

September 17, 2014

# Phibro Animal Health Corp

## F4Q results above forecast; F15 rev guidance above and EPS in-line

**Phibro delivered F4Q:14 revenue 5% above our estimate and EPS 12% above.** Revenues were \$184M, 5% above our and cons' \$175M. EPS was \$0.22, 11% above our \$0.20 and 19% below cons' \$0.27. Animal Health, the company's key segment, delivered sales of \$114M, up 13% YOY, which was 3% above our forecast of \$111M. Total company gross margin of 29.6% was below our forecast of 32.5% due to product mix (\$6M of the \$9M revenue upside came from low-margin Mineral products). But this was offset by operating expenses at 18.9% of sales, which were below our 21.3%. Operating income was as expected at \$20M. The \$0.02 of EPS upside relative to our model was driven below the operating line by slightly higher other income and a lower tax rate (45% vs. our 50% projection). EPS upside vs. our model included: Revenues +0.11, COGS -0.15, SG&A +0.04, R&D -, Other +0.01, Taxes +0.02. I/S YOY growth in a nutshell: revs +12%, gross profit +10%, oper inc +22%, pretax +125%, net inc +41%, EPS +11%. *Please reference detailed variation analyses on the following pages.*

**F15 revenue guidance above and EBITDA and EPS in line with our forecasts.** We assume that the higher-than-projected revenue guidance is due to lower margin segment performance, which yields limited bottom line impact; we await mgmt color on the investor call. Revenues guidance is \$735-\$755M; midpoint of \$745M is 2% above our and cons' \$731M. Adj. EBITDA of \$99-103M; midpoint of \$101M is in line with our \$102M. EPS guidance is \$1.46-1.51; midpoint of \$1.49 is 1% above our \$1.48 and 2% above cons' \$1.46.

**Phibro is hosting an investor call at 9:00 am EST on Wednesday September 17th.** Dial-in info is as follows:

Primary Dial-In Number: 1 (877) 853-5634  
Secondary Dial-In Number: 1 (315) 625-6893  
Password: 73183235

MORGAN STANLEY & CO. LLC	
<b>David Risinger</b>	
David.Risinger@morganstanley.com	+1 212 761-6494
<b>Thomas Chiu, M.D.</b>	
Thomas.Chiu@morganstanley.com	+1 212 761-3688
<b>Christopher Caponetti, CFA</b>	
Christopher.Caponetti@morganstanley.com	+1 212 761-6235
<b>Emil Chen</b>	
Emil.Chen@morganstanley.com	+1 212 296-8325

Phibro Animal Health Corp ( PAHC.O , PAHC US )	
Specialty Pharmaceuticals / United States of America	
<b>Stock Rating</b>	<b>Equal-weight</b>
<b>Industry View</b>	<b>In-Line</b>
Shr price, close (Sep 16, 2014)	\$20.83
Mkt cap, curr (mm)	\$821
52-Week Range	\$23.74-15.10

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## Financials

### Exhibit 1: PAHC F4Q:14A Income Statement Variation (YOY)

	Actual		MS Estimate		Variation vs. MS Est.			CONS. est.	Variation vs. CONS.		Actual
(\$M)	F4Q:14A	YOY % Chg.	F4Q:14E	YOY % Chg.	Absolute	Pct	EPS Impact	F4Q:14E	Absolute	Pct	F4Q:13A
Net Sales	184	12%	175	7%	8	5%	+0.11	175	9	5%	164
COGS (ex-amortization)	129	13%	118	3%	11	9%	-0.15				115
Gross profit	54	10%	57	16%	(3)	-5%	-0.04	53	1	2%	49
SG&A/R&D (excl. sh. comp exp.)	35	5%	37	13%	(3)	-7%	+0.04				33
Operating income (EBITA excl. sh comp)	20	22%	20	21%	0	0%	+0.00	19	1	5%	16
+ Depreciation	5	26%	4	10%	1	15%					4
- Stock comp expenses	-	-100%	0	9%	(0)	-100%					0
Adj. EBITDA (incl. sh comp exp)	24	23%	23	19%	1	3%	+0.01	24	1	3%	20
Other (income)/deductions	4	-61%	4	-56%	(0)	-11%	+0.01				9
Interest Expense	4	-61%	4	-56%	(0)	-11%	+0.01				9
Interest (Income)	-	-100%	-	-100%	-	*	+0.00				(0)
Other (income)/expense	-	*	-	*	-	*	+0.00				-
Pretax income	16	125%	16	119%	0	3%	+0.01				7
Taxes	7	717%	8	776%	(1)	-7%	+0.02				1
Tax rate	45.3%	32.9%	50.0%	37.5%	-5%	-9%	-				12.5%
Net income	8.8	41%	8	25%	1	13%	+0.02	11	(3)	-22%	6
Diluted EPS	\$0.22	11%	\$0.20	-1%	\$0.02	12%		\$0.27	(\$0.05)	-17%	\$0.20
Diluted shares outstanding	40	27%	39	26%	0	0%					31

