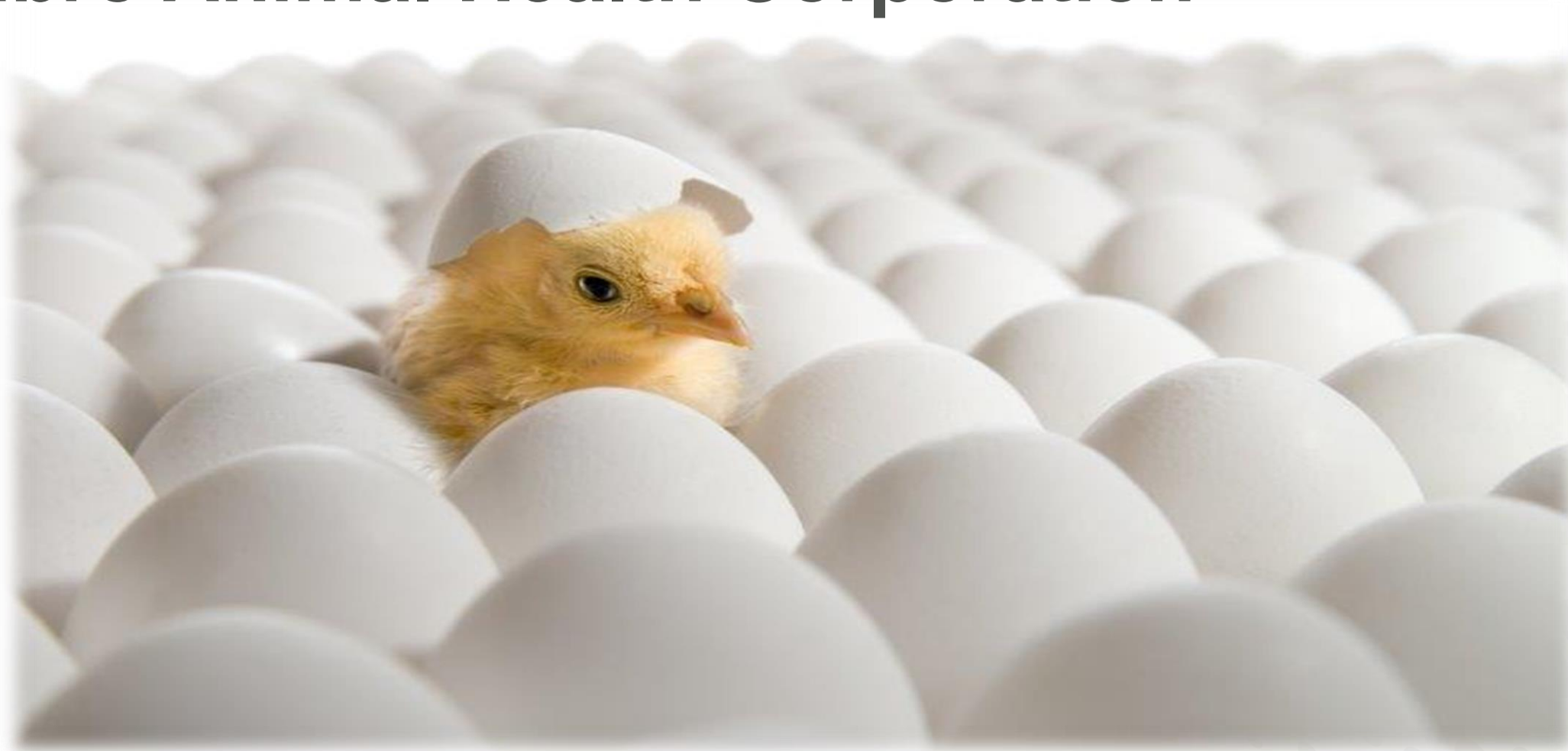


# Phibro Animal Health Corporation



Fourth Quarter – June 30, 2019  
Webcast and Conference Call  
August 28, 2019

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Conference ID: **1266589**

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](http://www.sec.gov), [www.pahc.com](http://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](http://www.pahc.com). We encourage investors and potential investors to consult our website regularly for important information about us.

