

Phibro Animal Health Corporation



First Quarter – September 30, 2018
Webcast and Conference Call
November 7, 2018

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Conference ID: 6274808

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

Q1 – September 2018

For the three months ended
September 30

	2018	2017	Change	
	<i>(in millions, except per share amounts and percentages)</i>			
Net sales	\$ 200.2	\$ 193.4	\$ 6.7	3%
Net income	16.3	15.9	0.4	3%
Diluted EPS	\$ 0.40	\$ 0.39	\$ 0.01	3%
Adjusted EBITDA	\$ 30.1	\$ 30.1	\$ (0.0)	(0)%
Adjusted net income	15.9	15.3	0.6	4%
Adjusted diluted EPS	\$ 0.39	\$ 0.38	\$ 0.01	3%

- Sales growth across all segments
- Net income and diluted EPS growth due to increased operating income and foreign exchange gains, offset by increased tax expense
- Adjusted EBITDA
 - Increased gross profit in Animal Health and Performance Products
 - Decrease in Mineral Nutrition gross profit due to unfavorable product mix and competitive pressures
 - Increased SG&A to fund investments in organization and business development

Selected Line Items

Q1 – September 2018



For the three months ended September 30

	2018	2017	Change	
	<i>(in millions, except per share amounts and percentages)</i>			
Net sales	\$ 200.2	\$ 193.4	\$ 6.7	3%
Adjusted gross profit	67.1	64.9	2.3	3%
Adjusted SG&A	42.2	40.0	2.3	6%
Adjusted interest expense, net	2.8	2.9	(0.1)	(3)%
Adjusted income before income taxes	22.1	22.1	0.1	0%
Adjusted provision for income taxes	6.2	6.8	(0.6)	(8)%
Adjusted net income	\$ 15.9	\$ 15.3	\$ 0.6	4%
Adjusted diluted EPS	\$ 0.39	\$ 0.38	\$ 0.01	3%

- **Adjusted gross profit increased on volume growth**

- Animal Health and Performance Products volume growth, offset by Mineral Nutrition reduced margins

- **Adjusted SG&A**

- Investments in development costs to position ourselves for future growth

- **Adjusted interest expense, net favorable**

- **Adjusted effective income tax rate favorable**

- Tax reform reduced rate to 28.0% versus 30.6% last year
- Now expect to be subject to GILTI provisions, adds 1.5% points to effective rate

Animal Health

Q1 – September 2018



For the three months ended
September 30

	2018	2017	Change	
			<i>(in millions, except percentages)</i>	
MFAs and other	\$ 87.0	\$ 79.6	\$ 7.4	9%
Nutritional specialties	27.0	30.8	(3.8)	(12)%
Vaccines	17.2	18.5	(1.2)	(7)%
Net sales	\$ 131.2	\$ 128.8	\$ 2.3	2%
Adjusted EBITDA	\$ 35.7	\$ 33.7	\$ 2.0	6%
<i>% of segment net sales</i>	27.2%	26.2%		+100bps

- MFAs and other

- International sales volume growth in cattle sector
- Domestic sales growth contributed

- Nutritional specialties

- Continued decline in dairy sector due to weak industry conditions
- Poultry business level with the prior year

- Vaccines

- Negatively affected by turbulent economic conditions in certain international countries and timing of distributor orders

- Adjusted EBITDA

- Driven by gross profit increase from volume growth, favorable unit costs and product mix
- Increased SG&A for investments in future growth

Other Segments

Q1 – September 2018

For the three months ended
September 30

	2018	2017	Change	
	<i>(in millions, except percentages)</i>			
Mineral Nutrition				
Net sales	\$ 54.8	\$ 52.1	\$ 2.8	5%
Adjusted EBITDA	\$ 2.6	\$ 3.7	\$ (1.2)	(31)%
% of segment net sales	4.7%	7.1%		-240bps
Performance Products				
Net sales	\$ 14.1	\$ 12.5	\$ 1.6	13%
Adjusted EBITDA	\$ 0.7	\$ 0.2	\$ 0.5	189%
% of segment net sales	5.1%	2.0%		+310bps
Corporate				
Adjusted EBITDA	\$ (8.9)	\$ (7.6)	\$ (1.3)	*

* 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 competitive pricing environment

Performance Products

- Higher volumes and selling prices coupled with favorable manufacturing costs

Corporate

- Increased development costs and higher professional fees

Capitalization, Capital Allocation and Guidance

September 30, 2018



- 2.5x leverage ratio at September 30, 2018
 - \$326 million total debt
 - \$129 million LTM Adjusted EBITDA
- \$76 million cash and short-term investments on hand at September 30, 2018
- \$15 million use of cash before financing activities for the September 2018 quarter
 - \$10 million business acquisitions
 - Seasonal working capital
- Quarterly dividend
 - \$0.12 per common share approved by Board and will be paid December 2018
 - Quarterly dividend increase of 20% from \$.10 to \$0.12 per share, reflects positive cash flow of the business and balance sheet strength

