

Phibro Animal Health Corporation
(PAHC) Q4 2024 Earnings Call
August 29, 2024

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PHIBRO ANIMAL HEALTH CORPORATION (PAHC)
Q4 2024 Earnings Call

Call Participants

EXECUTIVES

Daniel M. Bendheim

*Executive VP of Corporate Strategy &
Director*

Glenn C. David

Chief Financial Officer

Jack Clifford Bendheim

Chairman, President & CEO

ANALYSTS

Michael Leonidovich Ryskin

BofA Securities, Research Division

Navann Ty Dietschi

BNP Paribas Exane, Research Division

Presentation

Operator

Good morning. My name is Julianne, and I will be your conference operator today. At this time, I would like to welcome everyone to the Phibro Animal Health Corporation Fourth Quarter Investor Conference Call. [Operator Instructions]. I would now like to turn the conference over to Glenn David, Chief Financial Officer. Please go ahead.

Glenn C. David

Chief Financial Officer

Thank you, Julianne. Good day, and welcome to the Phibro Animal Health Corporation Earnings Call for our fiscal Fourth Quarter and Full Year ending June 30, 2024. My name is Glenn David, and I'm the Chief Financial Officer of Phibro Animal Health Corporation.

I'm joined on today's call by Jack Bendheim, Phibro's Chairman, President and Chief Executive Officer; Dani Bendheim, Director and Executive Vice President of Corporate Strategy; and Larry Miller, Chief Operating Officer. Today, we will cover financial performance for our fourth quarter and full year 2024 and provide financial guidance for our fiscal year ending June 30, 2025.

At the conclusion of our remarks, we will open the lines for your questions. I would like to remind you that we are providing a simultaneous webcast of this call-in website, pahc.com. Also, on the Investors section of our website, you will find copies of the earnings press release and annual Form 10-K as well as the transcript and slides discussed and presented on this call.

Our remarks today will include forward-looking statements, and actual results could differ materially from those projections. For a list and description of certain factors that could cause results to differ I refer you to the forward-looking statements section in our earnings press release.

Our remarks and key references to certain financial measures, which were not prepared in accordance with Generally Accepted Accounting Principles or U.S. GAAP. I refer you to the non-GAAP financial information section in our earnings press release for a discussion of these measures.

Reconciliations of these non-GAAP financial measures to the most directly comparable U.S. GAAP measures are included in the financial tables that accompany the earnings press release. We present our results on a GAAP basis and on an adjusted basis. Our adjusted results exclude acquisition-related items, unusual nonoperational or nonrecurring items, including stock-based compensation, other income expense is separately reported in the consolidated statement of operations, including foreign currency losses and gains and income taxes related to pretax income adjustments and unusual or nonrecurring income tax items.

Now let me introduce our Chairman, President and Chief Executive Officer; Jack Bendheim, to share his opening remarks.

Jack Clifford Bendheim

Chairman, President & CEO

Thank you, Glenn, and thank you to everyone joining us this morning. We had a strong finish to the year with our Animal Health business growing sales of 8% in the quarter, led by vaccine growth of 14% and MFAs and other growth of 12%. In the quarter, our Mineral Nutrition segment grew at 6%. And while our Performance Products segment showed a slight decline, both Mineral Nutrition and Performance Products had the best quarter of the year, building on the improvements we began to see in the third quarter.

We remain very excited about the acquisition of the Zoetis MFA business. We are moving closer to closing the deal. Our team is working very hard together with Zoetis to ensure a transition that is as seamless as possible so that the customers are unaffected by the hand off. We expect the transaction to close in the fourth quarter of this calendar year.

As Glenn will further detail, we are also providing guidance for our fiscal year 2025, which shows mid- single-digit growth in revenue and a leveraged P&L on a stand-alone basis. We anticipate the favorable momentum we saw this past quarter will continue in our new fiscal year. On top of this, our adjusted EBITDA and adjusted net income growth are benefiting from an income growth initiative that we have internally called Phibro Forward.

This initiative is unlocking additional growth drivers in our business across both revenue and cost efficiency initiatives. Our guidance also includes one-time costs related to this initiative that are primarily external consulting fees. We expect even greater benefits from this initiative in our fiscal years 2026 and 2027 results. The guidance provided does not include the pending Zoetis acquisition. Additional guidance on Zoetis will be provided post the deal closing.

I look forward to hearing your questions following Glenn's reviews of our financials. Thank you.