# 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, restructuring costs
  - 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

# Opening Remarks and Financial Review



- Jack Bendheim

*Chairman, President, Chief Executive Officer*

- Richard Johnson

*Chief Financial Officer*



# Highlights

Q4 – June 2019



For the three months ended  
June 30

	<b>2019</b>	2018	Change	
	<i>(in millions, except per share amounts and percentages)</i>			
Net sales	<b>\$ 203.9</b>	\$ 211.8	\$ (7.9)	(4)%
Net income	<b>8.8</b>	22.1	(13.3)	(60)%
Diluted EPS	<b>\$ 0.22</b>	\$ 0.55	\$ (0.33)	(60)%
Adjusted EBITDA	<b>\$ 26.3</b>	\$ 33.0	\$ (6.6)	(20)%
Adjusted net income	<b>13.5</b>	18.8	(5.3)	(28)%
Adjusted diluted EPS	<b>\$ 0.33</b>	\$ 0.46	\$ (0.13)	(28)%

- Net sales decrease due to volume decline in Animal Health and lower selling prices and product mix in Mineral Nutrition, partially offset by growth in Performance Products. Animal Health sales demand was negatively affected by African Swine Fever (“ASF”) in China.
- Net income decline driven by reduced sales and increased SG&A expenses, including pre-tax restructuring costs of \$6.3 million.
- Adjusted EBITDA decline driven by the Animal Health segment and increased strategic investments.

# Selected Line Items

Q4 – June 2019



For the three months ended June 30

	<u>2019</u>	<u>2018</u>	<u>Change</u>	
	<i>(in millions, except per share amounts and percentages)</i>			
Net sales	\$ 203.9	\$ 211.8	\$ (7.9)	(4)%
Adjusted gross profit	66.6	68.9	(2.2)	(3)%
Adjusted SG&A	45.9	41.3	4.6	11%
Adjusted EBITDA	26.3	33.0	\$ (6.6)	(20)%
Depreciation expense	5.3	5.3	0.1	1%
Adjusted interest expense, net	3.0	2.4	0.6	27%
Adjusted income before income taxes	17.7	25.2	(7.5)	(30)%
Adjusted provision for income taxes	4.1	6.4	(2.3)	(36)%
Adjusted net income	\$ 13.6	\$ 18.8	\$ (5.2)	(28)%
Adjusted diluted EPS	\$ 0.33	\$ 0.46	\$ (0.13)	(28)%

## Adjusted gross profit

- Animal Health volume declines in MFAs and other
- Mineral Nutrition comparable to the prior year
- Performance Products increase due to volume, offset by product mix

## Adjusted SG&A

- Strategic investments for future growth

## Adjusted interest expense

- Increased variable rates and debt levels



# Animal Health

Q4 – June 2019



For the three months ended June 30	Animal Health			
	2019	2018	Change	
	<i>(in millions, except percentages)</i>			
MFAs and other	\$ 86.3	\$ 92.1	\$ (5.8)	(6)%
Nutritional specialties	28.6	28.2	0.3	1%
Vaccines	17.2	17.4	(0.2)	(1)%
Net sales	\$ 132.0	\$ 137.7	\$ (5.7)	(4)%
Adjusted EBITDA	\$ 31.2	\$ 36.8	\$ (5.7)	(15)%
% of segment net sales	23.6%	26.8%		-320bps

