

Phibro Animal Health Corporation
(PAHC) Q1 2025 Earnings Call
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PHIBRO ANIMAL HEALTH CORPORATION
Q1 2025 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

Larry L. Miller

Chief Operating Officer

ANALYSTS

Ekaterina V. Knyazkova

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Presentation

Operator

Hello, and thank you for standing by. My name is Regina, and I will be your conference operator today. At this time, I would like to welcome everyone to the Phibro Animal Health Corporation First Quarter 2025 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, Regina. Good morning, and welcome to the Phibro Animal Health Corporation Earnings Call for our first quarter ended September 30, 2024. My name is Glenn David, and I'm the Chief Financial Officer of Phibro Animal Health Corporation. I am joined today 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 our financial performance for our first quarter and provide updated 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 on our website, pahc.com. Also, on the Investors section of our website, you will find copies of the earnings press release and quarterly Form 10-Q 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 include 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, gains net. Also, 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 an extremely strong start to the year with our Animal Health business growing sales at 14% in the quarter, led by vaccines growth of 22% and MFA and other growth of 15%. And continuing the trend we saw at the end of our last fiscal year, our Mineral Nutrition segment grew at 5% in the quarter, while our Performance Products segment grew at 27%. These results reflect successes in many different areas as we look to increase our share of customer wallet, raise prices where appropriate, benefit from industry tailwinds and in certain areas, increased seasonal disease pressures.

Our leverage bottom line growth also reflects our increased attention to operating efficiencies. We anticipate that these gains will be highlighted in the future as we begin to roll out the initiatives of our Phibro Forward program. As previously discussed, most of the impact from Phibro Forward should be seen in the upcoming fiscal years. These results are impressive in their own right, but even more so with the backdrop of the incredible amount of work done by so many of my colleagues preparing for the close of our acquisition of the Zoetis' Medicated Feed Additive business.

As such, I would also like to take this opportunity to thank the many Phibro employees for their tireless work and welcome our new colleagues who have joined us with the closing of the acquisition. As I stated in our press release, we see an extremely bright future for the new Phibro as we are not only well positioned to grow our MFAs and other category, but we are now at a much more significant size and scale overall, which we intend to leverage for the benefit of all our portfolio. As Glenn will further detail, we are also providing updated 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 throughout the fiscal year. The guidance provided is Phibro stand-alone and does not include the Zoetis portfolio. Preliminary estimates for the Zoetis portfolio for the 8-month period in fiscal year 2025 include net sales of approximately \$200 million with an adjusted EBITDA margin of approximately 20% and adjusted earnings per share of approximately \$0.25, inclusive of incremental interest expense. Negative GAAP earnings per share is driven by required purchase price accounting adjustments on cost of goods sold and onetime deal costs. I'll give it back to Glenn.

Glenn C. David

Chief Financial Officer

Thanks, Jack. I'm starting with our Q1 performance on Slide 4. Consolidated net sales for the quarter ended September 30, 2024, were \$260.4 million, reflecting an increase of \$29.1 million or a 13% increase over the same quarter 1 year ago. The Animal Health segment grew 14%, while Mineral Nutrition grew at 5% and the Performance Products segment grew by 27%. GAAP net income and diluted EPS increased significantly, driven by increases in demand in both domestic and international regions, improved gross margin due to favorable mix and lower input costs, offset by increased SG&A due to higher employee-related costs.

After making our standard adjustments to GAAP results, including acquisition-related items, foreign currency losses and certain one-off items, the first quarter adjusted EBITDA increased \$12 million or 64% versus prior year. Adjusted net income and adjusted diluted EPS both significantly increased. 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 segment level financial performance. The Animal Health segment posted \$182.5 million of net sales for the quarter, an increase of \$22 million or 14% versus the same quarter prior year. Within the Animal Health segment, we reported MFAs and other net sales growth of \$13.7 million or 15% due to demand in both domestic and international regions. Vaccine net sales growth of \$5.8 million, a healthy 22% increase, driven by poultry product introductions in Latin America, plus an increase in both domestic and international demand. Nutritional Specialty Products net sales increased \$2.4 million or 6%, mostly due to higher sales of microbial and companion animal products.

