



# Phibro Animal Health Corporation

Third Quarter - March 2017  
Webcast and Conference Call  
May 9, 2017

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HEALTHY ANIMALS. HEALTHY FOOD. HEALTHY WORLD.®

**Phibro**  
ANIMAL HEALTH AND NUTRITION™

# 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.

# 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 pension settlement costs and gain on insurance settlement
  - 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

Q3 – March 2017

For the three months ended  
March 31

	2017	2016	Change	
	<i>(in millions, except per share amounts and percentages)</i>			
Net sales	\$ 189.9	\$ 183.5	\$ 6.4	3%
Net income	23.6	18.6	5.1	27%
Diluted EPS	\$ 0.59	\$ 0.46	\$ 0.13	28%
Adjusted EBITDA	\$ 29.7	\$ 29.7	\$ 0.1	0%
Adjusted net income	14.9	15.8	(0.9)	(6)%
Adjusted diluted EPS	\$ 0.37	\$ 0.40	\$ (0.03)	(8)%

- GAAP results included \$7.5 million gain on insurance settlement
- GAAP provision for income taxes included \$3.8 million benefit from release of foreign valuation allowance and \$1.4 million benefit from exercise of employee stock options
- Adjusted net income and adjusted diluted EPS were below last year due to increased depreciation expense from recent capex investments and due to a higher effective income tax rate

# Selected Line Items

Q3 – March 2017

For the three months  
ended March 31

	2017	2016	Change	
	<i>(in millions, except per share amounts and percentages)</i>			
Net sales	\$ 189.9	\$ 183.5	\$ 6.4	3%
Adjusted gross profit	61.9	61.6	0.3	1%
Adjusted SG&A	37.6	36.3	1.3	4%
Adjusted interest expense, net	3.5	3.9	(0.4)	(10)%
Adjusted income before income taxes	20.9	21.4	(0.5)	(3)%
Adjusted provision for income taxes	6.0	5.6	0.4	7%
Adjusted net income	\$ 14.9	\$ 15.8	\$ (0.9)	(6)%
Adjusted diluted EPS	\$ 0.37	\$ 0.40	\$ (0.03)	(8)%

- Gross profit reduced by \$1.0 million increase in depreciation over last year
- Total adjusted SG&A increased \$1.3 million. Animal Health segment SG&A increased \$1.6 million due to spending on product development and organization capabilities, to position ourselves for future growth.

# Animal Health

Q3 – March 2017

For the three months  
ended March 31

	2017	2016	Change	
	<i>(in millions, except percentages)</i>			
MFAs and other	\$ 76.4	\$ 82.4	\$ (6.1)	(7)%
Nutritional specialties	27.6	22.8	4.8	21%
Vaccines	17.0	13.1	3.9	30%
Net sales	\$ 121.0	\$ 118.3	\$ 2.6	2%
Adjusted EBITDA	\$ 31.8	\$ 32.2	\$ (0.3)	(1)%
<i>% of segment net sales</i>	<i>26.3%</i>	<i>27.2%</i>		<i>-90bps</i>

## ■ Sales

- Nutritional specialties: Volume growth in U.S. poultry and dairy industries
- Vaccines: volume growth
- MFAs and other: U.S. sales of medically important antibacterials declined due to regulatory and consumer preference factors; Brazil sales declined due to economic conditions; sales growth of other products were a partial offset

## ■ Adjusted EBITDA

- Gross profit growth
- Operating expense increased due to spending on new product development and organization capabilities

# Other Segments

Q3 – March 2017

For the three months ended March 31	2017	2016	Change	
	<i>(in millions, except percentages)</i>			
<b>Mineral Nutrition</b>				
Net sales	\$ 57.2	\$ 53.0	\$ 4.1	8%
Adjusted EBITDA	\$ 4.3	\$ 4.0	\$ 0.3	8%
<i>% of segment net sales</i>	<i>7.6%</i>	<i>7.6%</i>		<i>--bps</i>
<b>Performance Products</b>				
Net sales	\$ 11.7	\$ 12.1	\$ (0.4)	(3)%
Adjusted EBITDA	\$ 0.4	\$ 0.5	\$ (0.0)	(9)%
<i>% of segment net sales</i>	<i>3.8%</i>	<i>4.0%</i>		<i>-20bps</i>
<b>Corporate</b>				
Adjusted EBITDA	\$ (6.9)	\$ (7.0)	\$ 0.1	*

\* Calculation not meaningful

## Mineral Nutrition

- Sales growth on increased volumes and commodity pricing
- 8% growth in Adjusted EBITDA

## Performance Products

- Stable with prior year

## Corporate

- Even with prior year



# Capitalization and Capital Allocation

March 31, 2017

- **2.6x leverage ratio at March 31, 2017**
  - \$312 million total debt
  - \$119 million LTM adjusted EBITDA
- **\$49 million cash on hand at March 31, 2017**
- **Net cash flow before financing was a \$31 million source of cash in the March 2017 quarter**
  - \$7 million favorable working capital and other
  - \$7.5 million cash from insurance settlement
  - \$(6.4) million capex and other investing
- **Quarterly dividend of \$0.10 per common share**
  - \$3.9 million paid March 2017
  - \$4.0 million to be paid June 2017

# Guidance

## Guidance for fiscal year 2017

	<u>FY2017 updated</u>		<u>FY2016</u>	<u>Growth</u>		<u>FY2017 initial</u>	
	<u>low</u>	<u>high</u>		<u>low</u>	<u>high</u>	<u>low</u>	<u>high</u>
	<i>(in millions, except per share amounts and percentages)</i>						
Net sales - Animal Health segment	\$ 490	- \$ 495	\$ 486	1%	- 2%	\$ 495	- \$ 510
Net sales	760	- 765	752	1%	- 2%	750	- 770
Adjusted EBITDA	\$ 118	- \$ 120	\$ 114	4%	- 5%	\$ 116	- \$ 120
Adjusted diluted EPS	\$ 1.44	- \$ 1.47	\$ 1.43	1%	- 3%	\$ 1.38	- \$ 1.45

- We have updated our financial guidance for the fiscal year 2017
- The updated guidance is presented in detail in the press release

# Phibro Animal Health Corporation Third Quarter – March 2017

## Q&A Session



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