

Phibro Animal Health Corporation



Fourth Quarter – June 30, 2018
Webcast and Conference Call
August 28, 2018

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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, pension settlement cost, gain on insurance settlement and loss on extinguishment of debt
 - 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

Q4 – June 2018



For the three months ended
June 30

	2018	2017	Change	
	<i>(in millions, except per share amounts and percentages)</i>			
Net sales	\$ 211.8	\$ 194.8	\$ 17.0	9%
Net income	22.1	15.4	6.7	44%
Diluted EPS	\$ 0.55	\$ 0.38	\$ 0.17	45%
Adjusted EBITDA	\$ 33.0	\$ 29.4	\$ 3.6	12%
Adjusted net income	18.8	15.6	3.2	20%
Adjusted diluted EPS	\$ 0.46	\$ 0.39	\$ 0.07	18%

- Sales growth across all segments
- Net income and diluted EPS growth
 - Operating growth; favorable income tax items; loss on debt extinguishment last year
- Adjusted EBITDA growth
 - 9% sales growth and 7% adjusted gross profit growth
 - 4% adjusted SG&A increase on expense timing
- Adjusted net income and adjusted diluted EPS growth

Selected Line Items

Q4 – June 2018



For the three months ended June 30

	<u>2018</u>	<u>2017</u>	<u>Change</u>	
	<i>(in millions, except per share amounts and percentages)</i>			
Net sales	\$ 211.8	\$ 194.8	\$ 17.0	9%
Adjusted gross profit	68.9	64.4	4.5	7%
Adjusted SG&A	41.3	39.9	1.4	4%
Adjusted interest expense, net	2.4	3.1	(0.8)	(24)%
Adjusted income before income taxes	25.2	21.4	3.8	18%
Adjusted provision for income taxes	6.4	5.7	0.7	11%
Adjusted net income	\$ 18.8	\$ 15.6	\$ 3.2	20%
Adjusted diluted EPS	\$ 0.46	\$ 0.39	\$ 0.07	18%

- Adjusted gross profit increased on volume growth

- Animal Health favorable mix offset by Mineral Nutrition reduced margins.

- Adjusted SG&A

- Modest increase on timing of expenses
- Investments in development costs to position ourselves for future growth.

- Adjusted interest expense, net favorable

- Improved borrowing rates from June 2017 refinancing.

- Adjusted effective income tax rate favorable

- Tax reform reduced federal statutory rate to 28.1% versus 35% last year.

Animal Health

Q4 – June 2018



For the three months ended
June 30

	2018	2017	Change		
		<i>(in millions, except percentages)</i>			
MFAs and other	\$ 92.1	\$ 84.2	\$ 7.9	9%	
Nutritional specialties	28.2	28.1	0.1	0%	
Vaccines	17.4	16.3	1.1	7%	
Net sales	\$ 137.7	\$ 128.6	\$ 9.1	7%	
Adjusted EBITDA	\$ 36.8	\$ 31.2	\$ 5.6	18%	
<i>% of segment net sales</i>	26.8%	24.3%			+250bps

▪ Nutritional specialties Sales

- Poultry sector growth
- Dairy sector declined due to weak industry conditions.

▪ Vaccines Sales

- Volume growth in international markets.

▪ MFAs and other Sales

- International sales growth across most regions; cattle sector penetration; recent acquisition
- Domestic sales level with the prior year.

▪ Adjusted EBITDA

- Gross profit increased \$5.0 million on volume growth and favorable product mix
- SG&A slightly favorable on timing of expenses

Other Segments

Q4 – June 2018



For the three months ended
June 30

2018

2017

Change

(in millions, except percentages)

Mineral Nutrition

Net sales	\$	60.3	\$	52.8	\$	7.5	14%
Adjusted EBITDA	\$	3.9	\$	4.4	\$	(0.5)	(11)%
% of segment net sales		6.4%		8.2%			-180bps

Performance Products

Net sales	\$	13.8	\$	13.4	\$	0.4	3%
Adjusted EBITDA	\$	1.0	\$	0.6	\$	0.4	61%
% of segment net sales		7.1%		4.5%			+260bps

Corporate

Adjusted EBITDA	\$	(8.7)	\$	(6.8)	\$	(1.9)	*
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* Calculation not meaningful

Mineral Nutrition

- Sales growth on higher average selling prices due to increased commodity pricing
- Adjusted EBITDA decreased due to unfavorable product mix and reduced margins

Performance Products

- Higher volumes and selling prices were partially offset by higher raw material costs

Corporate

- Increased development costs and higher professional fees

Selected Line Items

Year – June 2018

For the twelve months ended June 30

	2018	2017	Change	
	<i>(in millions, except per share amounts and percentages)</i>			
Net sales	\$ 820.0	\$ 764.3	\$ 55.7	7%
Adjusted gross profit	273.7	253.3	20.4	8%
Adjusted SG&A	165.9	153.3	12.6	8%
Adjusted interest expense, net	10.8	13.5	(2.7)	(20)%
Adjusted income before income taxes	97.0	86.5	10.5	12%
Adjusted provision for income taxes	26.6	26.0	0.6	2%
Adjusted net income	\$ 70.4	\$ 60.5	\$ 9.9	16%
Adjusted diluted EPS	\$ 1.74	\$ 1.51	\$ 0.23	15%

Net sales

- 7% Animal Health sales growth driven by 21% international growth

Adjusted gross profit increased on volume growth

- Animal Health favorable mix

Adjusted SG&A

- Investments in development costs to position ourselves for future growth.