- **MFAs and other**
  - Lower demand in China due to ASF
  - Continued volume growth in Latin America and other Asia Pacific countries
- **Nutritional specialties**
  - Volume growth in international dairy
  - Continued negative domestic dairy conditions
  - Reduced demand from poultry customers
- **Vaccines**
  - Volume growth in Asia Pacific and Eastern Europe
  - Loss of domestic distribution agreement
  - Turbulent economics in certain international countries
- **Adjusted EBITDA**
  - Gross profit decline due to lower volumes in MFAs and other, partially offset by favorable vaccine manufacturing costs
  - SG&A included increased research and development

# Other Segments

Q4 – June 2019



For the three months ended  
June 30

	2019	2018	Change	
	<i>(in millions, except percentages)</i>			
<b>Mineral Nutrition</b>				
Net sales	\$ 56.0	\$ 60.3	\$ (4.3)	(7)%
Adjusted EBITDA	\$ 3.8	\$ 3.9	\$ (0.1)	(3)%
% of segment net sales	6.7%	6.4%		+30bps
<b>Performance Products</b>				
Net sales	\$ 15.9	\$ 13.8	\$ 2.1	15%
Adjusted EBITDA	\$ 1.2	\$ 1.0	\$ 0.2	19%
% of segment net sales	7.4%	7.1%		+30bps
<b>Corporate</b>				
Adjusted EBITDA	\$ (9.8)	\$ (8.7)	\$ (1.1)	*

\* Calculation not meaningful

## ■ Mineral Nutrition

- Sales decrease due to product mix and lower average selling prices; volumes increased

## ■ Performance Products

- Volume growth in personal care products

## ■ Corporate

- Increased business development expenses



# Selected Line Items

Year – June 2019

For the year ended June 30

	<u>2019</u>	<u>2018</u>	<u>Change</u>	
	<i>(in millions, except per share amounts and percentages)</i>			
Net sales	\$ 828.0	\$ 820.0	\$ 8.0	1%
Adjusted gross profit	269.9	273.7	(3.8)	(1)%
Adjusted SG&A	173.3	165.9	7.5	5%
Adjusted EBITDA	118.0	129.0	(10.9)	(8)%
Depreciation expense	15.8	15.7	0.2	1%
Adjusted interest expense, net	11.8	10.8	1.0	9%
Adjusted income before income taxes	84.8	97.0	(12.3)	(13)%
Adjusted provision for income taxes	22.8	26.6	(3.8)	(14)%
Adjusted net income	\$ 62.0	\$ 70.4	\$ (8.4)	(12)%
Adjusted diluted EPS	\$ 1.53	\$ 1.74	\$ (0.21)	(12)%

## ■ Net sales

- Animal Health sales comparable to the prior year
- Performance Products growth

## ■ Adjusted gross profit decreased

- Animal Health volume declines in nutritional specialties and vaccines, partially offset by MFAs and other
- Mineral Nutrition constrained pricing
- Performance Products volume growth

## ■ Adjusted SG&A

- Investments in development costs to position ourselves for future growth
- Increased public company costs
- Reduced variable compensation

## ■ Adjusted interest expense, net

- Increased variable rates and debt levels

# Capitalization

June 30, 2019



- 2.8x leverage ratio at June 30, 2019
  - \$327 million total debt
  - \$118 million Adjusted EBITDA
- \$82 million cash and short-term investments on hand at June 30, 2019
- \$7 million source of cash for the year, before change in short-term investments and financing activities

# Guidance

Year – June 2020



	FY2020		FY2019	Change	
	low	high		low	high
	<i>(in millions, except per share amounts and percentages)</i>				
Net sales - Animal Health segment	\$ 537	- \$ 557	\$ 532	1%	- 5%
Net sales	833	- 863	828	1%	- 4%
Adjusted EBITDA	\$ 103	- \$ 107	\$ 118	(13)%	- (9)%
Adjusted diluted EPS	\$ 1.08	- \$ 1.15	\$ 1.53	(29)%	- (25)%

