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May 6, 2014

Stock Rating
Equal-weight

Industry View
In-Line

Phibro Animal Health Corp

Initiating EW; secular growth fortifies this small-cap

Initiating coverage of Phibro with an Equal-weight rating and a PT of \$19. Phibro is a solid small-cap growth company capitalizing on rising secular demand for protein consumption. We are EW because we envision greater upside catalysts for our OW-rated stocks.

IPO'd on April 11, Phibro is the only global animal health company focused solely on livestock animals. Led by a highly experienced mgmt team, Phibro primarily sells antibiotics, nutritional and mineral products to farmers. It generates roughly 2/3 of \$700M run rate annual revenue from the US and 1/3 ex-US. Core species include poultry (40% of '13A sales), dairy cattle (16%), swine (14%), and beef cattle (11%).

Key debate is "Will revenue growth accelerate?" We project an acceleration in revenue growth from 3% in F1H:14A (ended Dec.) to 7% in F2H:14E and 7% in F15E. Drivers include double-digit Animal Health segment growth plus stabilization in the other two previously declining smaller segments. We have confidence in our forecasts given 15% Animal growth in F2Q:14A plus portfolio optimization in Mineral Products segment. We do not expect pressure on Phibro antibiotic sales despite concerns about organic trends and regulatory action.

We forecast 11% annual long-term EPS growth. From F14 (ending June) through F21, we model 4% revenue CAGR and operating leverage (34 bp annual OM increase).

Where could we be wrong? Financial results and stock multiple could be higher/lower than expected. See upside and downside risks on p.2.

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Key Ratios and Statistics

Reuters: PAHC.O Bloomberg: PAHC US

Specialty Pharmaceuticals / United States of America

Price target	\$19.00
Shr price, close (May 5, 2014)	\$17.96
Mkt cap, curr (mm)	\$560
52-Week Range	\$18.50-15.10

Fiscal Year ending	06/13	06/14e	06/15e	06/16e
ModelWare EPS (\$)	0.59	1.04	1.46	1.63
P/E	-	17.3	12.3	11.0
Consensus EPS (\$)	-	-	-	-
Div yld (%)	-	4.3	2.2	2.3

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

\$ = Consensus data is provided by Thomson Reuters Estimates.
e = Morgan Stanley Research estimates

Quarterly ModelWare EPS

Quarter	2013	2014e	2014e	2015e	2015e
		Prior	Current	Prior	Current
Q1	0.07	-	0.21a	-	0.39
Q2	0.14	-	0.26a	-	0.37
Q3	0.18	-	0.23	-	0.35
Q4	0.20	-	0.33	-	0.35

e = Morgan Stanley Research estimates, a = Actual company reported data

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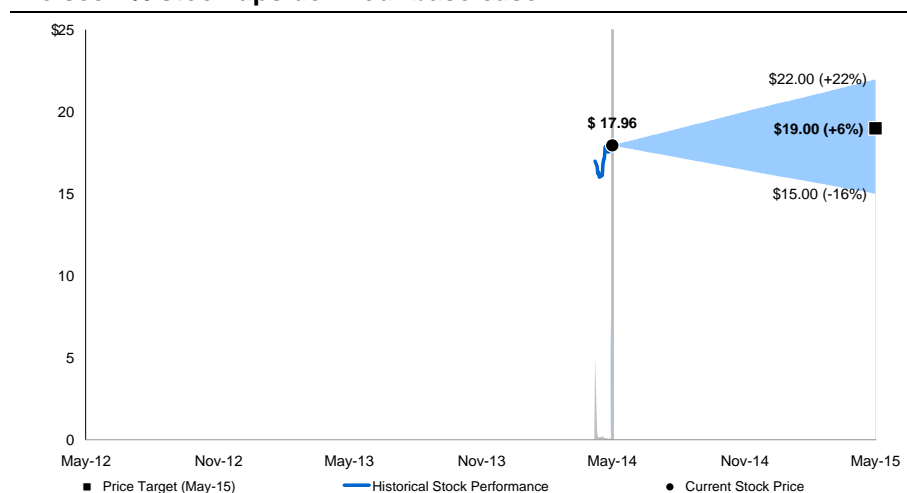
For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