Glenn C. David
Chief Financial Officer

Thanks, Jack. And starting with our Q4 performance on Slide 4. Consolidated net sales for the quarter ended June 30, 2024, were \$273.2 million, reflecting an increase of \$18.1 million or a 7% increase over the same quarter one year ago. The Animal Health segment grew 8%, while Mineral Nutrition grew at 6% and the Performance Products segment declined by 1%.

GAAP net income and diluted EPS decreased significantly driven by foreign currency losses in the quarter due to the weakening of the Brazilian real and increased SG&A due to higher employee-related costs, partially offset by favorable gross profit as a result of higher product demand in the Animal Health segment.

After making our standard adjustments to GAAP results, including acquisition-related items, foreign currency losses and certain one-off items, fourth quarter adjusted EBITDA increased \$1.1 million or 3% versus the prior year. Adjusted net income and adjusted diluted EPS both increased 10%. The Increased gross profit driven by sales growth was partially offset by higher adjusted SG&A and higher adjusted interest expense with a benefit from a reduced adjusted provision for income taxes.

Moving to the full year. Consolidated net sales for the year ended June 30, 2024, were \$1.017 billion, reflecting an increase of \$39.8 million or a 4% increase over the prior year. The Animal Health segment grew 7%, while Mineral Nutrition was flat, and the Performance Products segment declined by 10%.

The GAAP net income and diluted EPS decreased significantly, driven by foreign currency losses in the Argentinian peso and Brazilian real, increased SG&A due to pension settlement costs and higher employee-related costs and higher interest expense, partially offset by favorable gross profit as a result of higher product demand in the Animal Health segment.

Income tax expense decreased by \$13 million. After making our standard adjustments to GAAP results, including acquisition-related items, foreign currency losses and certain one-off items, full year adjusted EBITDA decreased \$1.5 million or 1%. Adjusted net income and adjusted diluted EPS, both decreased by 1%.

Higher adjusted SG&A and higher adjusted interest expense was partially offset by increased gross profit driven by sales growth and a benefit from a reduced adjusted provision for income taxes. Now moving to segment level financial performance. The Animal Health segment posted \$191.5 million net sales for the quarter, an increase of \$14.8 million or 8%.

Within the Animal Health segment, we reported, MFAs and other net sales growth was \$12.5 million or 12% due to demand in both domestic and international regions. Vaccine net sales growth of \$4 million, a healthy 14% increase driven by poultry product introductions in Latin America, plus an increase in domestic demand.

Nutritional specialties net sales declined by \$1.7 million or 4%, mostly due to lower demand for microbial and dairy products. Animal Health adjusted EBITDA was \$41.3 million, a 9% increase due to higher gross profit from increased sales, partially offset by higher SG&A.

Moving to full year performance for Animal Health on Slide 7. The Animal Health segment posted \$706.5 million of net sales for the year, an increase of \$46.6 million or 7% versus the prior year.

Within the Animal Health segment, we reported, MFAs and other net sales growth of \$33.6 million or 9% due to demand in both domestic and international regions. Vaccine net sales growth of \$20.9 million, a healthy 21% increase, driven by poultry product introductions in Latin America, plus an increase in domestic demand.

Nutritional specialties net sales declined \$7.8 million or 5%, mostly due to lower demand for microbial and dairy products. Animal Health adjusted EBITDA was \$145.6 million, a 7% increase due to higher gross profit from increased sales, offset by higher SG&A. Moving on to fourth quarter performance for our other business segments.

Starting with Mineral Nutrition. Net sales for the quarter were \$62.1 million, an increase of \$3.6 million or 6% due to increased sales volume and price. Mineral Nutrition adjusted EBITDA was \$5.4 million, reflecting a year-on-year increase of \$1.5 million driven by higher gross profit. Looking at our Performance Products segment, net sales of \$19.6 million reflects a decrease of \$0.3 million or 1% driven by decreased demand for personal care product ingredients and industrial chemicals.

Adjusted EBITDA was \$3.1 million and grew \$0.8 million versus the same quarter prior year. Corporate expenses increased \$4.6 million driven by increased employee-related costs related to the annual incentive bonds. Moving on to full year performance for our other business segments. Starting with Mineral Nutrition, Net sales for the year were \$243.7 million, an increase of \$1 million due to increased sales volume.