# Guidance

Year – June 2020

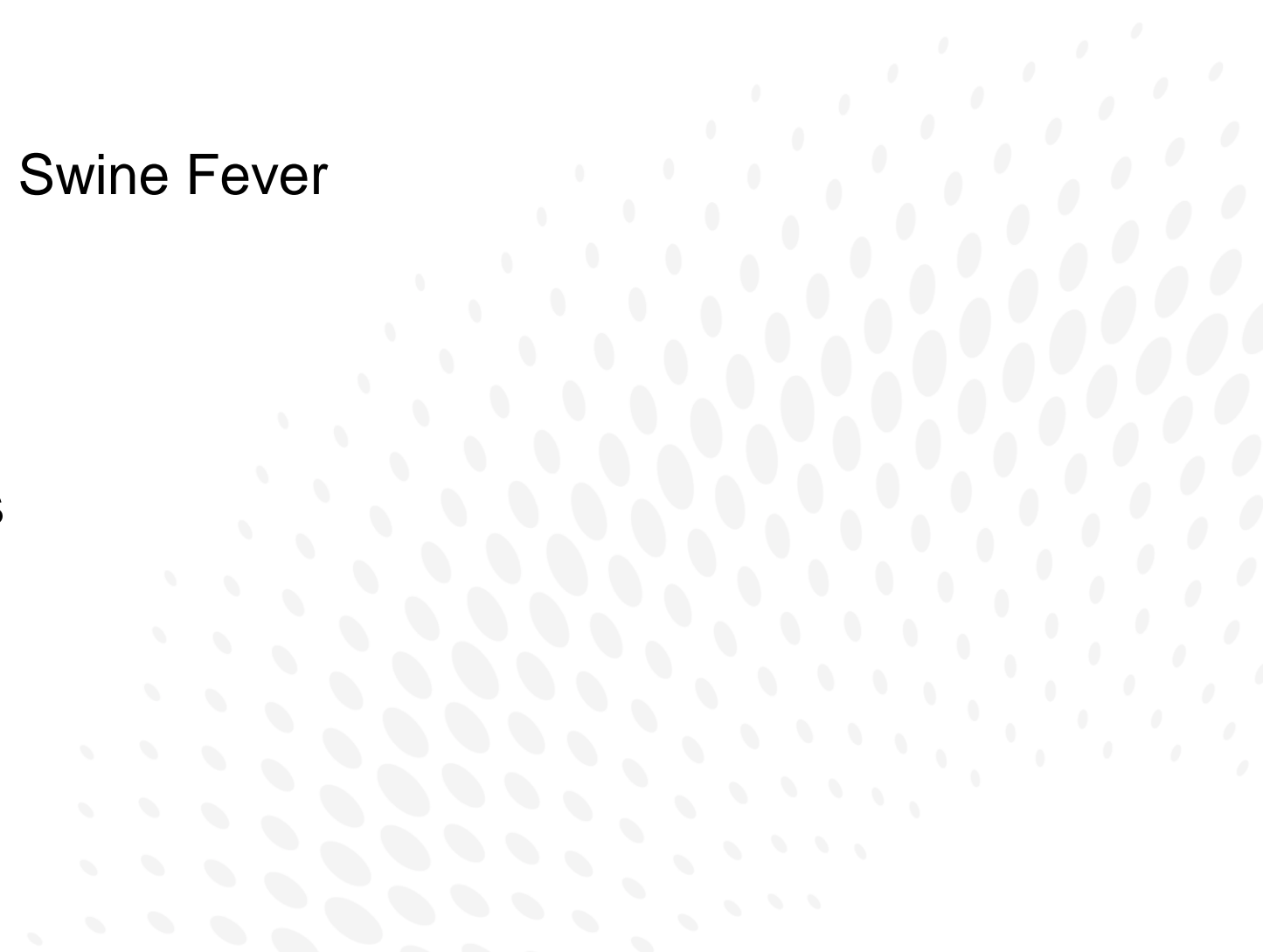


- **Animal Health sales**

- Current and new products growth
- Osprey Biotechnics business
- Significant sales decline in China due to African Swine Fever