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Phibro Animal Health Corp

Risk-Reward Snapshot: Phibro (PAHC), Equal-weight, PT \$19

We see 7% stock upside in our base case



Source: Thomson Reuters, Morgan Stanley Research estimates

Price Target \$19		DCF: 8.0% WACC, 1% terminal growth beyond F2021E
Bull Case \$22	DCF flexed to assume LT rev growth of 5% rather than 4% and 100 bp higher OM.	Financial results are above expectations, multiple expands, and Phibro exits Performance Products. US and/or ex-US market demand is greater than we project and Phibro delivers revenue and earnings upside. Stock multiple expands as investors gain greater confidence in Phibro's ability to deliver as a public company. Phibro divests its Performance Products segment which is currently a modest drag on growth and is operating just above breakeven (contribution to F14E rev 9% and EBITDA 4%).
Base Case \$19	DCF assumes 8% discount rate and 1% terminal growth; \$19 is 10x '15E EV/EBITDA	Phibro delivers accelerating revenue growth in F15 as expected. We project F14E (June) revenue growth of 5%, accelerating to 7% in F15E. We forecast F14E EBITDA growth of 18% and F15E of 13% (moderation due to less assumed gross margin expansion next FY). Management executes well and delivers strong Animal Health segment growth plus improvements in both Mineral Nutrition and Performance Products segment margins.
Bear Case \$15	DCF flexed to assume LT rev growth of 3% rather than 4% and 100 bp lower OM.	Certain business segments disappoint, causing downside to financial outlook and stock multiple. Animal Health, Mineral Nutrition, and/or Performance Products experience revenue and earnings shortfalls due to weaker-than-expected demand. Regulators take negative action against key products. Stock multiple contracts. See risks to right.

Investment Thesis

- Phibro offers an investment opportunity in growing global demand for animal protein consumption.
- Our \$19 PT represents 9.4x C15E EBITDA of \$107M; our DCF (on p. 21) reflects 8% discount rate and 1% terminal growth.
- We project 4% rev and 11% EPS CAGR from F14-21E.

Events to Watch

- Mar quarter results and initial investor call on May 14th
- June quarter results and F15 guidance in Aug
- Potential small acquisitions (mgmt targets spending approx \$10M annually, but we exclude future deals from our model)

Potential Upside Risks to our Rating and PT

Greater-than-anticipated livestock market growth; financial results upside; investor concerns about antibiotic use in livestock animals fades, driving stock multiple expansion; encouraging acquisitions and/or divestitures.

Potential Downside Risks to our Rating and PT

Disappointing financial results; quarterly earnings volatility; regulatory/legal challenges; disease or weather disruptions to certain animal species demand; worse-than-expected impact of planned FDA removal of growth promotion claims for antibiotics over the next three years; manuf problems; potential insider stock sales after 180-day lockup expires around Oct 11.

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Key debate is “Will revenue growth accelerate?”

Base

We project an acceleration in revenue growth from 3% in F1H:14A (ended Dec.) to 7% in F2H:14E and 7% in F15E. Drivers include double-digit Animal Health segment growth plus stabilization in the other two previously declining smaller segments. We have confidence in our forecasts given 15% Animal growth in F2QA plus Mineral Products segment portfolio optimization.

Bull

Growth surprises to the upside. Animal Health segment grows closer to 15% like it did in F2Q:14A. Driven by management initiatives to optimize the businesses, Mineral and Performance segments stabilize quickly and turn around.

Bear

Phibro fails to deliver revenue acceleration due to lower customer demand for key products. Weaker demand could be driven by slower market growth and/or market share loss. In addition, Phibro's Animal Health segment MFAs (primarily antibiotics) could be weaker than expected due to regulatory scrutiny and farmers cutting back on use.

Note that we do not expect pressure on Phibro antibiotic sales (MFAs in Animal Health segment) despite concerns about organic trends and regulatory action. (see p. 14 for details).

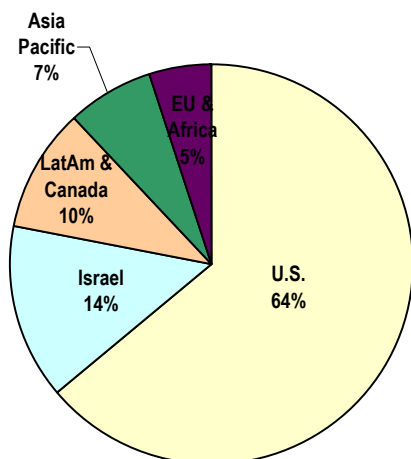
Company Overview

Phibro is the only global animal health company focused solely on livestock animals

Phibro primarily sells antibiotics, nutritional and mineral products to livestock producers. It sells more than 1,100 product presentations in over 65 countries and has ~2,850 customers.

Exhibit 1

Phibro F2013A revenue mix by geography



Source: Company Data, Morgan Stanley Research

Phibro has three operating segments—Animal Health, Mineral Nutrition, and Performance Products

Animal Health accounts for ~60% of sales and ~87% of EBITDA

Animal health business develops, manufactures and markets more than 500 products including antibacterials & anticoccidials, vaccines and nutritional specialty products administered through animal feeds.

