

Phibro Animal Health Corporation



Second Quarter - December 2017
Webcast and Conference Call
February 6, 2018

U.S. toll-free +1-877-853-5634
International toll +1-315-625-6893
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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 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

Q2 – December 2017



For the three months ended
December 31

	2017	2016	Change	
	<i>(in millions, except per share amounts and percentages)</i>			
Net sales	\$ 205.9	\$ 191.6	\$ 14.3	7%
Net income	7.0	13.4	(6.4)	(48)%
Diluted EPS	\$ 0.17	\$ 0.34	\$ (0.17)	(50)%
Adjusted EBITDA	\$ 32.5	\$ 31.2	\$ 1.3	4%
Adjusted net income	17.8	15.4	2.3	15%
Adjusted diluted EPS	\$ 0.44	\$ 0.39	\$ 0.05	13%

- Sales growth across all segments
- Net income and diluted EPS declined
 - Higher income tax expense due to one time charges from the income tax legislation and other discrete items
- Adjusted EBITDA growth driven by sales, partially offset by operating expense investments
- Adjusted net income and adjusted diluted EPS improved
 - Adjusted EBITDA growth
 - Lower interest expense, net
 - Lower effective income tax rate from tax reform

Selected Line Items

Q2 – December 2017



For the three months ended December 31

	<u>2017</u>	<u>2016</u>	<u>Change</u>	
	<i>(in millions, except per share amounts and percentages)</i>			
Net sales	\$ 205.9	\$ 191.6	\$ 14.3	7%
Adjusted gross profit	69.6	64.8	4.9	7%
Adjusted SG&A	42.4	38.6	3.8	10%
Adjusted interest expense, net	2.8	3.4	(0.6)	(18)%
Adjusted income before income taxes	24.4	22.8	1.7	7%
Adjusted provision for income taxes	6.7	7.3	(0.7)	(9)%
Adjusted net income	\$ 17.8	\$ 15.4	\$ 2.3	15%
Adjusted diluted EPS	\$ 0.44	\$ 0.39	\$ 0.05	13%

- Adjusted SG&A increased due to investments in Animal Health product and organization development costs to position ourselves for future growth. Recent acquisition also added to the increase.
- Adjusted interest expense, net favorable on improved borrowing rates from recent refinancing
- Adjusted effective income tax rate was favorable due to tax reform

Animal Health

Q2 – December 2017



For the three months ended December 31	Animal Health			
	2017	2016	Change	
	<i>(in millions, except percentages)</i>			
MFAs and other	\$ 82.0	\$ 77.5	\$ 4.5	6%
Nutritional specialties	32.6	29.2	3.4	12%
Vaccines	18.2	17.0	1.3	7%
Net sales	\$ 132.8	\$ 123.7	\$ 9.2	7%
Adjusted EBITDA	\$ 35.0	\$ 34.6	\$ 0.4	1%
% of segment net sales	26.4%	28.0%		-160bps

■ Sales

- Nutritional specialties: Volume growth in U.S. poultry and dairy industries and penetration into various international countries
- Vaccines: Volume growth in international markets; domestic growth was moderate due to reduced disease pressure.
- MFAs and other
 - U.S. sales declined \$4.2 million due to a \$2.1 million sales reduction of medically important antimicrobials and due to unfavorable timing of certain customer orders; we believe domestic sales of medically important antimicrobials have stabilized at current levels
 - International sales increased \$8.7 million due to growth across most regions; cattle sector penetration; recent acquisition

■ Adjusted EBITDA

- Gross profit increased \$3.9 million on volume growth, higher average selling prices on selected products and operating efficiencies
- SG&A increased \$3.8 million from investments in product and organization development costs and a recent acquisition

Other Segments

Q2 – December 2017



For the three months ended
December 31

	2017	2016	Change	
	<i>(in millions, except percentages)</i>			
Mineral Nutrition				
Net sales	\$ 59.6	\$ 56.7	\$ 2.9	5%
Adjusted EBITDA	\$ 5.6	\$ 4.7	\$ 0.9	18%
% of segment net sales	9.4%	8.4%		+100bps
Performance Products				
Net sales	\$ 13.4	\$ 11.2	\$ 2.2	19%
Adjusted EBITDA	\$ 0.3	\$ 0.3	\$ 0.0	2%
% of segment net sales	2.0%	2.3%		-030bps
Corporate				
Adjusted EBITDA	\$ (8.4)	\$ (8.4)	\$ (0.0)	*

* Calculation not meaningful

■ Mineral Nutrition

- Sales growth on favorable product mix and increased commodity pricing
- Adjusted EBITDA increased due to favorable product mix and higher average selling prices

– Performance Products

- Higher volumes and selling prices were offset by higher product costs

■ Corporate

- Increases in various expenses offset by lower pension costs

Capitalization and Capital Allocation

December 31, 2017



- 2.6x leverage ratio at December 31, 2017
 - \$318 million total debt
 - \$122 million LTM Adjusted EBITDA
- \$67 million cash and short-term investments on hand at December 31, 2017
- \$28 million source of cash before financing for the December 2017 quarter, excluding purchases of short-term investments and business acquisition
- Quarterly dividend of \$0.10 per common share
 - \$4.0 million paid December 2017
 - \$4.0 million to be paid March 2018