Mineral Nutrition adjusted EBITDA was \$16.4 million reflecting a year-on-year decrease of \$1 million driven by lower gross profit. Looking at our Performance Products segment, net sales of \$67.5 million for the year reflects a decrease of \$7.8 million or 10% driven by decreased demand for personal care product ingredients and industrial chemicals.

Adjusted EBITDA was \$7.7 million, a decline of \$1.7 million versus the prior year. Corporate expenses increased \$8.3 million, driven by increased employee-related costs due to the annual incentive bonus and incremental strategic investments. Starting with key capitalization related metrics. We generated more than \$46 million of positive free cash flow for the 12 months ended June 30, 2024.

We generated \$88 million of operating cash flow and invested \$41 million in capital expenditures. Cash and cash equivalents and short-term investments were \$115 million at the end of the year. Our gross leverage ratio was 4.4x at the end of the fourth quarter based on \$489 million of total debt and \$111 million of trailing 12-month adjusted EBITDA.

Our net leverage ratio was 3.4x at the end of the fourth quarter based on \$375 million of net debt and \$111 million of trailing 12-month adjusted EBITDA. Turning to dividends. Consistent with our history, we paid a quarterly dividend of \$0.12 per share or \$4.9 million in aggregate. As a reminder, \$300 million of our debt is at a fixed rate of 0.61% plus the applicable margin.

The remaining \$189 million in total debt is subject to variable interest rates, although offset somewhat by interest income earned on short-term investments. Effective July 3, we refinanced our existing credit facilities. Our new 2024 credit facilities have an initial aggregate principal amount of \$610 million.

It contains a delayed draw provision to allow the company to draw an additional \$350 million Term A loan upon closing of the Zoetis transaction. It also includes a \$300 million Term A loan that replaces the company's existing 2021 Term A loan and 2023 incremental term loan. It also includes a \$310 million revolver, replacing our existing \$310 million revolver.

The new facilities extend the maturity date from our current facilities of April 2026 to maturity dates of July 2029 and July 2031. Additional information regarding the terms and conditions of the 2024 credit facilities are contained in our Form 10-K that was filed yesterday. Now let's turn to Slide 11, which lays our guidance for fiscal year 2025.

Please note that this guidance does not include the Zoetis MFA acquisition as the timing for close is still not final. Included in this guidance for fiscal year 2025, our early benefits related to our Phibro-Forward income growth initiative that will help drive additional EBITDA and margin growth.

Onetime costs related to this initiative are also included in our GAAP guidance and primarily consists of onetime consulting fees. The initiative is focused on unlocking additional areas of revenue growth and cost savings. Areas such as incremental price increases, expanded product offerings, procurement initiatives and other cost savings initiatives.

Please note, we do not anticipate significant headcount reductions as part of this initiative. Our guidance for fiscal year 2025 on a stand-alone basis is as follows: Net sales of \$1.040 billion to \$1.090 billion. This represents a growth range of 2% to 7% at a midpoint of approximately 5%. Growth versus prior year is driven by continued growth in our Animal Health segment as well as a recovery in both our Mineral Nutrition and Performance Products.

Adjusted EBITDA of \$118 million to \$126 million. This represents a growth range of 6% to 13%, and at a midpoint of approximately 10%. Adjusted net income of \$50 million to \$56 million, which represents growth of 3% to 15% with a midpoint of approximately 9%.

This growth is driven by growth in EBITDA and an improvement in our adjusted effective tax rate, partially offset by incremental interest expense due to our new debt deal. GAAP net income and EPS assumes constant currency and no gains or losses from FX moves. Also included in our GAAP net income and EPS are one-time costs related to our Phibro Forward income growth initiatives.

As previously mentioned, this guidance does not include the pending Zoetis MFA acquisition as the timing for closing remains uncertain. We hope to provide guidance on Zoetis in our Q1 earnings call in November. We remain confident in our previous estimates of an incremental \$0.60 in adjusted EPS in the first 12 months of the close date and our ability to deliver post quotes.

In closing, we're excited about the strong performance we saw in the second half of fiscal year 2024 and the momentum we are carrying into fiscal year 2025. We are confident in the demand for our products around the world and look forward to seeing continued improvement in our business as we move forward. We also look forward to welcoming Zoetis MFA employees in the coming months. With that, Julianne, can you please open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Michael Ryskin from Bank of America.