Mineral Nutrition accounts for ~30% of sales and ~9% of EBITDA

Mineral nutrition products are used to fortify daily livestock feed and are cross-sold with animal health offerings. Offerings include 450 formulations and concentrations of trace minerals such as zinc, manganese, copper, iron and other compounds. This business focuses only in North America with 96% of F13A mineral nutrition sales coming from U.S. and rest 4% from Canada. Volume growth in this business is primarily driven by livestock production and pricing is largely based on costs of the underlying metals.

Performance Products accounts for ~9% of sales and ~5% of EBITDA

Performance products segment manufactures specialty chemical ingredients used in non-animal health settings.

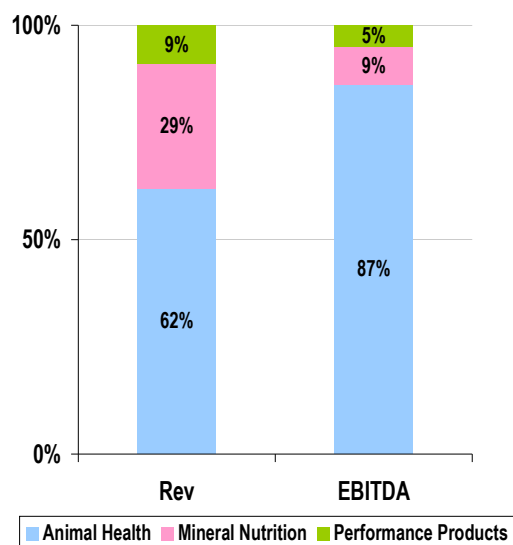
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Performance products have been under pressure, but mgmt is taking initiatives to stabilize the business.

Exhibit 2

Phibro 2014E three segment revenue and EBITDA mix



Source: Company Data, Morgan Stanley Research estimates

Animal Health has three product areas—Medicated Feed Additives, Vaccines, and Nutritional Specialty

Medicated Feed Additives (MFA) account for ~50% of total company sales and ~75% of Animal Health sales

Approximately 60% of MFAs sales are to the poultry industry. Expansion of product applications plus growth in emerging market are key drivers of growth in this segment.

Approximately 50% of MFAs revenue is derived from Antibacterials which inhibit growth of pathogenic bacteria that cause bacterial infections in animals. Some of the major products in this category are V-Max, Stafac, Terramycin, Neo-Terramycin, Mecadox etc. Anticoccidials inhibit growth of coccidian (parasites) that damage the intestinal tract of animals. Major products include Amprolium, Aviax, Nicarb etc.

Vaccines account for ~6% of total company sales and ~9% of Animal Health sales

Vaccines are growing rapidly in poultry, which according to Phibro is the fastest-growing food species globally. All of Phibro's vaccine revenue is generated in poultry. The company's key proprietary product 'Tabic' has an innovative

delivery platform for vaccine antigens in effervescent tablets, which is packed in sealed aluminum blister packages. The technology has replaced glass bottles, with blister pack providing superior convenience and logistical benefits.

Nutritional Specialty comprises ~9% of total company sales and ~15% of Animal Health sales

Nutritional Specialties products improve production efficiency by enhancing nutrition which helps improve herd health and performance. Phibro's main product in this segment is Omnigen-AF which is a non-antibiotic immune enhancer for dairy cows. Omnigen-AF results in fewer metabolic disorders plus more and better milk quality. According to the Phibro's estimates, Omnigen-AF is used by ~20% of 9M US dairy cows. Increasing penetration of Omnigen-AF (launched last year) in Europe (15M cows in target industrial market) and Brazil (2M cows) are key growth drivers for this business.

Management team includes seasoned animal health veterans

CEO Jack Bendheim has nearly 50 years of experience

Mr. Bendheim joined Phibro in 1969 and served as President and COO from 1988-2013. He is also Chairman of the Animal Health Institute, an industry organization advocating for animal health issues, including efficient and effective FDA, USFDA and EPA regulatory and approval processes.

President of Animal Health Larry Miller has nearly 30 years of animal health experience

Mr. Miller joined Phibro in current role in May-08. He had previously spent 17 years at Schering-Plough serving as Vice President of the Global Ruminant business with Intervet (Schering's Animal health) from 2004-08 and as General Manager for Australia and New Zealand Animal Health business from 1998-04.

President of Mineral Nutrition (Prince Agri products) Dean Warras has 20+ years of experience

Mr. Warras joined Phibro in Aug.-05 as vice president of sales for Price Agri products and was promoted to his current position in Jun.-06. Prior to Phibro, he spent his entire career with Cargill, an international producer and marketer of food, agricultural, financial and industrial products and services, in the animal nutrition business.

Director, President of Performance Products Daniel Bendheim has 17 years of experience

Mr. Bendheim joined Phibro in Fall of 1997 and was promoted to current position in 2004. Prior to Phibro, he worked as an analyst at South Coast Capital, a boutique investment bank.