\*\$0.01 per share equates to approximately \$0.7M pretax

Margin analysis	Actual		MS Estimate		Variation (b.p.)		CONS.		Actual F4Q:13A
	F4Q:14A		F4Q:14E		vs. MS est.	vs. F4Q:13A	F4Q:14E	Variation (b.p.)	
COGS (ex-amortization)	70.4%		67.5%		294	44			70.0%
Gross margin	29.6%		32.5%		(294)	(44)	30.5%	(94)	30.0%
SG&A/R&D (excl. sh. comp exp.)	18.9%		21.3%		(245)	(129)			20.2%
Operating margin	10.7%		11.2%		(49)	85	10.7%	1	9.8%
Adj. EBITDA margin	13.2%		13.4%		(19)	121	13.4%	(26)	12.0%
Pretax margin	8.8%		8.9%		(15)	441			4.4%
Adj. net margin	4.8%		4.5%		33	98	6.5%	(167)	3.8%

Source: Company data, Morgan Stanley Research, Thomson Reuters

**Exhibit 2: PAHC F4Q:14A Revenue Variation (YOY)**

(\$M)	Actual		MS Estimate		Variation vs. MS Est.		CONS. est.	Variation vs. Cons.		Actual
	F4Q:14A	YOY % Chg.	F4Q:14E	YOY % Chg.	Absolute	Pct	F4Q:14E	Absolute	Pct	F4Q:13A
Animal health	114	13%	111	10%	3	3%				101
MFAs and other	87	12%	84	8%	3	4%				78
Nutritional specialties	16	17%	17	21%	(1)	-3%				14
Vaccines	11	20%	10	15%	0	5%				9
Mineral Nutritional	55	13%	49	1%	6	12%				49
Performance products	15	-1%	16	5%	(1)	-5%				15
<b>Net Sales</b>	<b>184</b>	<b>12%</b>	<b>175</b>	<b>7%</b>	<b>8</b>	<b>5%</b>				<b>164</b>

Source: Company data, Morgan Stanley Research

**Exhibit 3: PAHC F4Q:14A Income Statement Variation (Sequential)**

(\$M)	Reported	Sequential Growth		Actual
	F4Q:14A	Dollar	% Chg.	F3Q:14A
<b>Net Sales</b>	<b>184</b>	<b>10</b>	<b>6%</b>	<b>173</b>
COGS (ex-amortization)	129	10	9%	119
<b>Gross profit</b>	<b>54</b>	<b>0</b>	<b>0%</b>	<b>54</b>
SG&A/R&D (excl. sh. comp exp.)	35	(1)	-2%	36
<b>Operating income (EBITA excl. sh comp)</b>	<b>20</b>	<b>1</b>	<b>6%</b>	<b>19</b>
+ Depreciation	5	1	17%	4
- Stock comp expenses	-	(0)	-100%	0
<b>Adj. EBITDA (incl. sh comp exp)</b>	<b>24</b>	<b>2</b>	<b>8%</b>	<b>22</b>
Other (income)/deductions	4	0	3%	3
Interest Expense	4	0	3%	3
Interest (Income)	-	-	*	-
Other (income)/expense	-	-	*	-
<b>Pretax income</b>	<b>16</b>	<b>1</b>	<b>6%</b>	<b>15</b>
Taxes	7	6	571%	1
Tax rate	45.3%	0	531%	7.2%
<b>Net income</b>	<b>9</b>	<b>(5)</b>	<b>-37%</b>	<b>14</b>
<b>Diluted EPS</b>	<b>\$0.22</b>	<b>(\$0.13)</b>	<b>-38%</b>	<b>\$0.36</b>
Diluted shares outstanding	40	0	0%	39

Margin analysis	Reported	Variation	Actual
	F4Q:14A	b.p. difference	F3Q:14A
COGS (ex-amortization)	70.4%	163	68.8%
Gross margin	29.6%	-163	31.2%
SG&A/R&D (excl. sh. comp exp.)	18.9%	-160	20.5%
Operating margin	10.7%	-3	10.7%
Adj. EBITDA margin	13.2%	22	13.0%
Pretax margin	8.8%	3	8.7%
Adj. net margin	4.8%	-332	8.1%

Source: Company data, Morgan Stanley Research

Exhibit 4: PAHC F4Q:14A Revenue Variation (Sequential)

(\$M)	Reported	Sequential Growth		Actual
	F4Q:14A	Dollar	% Chg.	F3Q:14A
Animal health	114	6	6%	108
MFAs and other	87	6	7%	81
Nutritional specialties	16	0	1%	16
Vaccines	11	0	4%	10
Mineral Nutritional	55	5	10%	50
Performance products	15	(1)	-6%	16
Net Sales	184	10	6%	173

