

Phibro Animal Health

First Look: F2Q slightly ahead; FY24 sales and Adj. EBITDA guides reiterated

Maintain Rating: UNDERPERFORM | PO: 11.00 USD | Price: 10.67 USD

Modest beat w/ +2% sales growth; Adj EPS +5c ahead

Phibro Animal Health (PAHC) reported F2Q24 results after market close, with revenues of \$249.9mn (+2% y/y) vs our estimate of \$242.8. Adj Gross margins contracted by -10bps y/y to 32.2%. (vs our 31.6% est) and Adj OpM contracted by -90bps to 9.2% (vs our 8.6% est) on lower volumes and higher raw material costs in Mineral Nutrition and Performance Products. On the bottom line, adj EPS of 33c topped BofAe/Street 27c/28c

Segments largely as expected, led by Animal Health

Total Animal Health (AH) segment revenues of \$173.1mn (+6% y/y) were just ahead of our \$169.8 est., driven by strength in MFAs and Other (+5%), particularly internationally. Nutritional Specialties fell short of our forecast, declining -6% mostly due to lower domestic dairy demand while Vaccines grew +31% (vs BofAe 12%) largely from poultry product introductions in Latin America. Performance Products sales of \$15.5mn (-19%) were ahead of our \$14.4mn estimate, while Mineral Nutrition revenue was \$61.3mn (-1%) vs our \$58.6mn forecast. Management's commentary in the release was sparse but highlighted the expectation for continued strength in F2H for Animal Health, with Mineral Nutrition and Performance Products anticipated to rebound as inventories normalize and demand improves.

FY24 revenue and Adj EBITDA guide reiterated

PAHC reiterated its FY'24 guidance ranges for sales (\$1bn at midpt), Adj. EBITDA (\$109mn at midpt), and Adj EPS (\$1.10 at midpt). GAAP outlook was lowered for Net Income and EPS to reflect the cumulative impact of a several non-operational items including tax changes and F/X losses (primarily related to the devaluation of the Argentine Peso), which amounted to a ~\$7.5mn drag in F2Q. As a result, GAAP Net Income is now seen as being in the range of \$12-\$17mn (-\$11mn at midpt), and EPS in the range of 30c-42c (-27c at midpt.)

Conference call on 02/08, 9am EST (888-330-2022)

Overall PAHC posted a solid F2Q result despite ongoing market challenges (particularly in international geographies). However, we maintain our Underperform given PAHC's below-peer growth and profitability profiles as well as current headwinds. PAHC is holding its earnings call tomorrow, 02/08, at 9:00 am ET (888-330-2022, code: 3927884), and we will look for more color on the updated guidance, international trends, as well as investment priorities and timing.

07 February 2024

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Stock Data

Price	10.67 USD
Price Objective	11.00 USD
Date Established	9-Nov-2023
Investment Opinion	B-3-7
52-Week Range	9.40 USD - 16.52 USD
Mrkt Val (mn) / Shares Out (mn)	432 USD / 40.5
Free Float	99.5%
Average Daily Value (mn)	1.49 USD
BofA Ticker / Exchange	PAHC / NAS
Bloomberg / Reuters	PAHC US / PAHC.OQ
ROE (2024E)	19.8%
Net Dbt to Eqty (Jun-2023A)	139.3%
ESGMeter™	Medium

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Timestamp: 07 February 2024 06:36PM EST

Price objective basis & risk

Phibro Animal Health (PAHC)

Our \$11 PO is based on 10x our CY24E EPS estimate, a discount to the company's past five-year historical trading multiples. We believe this valuation is warranted given the headwinds from ongoing Coronavirus outbreak, inflation and macroeconomic / supply chain pressures, challenges facing the company's MFA business, challenges in the dairy markets, broadly choppy end-market conditions, and heavy investment planned by the company in coming years which limit operating leverage.

Upside risks to our PO are faster uptake of new products, improved operating leverage, acquisition of the company, improving market conditions, and accretive M&A. Downside risks are additional regulations, weather patterns, and disease outbreaks in production animals.

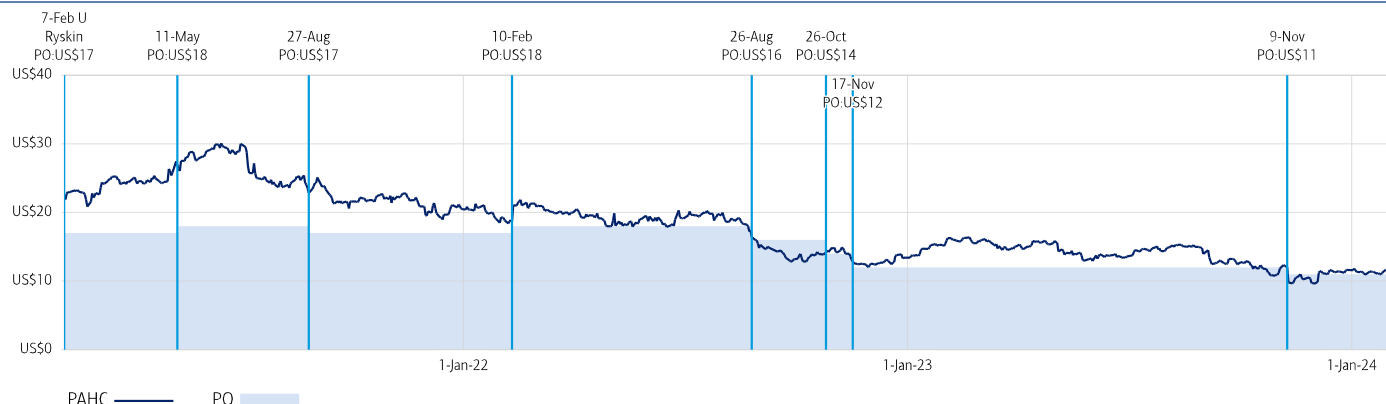
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Phibro Animal Health (PAHC) Price Chart



PAHC — PO

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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