Animal Health adjusted EBITDA was \$40.4 million, a 42% increase due to higher gross profit from increased sales, partially offset by higher SG&A. Moving on to the first quarter financial performance for our other business segments on Slide 6. Starting with Mineral Nutrition. Net sales for the quarter were \$59.1 million, an increase of \$3 million or 5% due to increased sales volume and price. Mineral Nutrition adjusted EBITDA was \$3.8 million, reflecting a year-on-year increase of \$0.9 million, driven by higher gross profit. Looking at our Performance Products segment.

Net sales of \$18.8 million reflects an increase of \$4.1 million or 27% as a result of higher demand for the ingredients used in personal care products. Adjusted EBITDA was \$2.3 million and grew \$0.9 million versus the same quarter prior year. Corporate expenses increased \$1.7 million, driven by increased employee-related costs. Turning to key capitalization-related metrics on Slide 7. We generated \$41 million of positive free cash flow for the 12 months ended September 30, 2024.

We generated \$84 million of operating cash flow and invested \$43 million in capital expenditure. Cash and cash equivalents and short-term investments were \$90 million at the end of the quarter. Our gross leverage ratio was 3.9x at the end of the first quarter based on \$477 million of total debt and \$123 million of trailing 12-month adjusted EBITDA. Our net leverage ratio was 3.1x at the end of the first quarter

based on \$387 million of net debt and \$123 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 0.51% plus the applicable margin.

In addition, in September of 2024, we entered into a new swap arrangement for \$150 million at a fixed rate of 3.18% plus the applicable margin. As of quarter end, the remaining \$27 million of our total debt is subject to variable interest rates, although offset somewhat by interest income earned on short-term investments. As of the date of the delayed draw of the \$350 million in additional Term A loans, the remaining \$377 million of our debt is subject to variable interest rates. Effective July 3, we refinanced our credit facilities.

Our new 2024 credit facility had an initial aggregate principal amount of \$610 million, consisting of a \$300 million Term A loan and a \$310 million revolver, included a \$300 million Term A loan, which replaced the company's existing 2021 Term A loan and 2023 incremental term loan, included a \$310 million revolver, which replaced the company's existing \$310 million revolver, extended the maturity date of the company's 2021 credit facilities from April 2026 to maturity dates ranging from July 2029 to July '31. It also included a \$350 million delayed draw provision that has been exercised with the closing of the Zoetis transaction.

Additional information regarding the terms and conditions of the 2024 credit facilities are contained in our Form 10-Q that was filed yesterday. Let's turn to Slide 9, which lays out our guidance for fiscal year 2025. Please note that our guidance is on a stand-alone basis without giving effect to the completed acquisition of the Zoetis' Medicated Feed Additive Portfolio. Included in this guidance for fiscal year 2025 are 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 consist of onetime consulting fees.

The initiative is focused on unlocking additional areas of revenue growth and cost savings, areas such as potential 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 increased guidance for fiscal year 2025 on a stand-alone basis is as follows: net sales of \$1.050 billion to \$1.1 billion. This represents a growth range of 3% to 8% and a midpoint of approximately 6%. Growth versus prior year was driven by continued growth in our Animal Health segment as well as recovery in both our Mineral Nutrition and Performance Products.

Adjusted EBITDA of \$124 million to \$132 million. This represents a growth range of 11% to 19% with a midpoint of approximately 15%. Adjusted net income of \$55 million to \$60 million. This represents growth of 14% to 24% with a midpoint of approximately 18%. 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 further gains or losses from FX movements. Also included in our GAAP net income and EPS are onetime costs related to our Phibro Forward income growth initiative.

As mentioned previously, this guidance does not include the Zoetis MFA acquisition as we just closed on the business a few days ago. Our preliminary estimates for Zoetis for the 8 months remaining in our fiscal year 2025 are as follows: approximately \$200 million in revenue, approximately 20% EBITDA margin, approximately \$0.25 adjusted EPS impact. We will incorporate Zoetis into our fiscal year 2025 guidance in our Q2 earnings release.