Source: Company data, Morgan Stanley Research

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	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY
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<b>Equal-weight/Hold</b>	<b>1378</b>	<b>44%</b>	<b>413</b>	<b>48%</b>	<b>30%</b>
<b>Not-Rated/Hold</b>	<b>108</b>	<b>3%</b>	<b>21</b>	<b>2%</b>	<b>19%</b>
<b>Underweight/Sell</b>	<b>566</b>	<b>18%</b>	<b>93</b>	<b>11%</b>	<b>16%</b>
<b>TOTAL</b>	<b>3,130</b>		<b>861</b>		

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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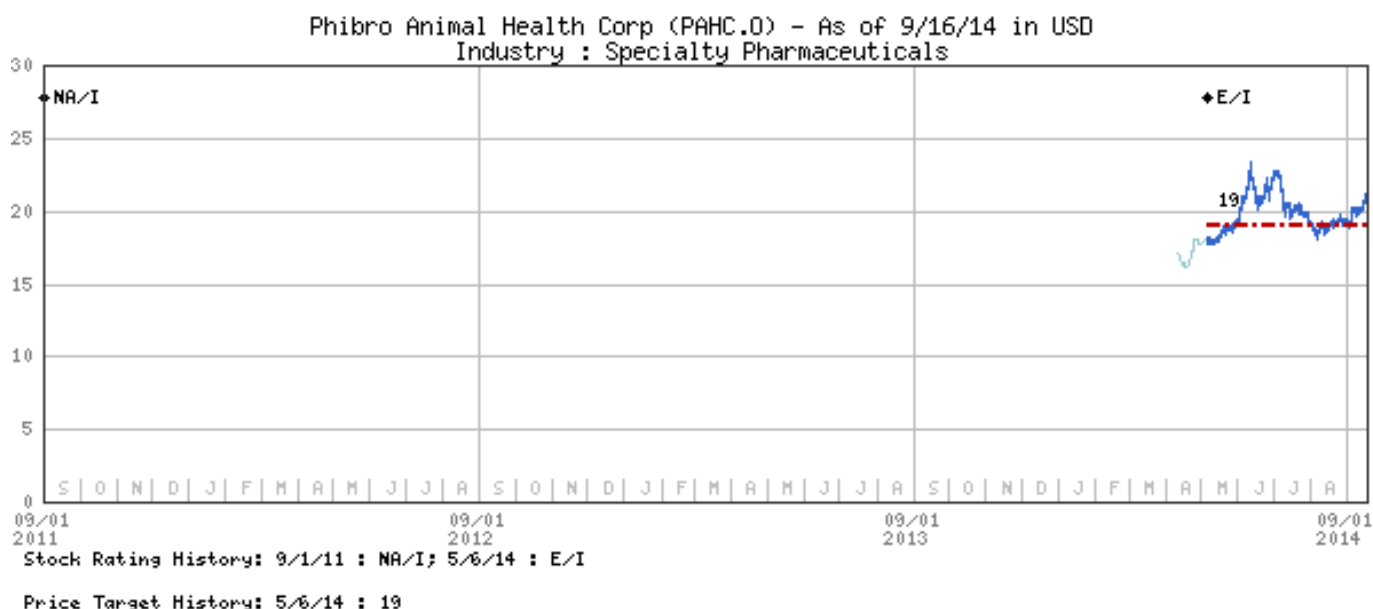
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Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —

Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View

Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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**INDUSTRY COVERAGE: Specialty Pharmaceuticals**

COMPANY (TICKER)	RATING (AS OF)	PRICE* (09/16/2014)
<b>Christopher Caponetti, CFA</b>		
Endo Health Solutions Inc (ENDP.O)	O (05/02/2014)	\$65.17
Mallinckrodt Plc (MNK.N)	E (02/12/2014)	\$86.89
<b>David Risinger</b>		
Actavis Inc (ACT.N)	O (06/18/2014)	\$238.76
Alkermes Plc. (ALKS.O)	E (10/01/2013)	\$44.45
Allergan Inc. (AGN.N)	++	\$170.20
Mylan Inc. (MYL.O)	++	\$47.96
Perrigo Co. (PRGO.N)	E (07/11/2014)	\$145.26
Phibro Animal Health Corp (PAHC.O)	E (05/06/2014)	\$20.83
Teva Pharmaceutical Industries Ltd. (TEV.N)	E (03/14/2014)	\$52.23
Valeant Pharmaceuticals International (VRXN)	++	\$122.15
Zoetis Inc. (ZTS.N)	U (05/07/2014)	\$36.49

Stock Ratings are subject to change. Please see latest research for each company.

\* Historical prices are not split adjusted.

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