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Phibro Animal Health Corp

Exhibit 3

Management Profile

	Position	Years in Animal Health	Years at Phibro	
Jack Bendheim	Chief Executive Officer and Chairman of the Board	45	45	<ul style="list-style-type: none"> - Joined Phibro in 1969 - Previously served as President and COO from 1988–2013 - Currently the Chairman of the Animal Health Institute, an industry organization advocating for animal health issues, including efficient and effective FDA, USDA, and EPA regulatory and approval processes - Graduated from Yeshiva University
Gerald Carlson	Director and Chief Operating Officer	12	12	<ul style="list-style-type: none"> - Joined Phibro in 2002 as the CEO - Previously was a SVP in corporate planning and development during his 32-year career at Ecolab, a global cleaning and sanitation products, systems, and services co.
Richard Johnson	Chief Financial Officer	12	12	<ul style="list-style-type: none"> - Joined Phibro in 2002 as the CFO - Previously served as Director of Financial Management at Laserdyne Prima (2001–02) - Prior to this, he served a VP in planning and control at Ecolab (1992–99)
Thomas Dagger	SVP, General Counsel and Corporate Secretary	8	8	<ul style="list-style-type: none"> - Joined Phibro in his current role in Nov. 2006 - Prior to Phibro, he served as in-house legal counsel for AT&T (1992–2006) as Law Vice President and Vice President and General Counsel for AT&T's Teleport Communications Group Inc. subsidiary - He formerly worked an associate at the law firm of Cleary, Gottlieb, Steen & Hamilton - Obtained his A.B. degree summa cum laude from Duke University and his J.D. degree with honors from the University of Chicago Law School
Larry Miller	President, Animal Health	29	6	<ul style="list-style-type: none"> - Joined Phibro in current role in May 2008 - Previously spent 17 years at Schering-Plough, serving as VP of the Global Ruminant Business with Intervet/Schering-Plough Animal Health (2004–08), and as General Manager for Schering-Plough's Australia and New Zealand Animal Health businesses (1998–2004) - Prior to Schering, he worked at American Cyanamid Animal Health and Nutrition - B.S. degree in Animal Science from the University of Nebraska and an Executive MBA degree from the City University of New York
Dean Warras	President, Prince Agri Products	23	9	<ul style="list-style-type: none"> - Joined Phibro in August 2005 as Vice President, Sales, for Prince Agri Products; promoted to his current position of President in June 2006 - Prior to Phibro, he spent his entire career with Cargill, an international producer and marketer of food, agricultural, financial and industrial products and services, in the animal nutrition business - B.A. degree in Finance and Marketing from the University of St. Thomas
Daniel Bendheim	Director President, Performance Products Group	17	17	<ul style="list-style-type: none"> - Joined Phibro in the Fall of 1997; promoted to current position of President of Performance Products in 2004 - Prior to Phibro, he worked as an analyst at South Coast Capital, a boutique investment bank - B.A. degree in political science with honors from Yeshiva University in 1993 and a J.D. degree with honors from Harvard Law School in 1996

Source: Company Data, Morgan Stanley Research

Shareholding and voting power

The Bendheim family will hold 55% of shares, yet 93% of voting

Phibro has a dual-class share structure, with the Bendheim family holding 55% of shares and 93% of voting rights.

Dual-class shareholding offers strong leadership that puts long-term interests first rather than near-term benefits.

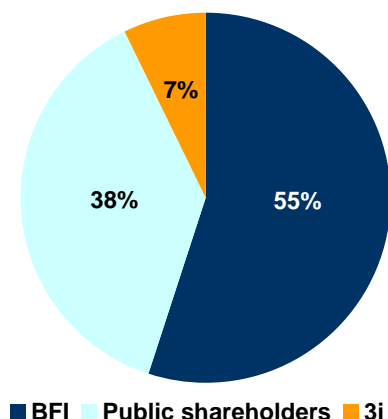
However, under such a structure, the power to control rests with a select few, while the financial risk is borne by all the shareholders.

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Exhibit 4

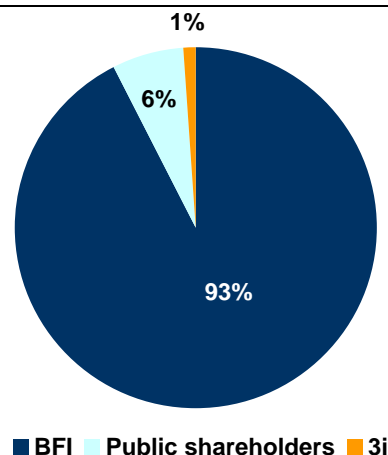
Shareholder by investor group



BFI= Bendheim family investment vehicle
Source: Company Data, Morgan Stanley Research

Exhibit 5

Voting power by investor group



BFI= Bendheim family investment vehicle
Source: Company Data, Morgan Stanley Research

Financial Outlook

High-level financials

We project 7-year F2014E-21E EPS CAGR of +11%

We forecast 11% annual EPS growth in F2014-21E driven by mid-low single digit top line growth (we project 4% revenue CAGR in 'F14-'21E) and operating leverage (we project 34 bp of annual operating margin expansion).

