

Phibro Animal Health Corporation



Fourth Quarter and Fiscal Year - June 2017
Webcast and Conference Call
August 31, 2017

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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

Q4 – June 2017

For the three months ended
June 30

	<u>2017</u>	<u>2016</u>	<u>Change</u>	
	<i>(in millions, except per share amounts and percentages)</i>			
Net sales	\$ 194.8	\$ 189.2	\$ 5.7	3%
Net income	15.4	15.2	0.2	1%
Diluted EPS	\$ 0.38	\$ 0.38	\$ -	0%
Adjusted EBITDA	\$ 29.4	\$ 28.3	\$ 1.1	4%
Adjusted net income	15.6	12.7	2.9	23%
Adjusted diluted EPS	\$ 0.39	\$ 0.32	\$ 0.07	22%

- GAAP results included \$2.6 million loss on extinguishment of debt
- GAAP provision for income taxes included \$2.5 million in total benefits from exercise of employee stock options and other items
- Adjusted net income and adjusted diluted EPS were above last year due to profitable sales growth, lower interest expense, net, and a lower effective tax rate

Selected Line Items

Q4 – June 2017

For the three months ended June 30

	<u>2017</u>	<u>2016</u>	<u>Change</u>	
	<i>(in millions, except per share amounts and percentages)</i>			
Net sales	\$ 194.8	\$ 189.2	\$ 5.7	3%
Adjusted gross profit	64.4	61.8	2.6	4%
Adjusted SG&A	39.9	38.8	1.1	3%
Adjusted interest expense, net	3.1	4.1	(1.0)	(24)%
Adjusted income before income taxes	21.4	18.9	2.5	13%
Adjusted provision for income taxes	5.7	6.2	(0.4)	(7)%
Adjusted net income	\$ 15.6	\$ 12.7	\$ 2.9	23%
Adjusted diluted EPS	\$ 0.39	\$ 0.32	\$ 0.07	22%

- Total adjusted SG&A increased \$1.1 million. Animal Health segment SG&A increased \$2.1 million due to spending on product development and organization capabilities, to position ourselves for future growth.

Animal Health

Q4 – June 2017

For the three months ended
June 30

	<u>2017</u>	<u>2016</u>	<u>Change</u>	
			<i>(in millions, except percentages)</i>	
MFAs and other	\$ 84.2	\$ 86.4	\$ (2.2)	(3)%
Nutritional specialties	28.1	24.7	3.4	14%
Vaccines	16.3	15.1	1.2	8%
Net sales	\$ 128.6	\$ 126.2	\$ 2.4	2%
Adjusted EBITDA	\$ 31.2	\$ 31.5	\$ (0.2)	(1)%
<i>% of segment net sales</i>	<i>24.3%</i>	<i>24.9%</i>		<i>-60bps</i>

■ Sales

- Nutritional specialties: Volume growth in U.S. poultry and dairy industries
- Vaccines: volume growth in the poultry and swine industries
- MFAs and other: U.S. sales of medically important antimicrobials declined due to regulatory changes and consumer preferences; Asia Pacific sales increased, partially offset by declines in Brazil due to economic conditions

■ Adjusted EBITDA

- Operating expense increased due to spending on new product development and organization capabilities
- Sales growth and increased gross profit partially offset increase in operating expense

Other Segments

Q4 – June 2017

For the three months ended
June 30

	2017	2016	Change	
	<i>(in millions, except percentages)</i>			
Mineral Nutrition				
Net sales	\$ 52.8	\$ 50.3	\$ 2.5	5%
Adjusted EBITDA	\$ 4.4	\$ 3.6	\$ 0.7	21%
<i>% of segment net sales</i>	<i>8.2%</i>	<i>7.2%</i>		<i>+100bps</i>
Performance Products				
Net sales	\$ 13.4	\$ 12.7	\$ 0.7	6%
Adjusted EBITDA	\$ 0.6	\$ 0.4	\$ 0.2	51%
<i>% of segment net sales</i>	<i>4.5%</i>	<i>3.2%</i>		<i>+130bps</i>
Corporate				
Adjusted EBITDA	\$ (6.8)	\$ (7.2)	\$ 0.4	*

* Calculation not meaningful

Mineral Nutrition

- Sales growth on increased volumes and commodity pricing
- 21% growth in Adjusted EBITDA