Adjusted interest expense, net favorable

- Improved borrowing rates from June 2017 refinancing.

Adjusted effective income tax rate favorable

- Tax reform reduced federal statutory rate to 28.1% versus 35% last year.
- Effective tax rate of 27.4%, a 270 basis point improvement from last year.

Capitalization, Capital Allocation and Guidance

June 30, 2018



- **2.4x leverage ratio at June 30, 2018**
 - \$314 million total debt
 - \$129 million LTM Adjusted EBITDA
- **\$79 million cash and short-term investments on hand at June 30, 2018**
- **\$5 million source of cash before financing for the June 2018 quarter, excluding purchases of short-term investments**
- **\$50 million source of cash before financing for the June 2018 year, excluding purchases of short-term investments and business acquisition**
- **Quarterly dividend**
 - \$0.10 per common share to be paid September 2018
 - Quarterly dividend expected to be increased by 20%, to \$0.12 per share, effective with the December 2018 dividend payment and subject to quarterly approval by our Board of Directors
 - Expected increase reflects consistent positive cash flow of the business and balance sheet strength

Guidance for the June 2019 Year

Compared with the June 2018 year



For the year ending June 30

	<u>2019</u>	<u>2018</u>	<u>Change from 2018</u>	
	<i>(in millions, except per share amounts and percentages)</i>			
Net sales - Animal Health segment	\$ 550 - \$ 565	\$ 532	\$ 18 - \$ 33	3% - 6%
Net sales	\$ 850 - \$ 875	\$ 820	\$ 30 - \$ 55	4% - 7%
Adjusted EBITDA	\$ 129 - \$ 131	\$ 129	\$ 0 - \$ 2	0% - 2%
Adjusted net income per share - diluted	\$ 1.72 - \$ 1.77	\$ 1.74	\$ (0.02) - \$ 0.03	(1)% - 2%

Guidance for the June 2019 Year

Compared with the June 2018 year



- We expect consolidated net sales of \$850 - \$875 million, an increase of up to 7%.
- We expect the Animal Health segment to grow by up to 6%
 - Nutritional specialties to grow at double-digit rates
 - Vaccines to grow at a high single-digit rate; international sales will contribute most of the growth, partially offset by the loss of a domestic distribution arrangement
 - MFAs and other will increase at a low to mid-single-digit rate, with continued international growth and stabilized domestic conditions.
- Mineral Nutrition revenues are expected to grow at a high single-digit rate, primarily due to volume and new product growth. Performance Products revenues are expected to increase slightly.
- We expect adjusted gross profit to increase by up to 9%, faster than sales growth, due to favorable mix.
 - The gross profit ratio is expected to improve by 50-60 basis points

Guidance for the June 2019 Year

Compared with the June 2018 year

- We expect SG&A to increase by up to 14%, as we make strategic investments to develop future growth, including
 - New development, additional registrations and increased volumes of existing nutritional specialties and vaccines technologies, including expansion into new geographic markets
 - Increasing and further strengthening our nutritional specialties portfolio with new technologies from outside Phibro
 - Developing additional vaccine production capacity at our Ireland facility to enable regional expansion
 - In-licensing of novel technologies in the companion animal space, where we see unmet needs
 - Expect it will be approx. 18-24 months before we see the commercial benefits of the investments
 - We believe these internal investments are more prudent than acquiring existing businesses
- Because these investments require significant P&L expense dollars, Adjusted EBITDA is expected to be approximately even with the prior year. We expect the increased SG&A strategic investments to approximately offset the benefit of the sales growth and gross profit improvements.

Guidance for the June 2019 Year

Compared with the June 2018 year



- We expect the adjusted effective income tax rate will be approximately 26.0% - 27.0% for fiscal year 2019, a decrease compared to the 27.4% adjusted effective income tax rate for fiscal year 2018. Our federal statutory income tax rate will be 21% for fiscal 2019, compared with a blended 28.1% federal statutory rate in fiscal 2018.
- We expect adjusted diluted EPS of \$1.72 - \$1.77 per share, similar to the \$1.74 per share for fiscal 2018.
- We expect to generate positive cash flows, after satisfying needs for working capital, capital expenditures, dividends and scheduled debt repayments.
 - We expect capital expenditures will be approximately \$42 million, compared to \$19 million in fiscal 2018. We anticipate capital spending to increase capacity, to in-source production of certain products previously made by third parties, to improve efficiencies and for environmental compliance projects.



Q&A Session





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