We model 270 bp improvement in operating margins from 10.8% in 'F14E to 13.5% in 'F21E

We expect gross margins to improve from 31.4% in 'F14E to 35.0% in 'F21E, driven by strong growth of the higher margin Animal Health segment. In F2013A, the Animal health business had an operating margin (pre-corporate G&A) of 17.9% compared to 4.8% for Mineral Nutrition business and 4.1% in Performance Products. We model Animal health operating margin increasing from 20.0% in 'F14E to 23.2% in 'F21E, and this will be the key driver of the overall company improvement from 10.8% in F14E to 13.5% in F21E.

Tax expenses step up in F2020E as the Net Operating Loss carryforwards (NOLs) exhaust

We project step up in cash tax rate from 22.3% in F14E to 30% in F20E as the NOLs exhaust. Phibro has domestic federal NOLs of \$45M and foreign NOLs of \$30M as of Jun. 30, 2013.

Segment and profitability analysis

Phibro reports three segments—Animal Health (MFAs, Vaccines, Nutritional Specialties), Mineral Nutrition and Performance Products

Phibro discloses revenue and operating profit by segment. Animal Health (MFAs + Vaccine + Nutritional) accounted for 59% of F2013A revenues and 85% of F2013A operating profit (pre-corporate G&A). Within Animal Health, the majority of revenues (79% of segment total) are generated from MFAs (medicated feed additives). Given faster growth of other Animal Health areas, we expect MFAs to decline to 67% of segment revenue by 'F21E. Vaccines contribute 7% of animal health segment today and are expected to increase to 14% by 'F21E. We project the nutritional business mix will increase from 14% in 'F13A to 20% in 'F20E.

Mineral nutritional business accounts for 31% of revenues and 12% of operating profit. We project the business will contribute 23% of revenue and 7% of profits in F21E.

Performance products accounts for 10% of revenues and 3% of operating profit. We project the business will contribute 7% of revenue and 3% of profits in F21E.

Investment Case

Global livestock animal health industry projected to grow ~6%* over the next 3-5 years

- Rising demand for protein consumption
- Greater need for products to ensure health of animals as herds are raised in closer quarters

Phibro one of the few pure-play animal pharma investment opportunities

- Healthcare investors are interested in animal health investments given prospects for durable industry growth.
- No “patent cliff” risk.

Offers solid 3-year growth prospects

- Mid-single digit revenue growth
- High-single digit EBITDA growth

*Source: Vetnosis

Phibro: Investment Positives and Concerns

Investment Positives

Attractive market

- Mid-single-digit (~6%*) estimated market CAGR annually through 2017
- Minimal threats from generics

Global co. with over 1/3 of revenue ex-US

- Phibro is expanding and “creating the market” in emerging markets where herds are being crowded in ranges

Business mix and margins are improving

High-margin animal health segment driving strong growth

Debt pay-down should help drive EPS

2014E–F2021E CAGR revenue growth of 4% and EPS growth 11%

Highly experienced management; none selling stock in IPO

- CEO has been with the co. for 45+ years
- President of Animal Health division (~60% FY13A revs) has ~30 years of industry experience

*Source: Vetnosis

Investment Concerns

Revenue and earnings concentration in antibiotics

- Antibiotics/related products represent approximately half of company revenue and the majority of profits

Fears that FDA will cut antibiotic use in livestock and organic trend will hurt –

- FDA already took action and impact minimal on Phibro (\$20M rev risk, ~3% of sales)
- We see organic trend as more bark than bite (organic livestock represent single digit % of US)

Drought concerns

- Impacted industry livestock trends recently, but Phibro is primarily poultry which was not hit