Guidance



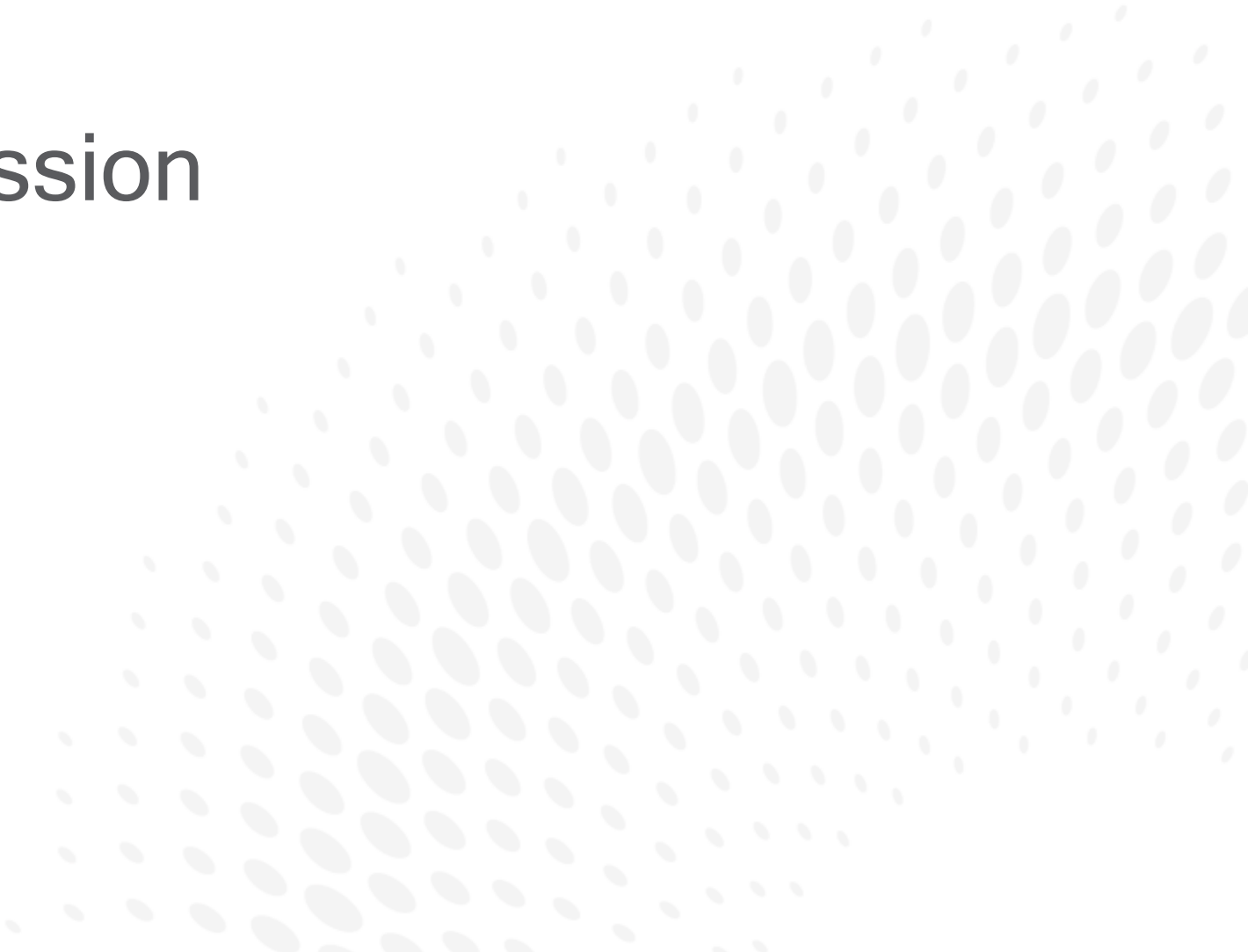
■ We are updating our annual guidance

For the year ending June 30

	<u>2018</u>	<u>2017</u>	<u>Change from 2017</u>		<u>Change from Previous Guidance</u>	
			<i>(in millions, except per share amounts and percentages)</i>			
Net sales - Animal Health segment	\$ 520 - \$ 535	\$ 498	\$ 22 - \$ 37	4% - 7%	\$ 20 - \$ 20	\$ 20 - \$ 20
Net sales	\$ 800 - \$ 825	\$ 764	\$ 36 - \$ 61	5% - 8%	\$ 35 - \$ 35	\$ 35 - \$ 35
Net income per share - diluted	\$ 1.34 - \$ 1.42	\$ 1.61	\$ (0.27) - \$ (0.19)	(17)% - (12)%	\$ (0.09) - \$ (0.14)	\$ (0.09) - \$ (0.14)
Adjusted EBITDA	\$ 127 - \$ 130	\$ 120	\$ 7 - \$ 10	6% - 8%	\$ 4 - \$ 4	\$ 4 - \$ 4
Adjusted net income per share - diluted	\$ 1.66 - \$ 1.71	\$ 1.51	\$ 0.15 - \$ 0.20	10% - 13%	\$ 0.11 - \$ 0.10	\$ 0.11 - \$ 0.10



Q&A Session





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