The preliminary estimates for the Zoetis MFA contribution to fiscal year 2025 includes some of the usual impacts you would expect during an integration, such as destocking of inventory, the impact of blackout periods and incremental costs related to transition service and distribution service agreements. We remain confident in our ability to deliver over \$0.60 adjusted EPS in our first full fiscal year 2026 and our ability to deliver below 3x net leverage by fiscal year 2027.

In closing, we're excited about the strong performance in the quarter and the momentum for 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. With that, Regina, could you please open the line for questions?

Question and Answer

Operator

[Operator Instructions] Our first question will come from the line of Ekaterina Knyazkova with JPMorgan.

Ekaterina V. Knyazkova

JPMorgan Chase & Co, Research Division

Congrats on the quarter. So, first question is just around gross margins. It seems that, that was particularly healthy, especially relative to last year. Can you talk a little bit about what drove that? Is that coming mostly from price or product mix or something else? And then second question is just on the acquisition. Just any surprises as you've gone through the process of closing that transaction. Any areas of the portfolio where you're seeing any incremental opportunities or any areas where you think you will need to put additional investment behind?

Glenn C. David

Chief Financial Officer

Yes. Thanks for the question, Ekaterina. So gross margin. There are a number of factors that drove the positive gross margin that we saw in the quarter. First was mix, starting very strong performance in our vaccine portfolio with 22% growth. And also, even within the MFA and other category, there are certain products that have higher gross margin performed very well in the quarter. We also saw a benefit from input costs in some of our products being favorable and also foreign exchange had some favorability as well in terms of the overall gross margin.

In terms of surprises from the acquisition, as I mentioned, we're only a few days in at this point, and we're obviously working through additional information that we got at closing, but nothing initially poses any big surprises that we've seen.

Jack Clifford Bendheim

Chairman, President & CEO

Let me just add to that, that our sales force, both domestic and internationally, continue to be very, very optimistic about the portfolio that we acquired. And obviously, we'll work through some early month starts, early day starts. But overall, I think this is going to prove to be an exceptional acquisition for the company.

Operator

Our next question will come from the line of Michael Ryskin with Bank of America.

Michael Leonidovich Ryskin

BofA Securities, Research Division

Congrats on a great start to the year. Let me fire some of these off in rapid succession. First, on the Zoetis MFA acquisition, the \$200 million in revenues, 20% EBITDA margin. I think you previously talked and \$0.25 of EPS, right? I think you previously talked about full year first 12 months, \$400 million in revenues and \$0.60 in EPS. Is this just timing? Is there some seasonality? I mean, I guess, I realize it's 8 months versus 12 months, but I would have thought that the 8-month contribution would be a little bit higher. So just kind of can you walk me through the bridge there?

Glenn C. David

Chief Financial Officer

Sure. So, when you look at the guidance that you mentioned, right, we had talked about a trailing 12 months revenue initially at the time of the deal of about \$400 million. We updated that in one of the future calls that the trailing 12 months was around \$375 million. And I'll say our deal terms did not necessarily translate that exactly into what the future revenue would be. When you look at the revenue of \$200

million, obviously, that's lower than what we'd expect for a normal 8-month period. Within the first 8 months, there is destocking related to the deal.

And that's just destocking that we sort of required as part of the transition. There are certain markets where due to the regulatory transition, you're not allowed to sell, call it, 6 months to a year, and the customers then had to purchase in advance to make sure that they could satisfy the customer need over that time. And then in a lot of our larger markets as well, there are certain blackout periods as we transition to us providing new orders as well. So those are all normal things that you'd expect. And those hit most impactfully in, call it, the first 3 to 6 months of the deal.