Dual-class share structure

- Family will hold 55% of shares, yet 93% of voting

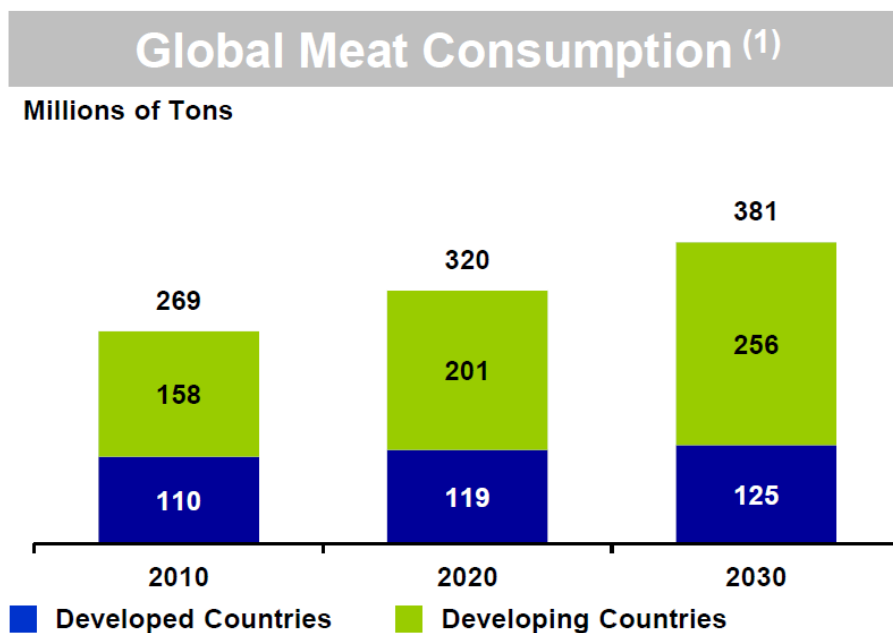
No direct comps for valuation

- No livestock animal health peer (ZTS is 35% companion animal)

Increasing demand for animal protein should drive long-term growth

Demand for meat and milk will likely double over the next 40 years

Majority of growth to come from emerging markets



Source: FAO (both historic and projected data)

Business mix and margins improving

Business mix shifting toward higher-margin Animal Health Segment

Animal health grew from 56% of total sales in F11 to 63% in F2Q14 (ended Dec. '13)

Gross margin increased from 24.3% in FY11 to 28.0% in FY13 (ended June)

- Volume growth on higher margin products was the primary driver of margin expansion from FY11 to FY13
- Brazilian FX impact also had a positive impact on margins over last 1.5 yrs

EBITDA margin grew from 9.4% in FY11 to 11.6% in FY13

We project ongoing EBITDA margin expansion to 13.1% in FY14, 13.8% in FY15, and 14.2% in FY16

Strong and experienced management team

CEO Jack Bendheim has nearly 50 years of experience

- Joined Phibro in 1969
- Previously served as President and COO from 1988–2013
- Currently the Chairman of the Animal Health Institute, an industry organization advocating for animal health issues, including efficient and effective FDA, USDA, and EPA regulatory and approval processes

President of Animal Health Larry Miller has nearly 30 yrs of A.H. exp

- Joined Phibro in current role in May 2008
- Previously spent 17 years at Schering-Plough, serving as VP of the Global Ruminant Business with Intervet/Schering-Plough Animal Health (2004–08), and as General Manager for Schering-Plough's Australia and New Zealand Animal Health businesses (1998–2004)
- Prior to Schering, he worked at American Cyanamid Animal Health and Nutrition

President of Mineral Nutrition (Prince Agri Products) Dean Warras has 20+ yrs of exp

- Joined Phibro in August 2005 as Vice President, Sales, for Prince Agri Products; promoted to his current position of President in June 2006
- Prior to Phibro, he spent his entire career with Cargill, an international producer and marketer of food, agricultural, financial and industrial products and services, in the animal nutrition business

Director President of Performance products group Daniel Bendheim has 17 yrs of exp

- Joined Phibro in Fall of 1997, promoted to current position of President of Performance Products in 2004
- Prior to Phibro, he worked as an analyst at South Coast Capital, a boutique investment bank

Drought has been negatively impacting livestock animal health products

We view the drought as a manageable near-term risk

The drought impacts a modest percentage of Phibro's portfolio

- U.S. cattle, the primary species being affected, accounted for 12% of F13A global revenues
- U.S. poultry and pigs (50% of global revenues) are being impacted to a lesser extent (primary impact of drought is on feed costs, but recent production trends have been stable)

Risk of increased regulations and organic movement on antibiotic use in livestock

Increased government regulations

- In December 2013, FDA announced guidelines related to non-therapeutic claims for antibiotics:
 - Production-related claims (growth promotion) will be removed from product labels of “medically important” antibiotics
 - All MFAs containing medically important antibiotics will be switched from OTC to VFD regulation status (i.e., vet prescribed)
 - However, guidance does not seek restrictions on the use of antibacterials for the treatment, control and prevention of disease in food-producing animals
- Phibro has limited exposure to these new guidelines
 - Only small fraction of Phibro’s FY13A sales (\$10-15M) were from products sold for use in turkey and swine where Phibro do not currently have appropriate therapeutic claims
 - Plans to comply with FDA regulations
 - We do not anticipate additional FDA initiatives in the near-medium term

Organic is in vogue, but niche

- The checkout line at Whole Foods and Chipotle may be long, but nationally only 5% of the market is organic and is expected to grow to less than 10% in 5 years.

