	(1.1)	(5)%
Adjusted provision for income taxes	6.8	6.7	0.1	1%
Adjusted net income	\$ 16.5	\$ 17.8	\$ (1.3)	(7)%
Adjusted diluted EPS	\$ 0.41	\$ 0.44	\$ (0.03)	(7)%

- **Adjusted gross profit similar to prior year**
 - Animal Health unfavorable mix and manufacturing costs
 - Mineral Nutrition reduced margins
- **Adjusted SG&A**
 - Investments for future growth
 - Limited increase in other operating expenses
- **Adjusted interest expense**
 - Increased rates and debt levels
- **Adjusted effective income tax rate**
 - 28.5% effective tax rate for the six months; consistent with revised expectations
 - Last year included favorable adjustment due to Tax Reform

Animal Health

Q2 – December 2018

For the three months ended
December 31

	2018	2017	Change	
	<i>(in millions, except percentages)</i>			
MFAs and other	\$ 93.1	\$ 82.0	\$ 11.0	13%
Nutritional specialties	29.5	32.6	(3.2)	(10)%
Vaccines	17.0	18.2	(1.2)	(6)%
Net sales	\$ 139.6	\$ 132.8	\$ 6.7	5%
Adjusted EBITDA	\$ 35.9	\$ 35.0	\$ 0.9	3%
% of segment net sales	25.7%	26.4%		-70bps

MFAs and other

- International sales volume growth in Asia Pacific and Latin America
- Slight decline in domestic sales

Nutritional specialties

- Continued decline in dairy sector due to weak industry conditions
- Lower poultry demand during the quarter

Vaccines

- Negatively affected by turbulent economic conditions in certain international countries and loss of domestic distribution agreement

Adjusted EBITDA

- Driven by gross profit increase from volume growth in MFAs and other, offset by volume declines in the other categories and increased vaccine manufacturing costs
- Operating expenses little changed

Other Segments

Q2 – December 2018



For the three months ended
December 31

	2018	2017	Change	
	<i>(in millions, except percentages)</i>			
Mineral Nutrition				
Net sales	\$ 62.3	\$ 59.6	\$ 2.7	5%
Adjusted EBITDA	\$ 4.1	\$ 5.6	\$ (1.5)	(27)%
% of segment net sales	6.6%	9.4%		-280bps
Performance Products				
Net sales	\$ 16.3	\$ 13.4	\$ 2.9	22%
Adjusted EBITDA	\$ 1.5	\$ 0.3	\$ 1.3	*
% of segment net sales	9.3%	2.0%		+730bps
Corporate				
Adjusted EBITDA	\$ (9.9)	\$ (8.4)	\$ (1.5)	*

* Calculation not meaningful

Mineral Nutrition

- Sales growth from higher average selling prices due to commodity pricing and improved volumes
- Adjusted EBITDA decreased due to unfavorable product mix and competitive pricing environment

Performance Products

- Volume growth in copper-based and personal care products

Corporate

- Increased business development costs

Capitalization and Capital Allocation

December 31, 2018



- 2.5x leverage ratio at December 31, 2018
 - \$326 million total debt
 - \$128 million LTM Adjusted EBITDA
- \$80 million cash and short-term investments on hand at December 31, 2018
- \$10 million source of cash before financing and short-term investments for the December 2018 quarter
- Quarterly dividend of \$0.12 per share
 - \$4.8 million paid December 2018
 - \$4.8 million to be paid March 2019



Q&A Session





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