Performance Products

- Stable with prior year

Corporate

- Lower benefit plan costs

Selected Line Items

Fiscal Year – June 2017

For the twelve months ended June 30

	<u>2017</u>	<u>2016</u>	<u>Change</u>	
	<i>(in millions, except per share amounts and percentages)</i>			
Net sales	\$ 764.3	\$ 751.5	\$ 12.8	2%
Adjusted gross profit	253.3	245.9	7.4	3%
Adjusted SG&A	153.3	149.8	3.5	2%
Adjusted interest expense, net	13.5	15.1	(1.6)	(10)%
Adjusted income before income taxes	86.5	81.1	5.5	7%
Adjusted provision for income taxes	26.0	23.9	2.1	9%
Adjusted net income	\$ 60.5	\$ 57.1	\$ 3.4	6%
Adjusted diluted EPS	\$ 1.51	\$ 1.43	\$ 0.08	6%

- Gross profit reduced by \$2.6 million increase in depreciation over last year
- Total adjusted SG&A increased \$3.5 million. Animal Health segment SG&A increased \$4.2 million due to spending on product development and organization capabilities, to position ourselves for future growth.

Capitalization and Capital Allocation

June 30, 2017

- 2.6x leverage ratio at June 30, 2017
 - \$315 million total debt
 - \$120 million LTM adjusted EBITDA
- \$56 million cash on hand at June 30, 2017
- Net cash flow before financing was a \$9 million source of cash in the June 2017 quarter
- Net cash flow before financing was a \$76 million source of cash in the June 2017 year
- Quarterly dividend of \$0.10 per common share
 - \$4.0 million paid June 2017
 - \$4.0 million to be paid September 2017

Guidance

For the year ending June 30

	2018	2017	Change		
	<i>(in millions, except per share amounts and percentages)</i>				
Net sales - Animal Health segment	\$ 500.0 - \$ 515.0	\$ 497.7	\$ 2.3 - \$ 17.3	0%	- 3%
Net sales	765.0 - 790.0	764.3	0.7 - 25.7	0%	- 3%
Net income per share - diluted	\$ 1.43 - \$ 1.56	\$ 1.61	\$ (0.18) - \$ (0.05)	(11)%	- (3)%
Adjusted EBITDA	\$ 123.1 - \$ 126.1	\$ 120.1	\$ 3.0 - \$ 6.0	3%	- 5%
Adjusted net income per share - diluted	\$ 1.55 - \$ 1.61	\$ 1.51	\$ 0.04 - \$ 0.10	3%	- 7%

Guidance

- Within the Animal Health segment, we expect sales of nutritional specialties and vaccines will continue to grow at double-digit rates; we expect MFAs and other sales to decline by a single-digit rate, as we expect continued reductions in U.S. sales of medically important antimicrobials through the first half of our fiscal year. Mineral Nutrition revenues are expected to remain steady to a slight increase, with volume growth offset by reduced pricing related to commodity prices. Performance Products revenues are expected to be stable or decline slightly.
- Adjusted EBITDA growth of 3% to 5%. We expect our adjusted EBITDA margins to expand to approximately 16.0% for the year, a 30-40 basis point improvement over fiscal year 2017. We expect an improved gross profit ratio, due to favorable product mix, will be the primary contributor to the margin expansion. We anticipate increased operating expense spending for product development, which will partially offset the gross profit growth.
- We expect the adjusted effective rate for income taxes will be approximately 30.2% - 30.5% for fiscal year 2018, a slight increase compared to the 30.1% adjusted effective income tax rate for fiscal year 2017.

Guidance

- We expect adjusted diluted EPS of \$1.55 - \$1.61, an increase of 3% - 7%. Growth in adjusted EBITDA is the primary driver of the increase.
- We expect adjusted EBITDA for the quarters ending September 30, 2017, and December 31, 2017, will be approximately equal with the comparable quarters for the previous fiscal year. We expect growth in adjusted EBITDA primarily will occur in the second half of our fiscal year.
- We expect to generate positive cash flows, after satisfying needs for working capital, capital expenditures, dividends and scheduled debt repayments. We remain interested in acquisitions and any positive cash flow could support potential acquisition activity.

Q&A Session



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Phibro; Healthy Animals. Healthy Food. Healthy World.; *OmniGen-AF; Animate; Gemstone; AB20; Magni-Phi; Stafac; Terramycin; Neo-Terra; TM; Mecadox; Nicarb; Aviax; Lactrol; TAbic; MJPRRS; Cellerate Yeast Solutions; PAQ-Gro;* and other product names referred to herein are registered trademarks owned by or licensed to Phibro Animal Health Corporation and its affiliates.

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