Animal health segment (F14E 62% of company sales and 87% of EBITDA)

Animal Health business develops, manufactures and markets more than 500 products incl. antibacterials & anticoccidials, nutritional products and vaccines

Key customers include

Smithfield, Cargill, Land O'Lakes

Revenue concentrated in poultry

Poultry (56% of 2013A animal health), Swine (16%), Dairy (14%), Cattle (6%)

Why it is growing

Products aligned with need for increased protein production/consumption

Global presence with infrastructure in key high-growth markets (eg Brazil)

Diversified and complementary product portfolio with strong brand name recognition

Business strategy

Cross-sell and drive product adoption in US

Leverage proprietary vaccine technologies to increase sales in poultry

Expand rapidly in emerging markets

Three product areas within Animal Health

MFA (medicinal feed additives): ~76% of animal health segment rev

Antibacterials (~50% of F2013A MFAs revs.)

- V-Max, Stafac, Terramycin, Neo-Terramycin, Mecadox

Anticoccidials (prevent infections in poultry)

- Amprolium, Aviax, Nicarb

Nutritional specialties: ~14% of animal health segment rev

Products make livestock animals productive

Brands include OmniGen, Animate

Vaccines: ~10% of animal health segment rev

Rapid growth in poultry

Brands include Tabic and Eptopix

Key products virginiamycin + Omnigen explained

Virginiamycin for bacterial infections

- A medicinal feed additive (MFA) used in poultry, swine, and cattle
- Only producer of virginiamycin in the world
- Originally acquired in 2000 acquisition of PFE's medicated feed additives business (Smithkline)
- Phibro has optimized production over the years in a way that allows them to produce at higher potency
 - This offers protection in that generics likely will be unable to replicate V-Max's potency, unless they invest in R&D to optimize production process; otherwise, generics will be viewed as inferior
- Entered market in 1975 and has been off patent for many years
- Phibro is #1 in MFA's. Branded competitors include #2 Zoetis and #3 Elanco

OmniGen – proprietary non-antibiotic (natural) immune enhancer for dairy cows

- Used in dairy cows to improve milk quality (lower somatic cell count) and milk yield
- Extensive IP: 53 patents or pending applications in 30 countries
- Competitors have different product claims and are not directly comparable
- Currently used in 20% of the 9M cow U.S. dairy market
 - Aim to grow in U.S., EU (15M cow mkt), Brazil (2M cow mkt) and launch in China (5M cow mkt)

Two smaller company segments offer modest growth potential

Mineral nutrition (F14E 29% of rev, 9% of EBITDA)

Mineral Nutrition business manufactures and markets more than 450 formulations and concentrations of trace minerals such as zinc, manganese, copper, iron and other compounds, with a focus on customers in North America.

Performance Products (F14E 9% of rev, 5% of EBITDA)

Performance Products business manufactures and markets a number of specialty ingredients for use in the personal care, automotive, industrial chemical and chemical catalyst industries, predominantly in the U.S.

Phibro: Financial Overview

F2014E-F2021E Revenue & EBITDA Outlook

- 3-year CAGR: Rev. 6%; EBITDA 9%
- 7-year CAGR: Rev. 4%; EBITDA 7%

Operating Margins

- Approx 20-30 b.p. improvement est. annually (Adj. EBITDA margin from 13.1% in F14E to 15.4% in F21E)

Currency exposure hedged

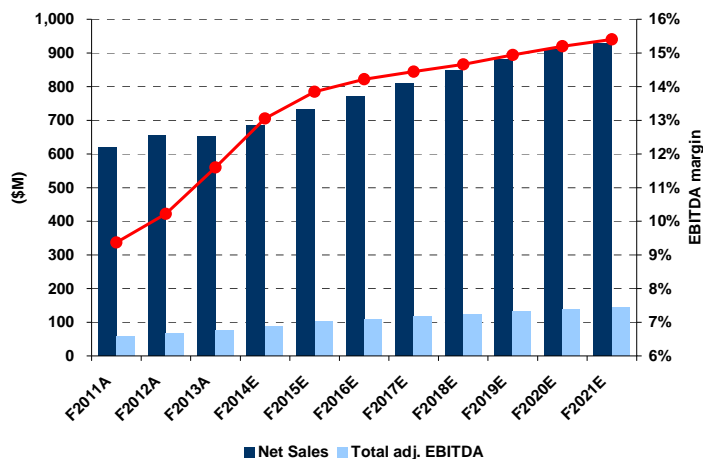
- Hedged out 15 months. Collared on upside.