Updated Guidance



Phibro Animal Health Corporation

Guidance for fiscal year 2019

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	\$ 1.68 - \$ 1.72	\$ 1.74	\$ (0.06) - \$ (0.02)	(3)% - (1)%	

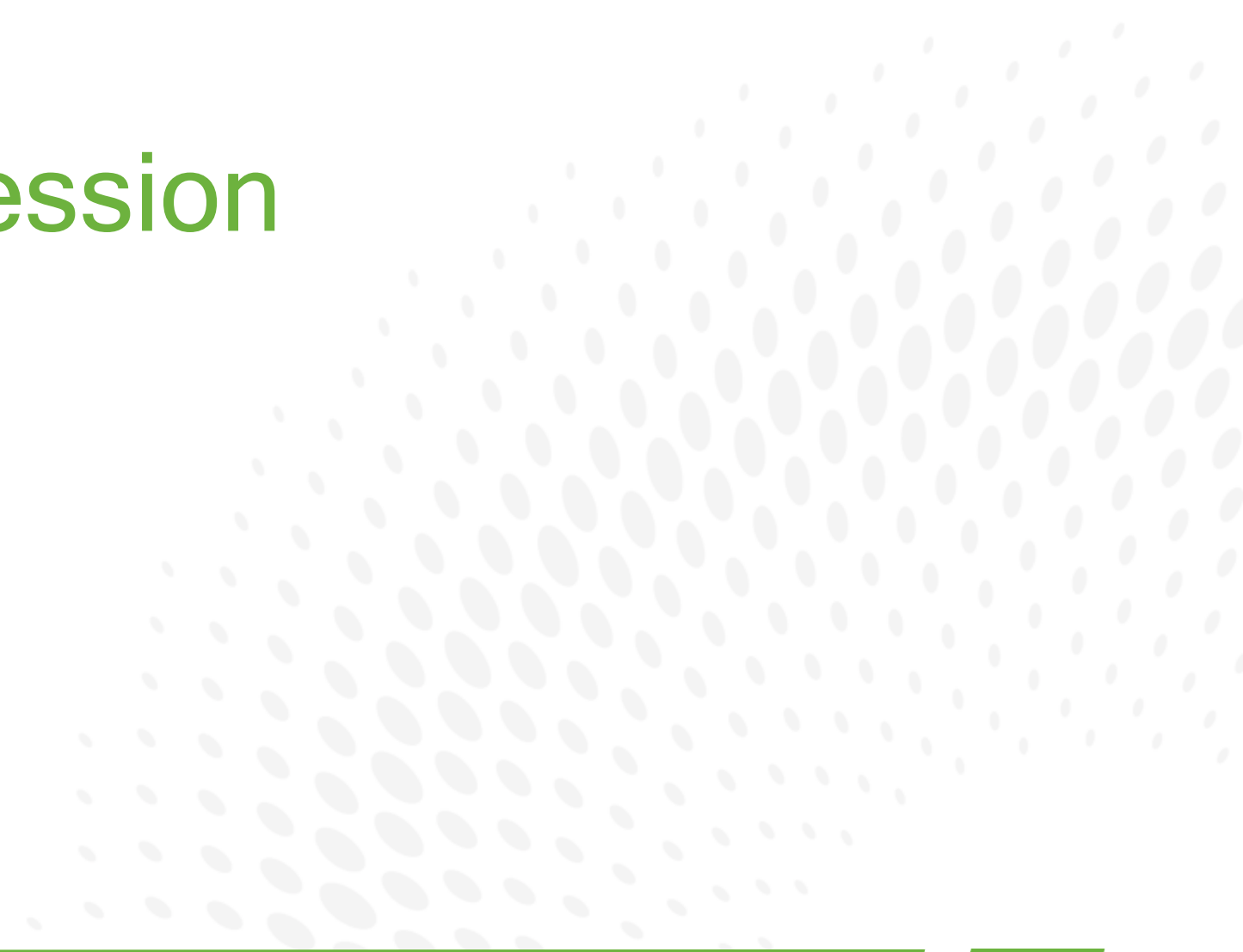
Updated Guidance



- Updated annual expected effective income tax rate to 28.0% - 28.5%
 - Increase of 1.0 - 1.5 percentage points over previous guidance
 - Expected to be subject to GILTI provisions of the new U.S. Tax Act, related to allocation of domestic interest expense and certain other expenses
- Adjusted EPS expected of \$1.68 - \$1.72
- Reaffirming our guidance on sales and profits
 - Lower end of the range is more likely for sales and profit
 - Animal Health growth to be weighted more to MFAs and other; growth of nutritional specialties and vaccines will be more subdued due to current conditions



Q&A Session





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