So, it's really more transitional impact and not a reflection of lack of confidence in still being able to deliver a significant normal 12 months of revenue gain. And in terms of \$0.25 in EPS, as you mentioned, we had guided to \$0.60 for the first 12 months. If you translate that to 8 months, that's \$0.40. Some of these impacts that we're talking about at revenue, which, again, are just transitional in nature, did impact that delivery of what would have been a straight \$0.40.

Michael Leonidovich Ryskin

BofA Securities, Research Division

Okay. Okay. All right. That's helpful. In the press release, I think you also called out that as you're curating your portfolio, you discontinued the atopic dermatitis product -- project. Just curious on any additional color you could provide there. Was that tied to any of the other developments in the dermatitis space that you've seen from others in the last couple of months? And just sort of how should we think about the companion animal investment going forward? Is that money just directly being shifted somewhere else? Is there -- just how do we think about the pipeline there?

Daniel M. Bendheim

Executive VP of Corporate Strategy & Director

Michael, I'll take it, Dani. So we've always had a very strong target product profile for our for that product as well as all of our products, and we stick to it. We have quarterly updates where we look at where we're doing and how we're doing versus our TPP. And frankly, it missed the mark. And so, we discontinued it. I'm not going to get into specifically where it miss because it's not fair to our licensure. But we are continuing to be bullish about our overall pipeline and continue to invest in it. As far as where the dollars from Derma Care or what we call the atopic dermatitis product go, I think that's still to be determined. But we will continue in that going forward.

Michael Leonidovich Ryskin

BofA Securities, Research Division

Okay. And if I can squeeze in one last one, maybe just a high-level question on the MFA business on the legacy on your existing MFAs and other business, 15% growth in the quarter. You guys have obviously had a really impressive stretch here multiple quarters in a row. I mean, going back the last couple of years, what I would think to be above market growth or above what we would historically have thought of MFAs. You called out a couple of drivers in terms of just demand, some new products.

But just maybe take a step back and put that MFA performance for Phibro over the last year or 2 in context. Just how sustainable is that? Is this meaningful share gains from others? Is this -- the market is sort of taking an incremental step higher and now it's a better performing market. Just big picture thoughts on the strength in MFAs for you.

Larry L. Miller

Chief Operating Officer

Sure, Mike. This is Larry. I'll take the question. So, as you mentioned, the first thing, in particular, as we look at first quarter performance, it was continuing strong trend that we experienced, particularly in the second half of our FY '24. So that trend continued. Within the first quarter itself, we do certainly have had some favorable seasonality disease challenges, particularly in the Southern Hemisphere, their winter

months that really added a lot of demand for our products in the fourth quarter of 2024, our FY '24 and the first quarter of our FY '25.

And we did have a couple of timing pattern orders that took place in our first quarter that were favorable to the first quarter of last year. But I guess, overlying, we just see very strong continued demand for our products. And I think that's how we see it.

Glenn C. David

Chief Financial Officer

Yes, Mike, I would just add, right? I think it's products and people, right? We have strong focus on these products, and we are dedicated to going out and discussing these products with our customers and really sharing the benefits. And that's what gives us additional confidence in acquiring the Zoetis MFA portfolio and believing that we could have better performance than perhaps they've had in the past.

Larry L. Miller

Chief Operating Officer

And within our Animal Health products, certainly MFAs, but also, we had very strong performance in our nutrition specialty products as well as our vaccines.

Operator

Our next question will come from the line of Lynn Schultz with Morgan Stanley. Our next question will come from the line of Navann Ty with BNP Paribas.

Navann Ty Dietschi

BNP Paribas Exane, Research Division

Actually, my question have been answered. I had the same question about the different numbers on the Zoetis MFA and maybe on the strategic priorities after the discontinuation of AD. Yes, I think my questions were answered unless you have anything to add.

Operator

[Operator Instructions] And with that, I will now turn the call back to Glenn David for any closing remarks.

Glenn C. David

Chief Financial Officer

Thank you, Regina, and thank you, everyone, for listening in on today's call. We really appreciate your time, attention, interest and support of Phibro Animal Health, and hope you have a great day.

Operator

That will conclude today's call. Thank you all for joining, and you may now disconnect.

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