- **Increased operating expenses**

- Strategic growth initiatives
- Reset of variable compensation to typical levels



# Guidance

Year – June 2020



- We expect Animal Health sales growth

<i>\$ millions</i>	Growth	Growth
Current and new products	\$25 - \$43	5% - 8%
Acquisition and related	\$20 - \$22	4%
China MFAs	\$(40)	(7)%
Total	\$5 - \$25	1% - 5%

# Guidance

Year – June 2020



## Animal Health sales growth

- **Nutritional specialties – dairy**
  - Refocus of the sales force
  - Repositioning of key products planned for mid-year
  - Accelerated international growth
- **Nutritional specialties - poultry**
  - Current products
  - Recent launch of *Provia Prime*<sup>TM</sup>
- **The acquisition of the Osprey Biotechnics business in August 2019**
  - Osprey is a developer, manufacturer and marketer of microbial products and bioproducts for a variety of applications serving animal health and nutrition, environmental, industrial and agricultural customers



# Guidance

Year – June 2020



## Animal Health sales growth (continued)

- **Vaccine products for poultry and swine**
  - Recent launch of *MB-1<sup>TM</sup>*, a poultry vaccine adapted for use in the hatchery
  - Overlap negative comparisons on the loss of a distribution arrangement in October 2018
  - Overlap turbulent economic conditions in certain international countries
  
- **MFAs and other products (excluding China)**
  - Volume growth in the swine and poultry sectors, in part reflecting our expectations for increased global protein production driven by a supply shortfall in China
  - In China, we expect volumes to be negligible, as our customers consume existing purchases, and will be cautious in placing new orders due to recent regulatory developments

# Guidance

Year – June 2020

Adjusted SG&A expenses expected to increase by \$28 - \$33 million, or 16% - 19%, to invest in major strategic initiatives to support future growth

- Ongoing development of the vaccine production facility in Ireland, with first sales from the facility expected around July 2021
- Development of a potential vaccine for African Swine Fever
  - We are pursuing patent protection following a significant advance in the development process
  - We would expect initial sales, if the development efforts prove successful, to begin in three to five years
- The commercial introduction of *pHi-Tech™*, our innovative automated vaccination delivery system that insures injection accuracy, enables real-time oversight and offers cloud-based data analytics

# Guidance

Year – June 2020



## Adjusted SG&A expenses (continued)

- Developing additional data to support the introduction and penetration of current and newly launched nutritional specialty products
- Ongoing product development and market investigation for companion animal products, including our *Rejensa*<sup>TM</sup> supplemental joint care chew that helps support canine joint health
- Costs of our base organization are stable and the guidance reflects the effects of recent and anticipated restructuring actions
  - A reset of variable compensation expected to contribute approximately 3 percentage points to the overall SG&A increase
  - The recent acquisition will contribute approximately 3 percentage points to the overall SG&A increase

# Guidance

Year – June 2020



- Adjusted EBITDA expected of \$103 - \$107 million
  
- Adjusted net income expected of \$44 - \$46 million
  - Decline in adjusted EBITDA
  - Increased depreciation expense
  - Increased interest expense
  
- Net interest expense expected to increase due to higher borrowing levels
  - \$55 million for the acquisition of Osprey Biotechnics
  - Approximately \$45 million of expected capital expenditures
  - Working capital growth expected to support sales growth
  - Net debt expected to increase by \$70 - \$80 million

# Guidance

Year – June 2020



- We expect the adjusted effective income tax rate to be similar to the prior year
- Adjusted diluted earnings per share expected of \$1.08 - \$1.14 per share
  - Diluted shares outstanding are expected to be approximately unchanged
- Quarterly trends
  - Full-year decline in adjusted EBITDA expected to occur entirely in the first half
  - New sales initiatives will become meaningful in the second half of the year



# Q&A Session







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