Michael Leonidovich Ryskin

BofA Securities, Research Division

Great. First, Glenn, you just went through it right there in terms of the components of the guide for fiscal year '24. But I was wondering if you could provide a little bit more color on MFAs, and traditional specialties vaccines. Just what are the various drivers of each, what are the puts and takes that sum up to that overall, 5% revenue guide?

Glenn C. David

Chief Financial Officer

Sure. So, when you look at the performance for next year, Mike, for fiscal year 2025, we're excited about continued growth in Animal Health and also improvement that we expect to see in both Mineral Nutrition and Performance Products, which struggled a bit in the first half of fiscal year 2024 and saw a recovery in fiscal year 2025.

Specifically, to your question on Animal Health. Again, we see that continuing to perform well in 2025, still growth in our MFA business, a recovery in nutritional specialty and still growth in our vaccines were probably a little less than we saw in 2024 as we had the introduction in Brazil, particularly our IBVar vaccine.

Michael Leonidovich Ryskin

BofA Securities, Research Division

Okay. Okay. And then another question on Phibro Forward. You flagged this a couple of times in the PR in the prepared remarks. Just a little bit more color on the magnitude of the cost efficiencies and any -- what are the growth drivers in particular focused on how should we think about the timing of this being rolled out?

Glenn C. David

Chief Financial Officer

Yes. So, I'll start a little bit, and then I'll ask Donny to comment as well. So, we're in the early stages of this initiative right now. We do expect benefits in fiscal year 2025, but we expect those to expand as we move into the fiscal year 2026 and 2027. And the initiatives go across a number of areas, as I mentioned, both revenue growth drivers as well as cost savings initiatives that we're looking at in areas such as procurement and other areas as well. We do expect that in '26 and '27, this initiative will allow us to provide EBITDA and adjusted net income growth beyond our historical levels.

And as we get further into the process, we'll provide more guidance for those future years. And Donny, I don't know if you want to add.

Daniel M. Bendheim

Executive VP of Corporate Strategy & Director

Not much to add, focused on delivering performance, focused on both recurring EBITDA as well as cash flow. So, we do see some -- we do display some positives there as well this year as well as in the future years. And as Glenn said, there's literally dozens of initiatives that some of them are very small from the more larger than some of the kind of where we hope to be in a couple of years.

Michael Leonidovich Ryskin

BofA Securities, Research Division

Okay. And then one last one if I could squeeze in on the Zoetis MFA deal. Just around the deal itself, are there any regulatory steps or antitrust requirements we should be aware of from an HSR perspective? Are there any geographies where you need regulatory approval. Just walk us through that part of it.

Glenn C. David

Chief Financial Officer

Sure. So, there were two markets where we required regulatory approval, Mike. One in the U.S -- one being the U.S., obviously, and the one outside of the U.S. We've already cleared all the requirements for the U.S. So, we're very excited about that. There's one additional market.

We're very confident in the ability to get approval there. It's just more of a timing with their existing processes, and that's what drives our expectation that we will close the deal in Q4 calendar year this year.

Operator

[Operator Instructions] Our next question comes from Navann Ty from BNP Paribas.

Navann Ty Dietschi

BNP Paribas Exane, Research Division

About the Zoetis deal, can you discuss your integration plans, and the integration work you have been doing before the deal closes? And then a question on refinancing, if you have completed all of it? And do you have higher covenant headroom as you anticipated.

Glenn C. David

Chief Financial Officer

Sure. In terms of the integration plans, obviously, we've been working diligently as an organization to be prepared to bring the business into Phibro and be effective when we take over the business and make sure that we could effectively support our customers.

We are working with third-party consultants to help us to do that as well, we're very confident in our ability to take over the business on day one, and we are building additional resources internally in markets where we may not have the level of presence to support the magnitude of the business that we are acquiring from Zoetis.

As we mentioned, we're very excited about what that adds to us in certain areas in particular, particularly the expansion that provides to us in China as well as the expansion in the U.S. beef market. Related to the refinancing, we are done with the refinancing, as I mentioned in the prepared remarks, it does also provide for an additional delayed draw loan on the closing of the Zoetis acquisition of \$350 million to help us finance that acquisition. So that is pending the deal close.

Operator

There are no further questions at this time. I would like to turn the call back over to Glenn David for any closing remarks.

Glenn C. David

Chief Financial Officer

We thank you all for your interest in Phibro Animal Health, and we appreciate the questions, and hope everybody has a great day. Thank you.

Operator

This concludes today's conference call. You may now disconnect.

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