Cash Flow

- \$531M cumulative operating CF in 'F14-F21E
- \$452M cumulative FCF before divs. 'F14-F21E
- Annual dividend: mgmt. targets \$15M cash dividend

Balance Sheet

- Total Debt-to-F14E EBITDA: ~3.2x
- We est. Phibro Debt/EBITDA will be approx. 2.6x as of June '15
- Mgmt targets approx 2.5x long-term



Fiscal and Calendar Year comparison

\$M	2014		2015		2016		2017		3-yr CAGR	
	FY	CY	FY	CY	FY	CY	FY	CY	FY	CY
Revenue	684	711	731	753	772	793	811	829	6%	5%
EBITDA	89	97	101	107	110	111	117	121	9%	7%
EPS	\$1.04	\$1.31	\$1.46	\$1.56	\$1.63	\$1.65	\$1.76	\$1.78	19%	11%

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Valuation Methodology

Our DCF yields a \$19 price target.

Our DCF is based upon \$452M in cumulative free cash flow in F2014E-F2021E, 8.0% WACC and 1.0% terminal growth beyond F2021E. See upside/downside risks on p. 2.

Exhibit 6

Discounted Cash Flow Valuation

(\$M)	F2013A	F2014E	F2015E	F2016E	F2017E	F2018E	F2019E	F2020E	F2021E
GAAP Net Income	2	57	55	60	71	75	78	83	
+After-tax interest expense	23	11	11	10	9	8	6	4	
+Depreciation and amortization	21	22	22	22	22	22	21	21	
-Capital expenditure	(21)	(20)	(20)	(20)	(20)	(20)	(20)	(20)	
Change in working capital	(10)	(12)	(14)	(15)	(18)	(16)	(18)	(19)	
FCF	16	59	53	57	64	67	67	69	
Dividends	25	15	16	17	18	19	20	21	
FCF net of dividends	(9)	43	37	40	46	49	48	49	

WACC	8.0%			Equity value per share							
Perpetuity	1.0%				Perpetuity						
				-0.5%	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	
CF value	320		6.0%	\$23	\$25	\$27	\$30	\$33	\$38	\$43	
TV	582		6.5%	\$21	\$22	\$24	\$27	\$29	\$32	\$36	
Firm Value	903		7.0%	\$19	\$20	\$22	\$24	\$26	\$28	\$31	
TV as % of firm value	65%		7.5%	\$17	\$18	\$19	\$21	\$23	\$25	\$27	
Debt	290	WACC	8.0%	\$15	\$16	\$18	\$19	\$20	\$22	\$24	
Cash	3		8.5%	\$14	\$15	\$16	\$17	\$18	\$20	\$21	
Equity Value	615		9.0%	\$13	\$14	\$14	\$15	\$16	\$18	\$19	
Shares	33		9.5%	\$12	\$12	\$13	\$14	\$15	\$16	\$17	
CF value/share	\$10		10.0%	\$11	\$11	\$12	\$13	\$13	\$14	\$15	
TV/share	\$18										
Net cash/share	(\$9)										
Price/share	\$19										

Source: Company Data, Morgan Stanley Research estimates

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Relative valuation

Our \$19 price target represents 12.1x our CY15E EPS of \$1.60 and 9.4x our CY15E EBITDA of \$107M.

comps. We project Phibro's cash tax rate to step higher late-decade when NOLs are exhausted. See our annual income statement model for projections.

When considering relative valuation, note that Phibro's tax rate is abnormally low near-term, which is not the case for certain

Exhibit 7

Comparables

(\$M)					2014E*				2015E*			2013A-2015E CAGR*		EBITDA Margin*	
Ticker	Company Name	Description	Mkt Cap†	Net Debt‡	EV	EV/Rev	EV/EBITDA	P/E	EV/Rev	EV/EBITDA	P/E	Revenue	EBITDA	2014E	2015E
Animal Health															
DPH	Dechra	Pharma	1,053	18	1,071	3.1x	13.9x	20.0x	3.0x	12.9x	18.5x	-22.6%	0.4%	22%	23%
WOOF	VCA Antech	Vet clinics	2,715	469	3,184	1.7x	9.2x	16.6x	1.6x	8.6x	15.1x	5.4%	6.2%	18%	18%
VRP	Virbac (France)	Pharma	2,026	291	2,317	2.2x	12.0x	22.5x	2.1x	10.9x	20.3x	4.9%	8.5%	18%	19%
MWV	MWI Veterinary	Distribution	2,039	109	2,148	0.7x	16.0x	27.4x	0.7x	14.1x	24.1x	14.8%	15.3%	4%	5%
VETO	Vetoquinol (France)	Pharma	608	-36	572	1.3x	8.6x	16.3x	1.2x	7.9x	14.8x	5.6%	9.2%	15%	16%
GNS	Genus (UK)	Genetics	1,064	134	1,198	1.8x	13.5x	20.0x	1.7x	11.8x	16.9x	6.5%	7.8%	13%	15%
ZTS	Zoetis	Pharma	15,338	3,042	18,380	3.9x	13.4x	20.0x	3.7x	12.2x	17.6x	5.4%	9.5%	29%	30%
Mean						2.1x	12.4x	20.4x	2.0x	11.2x	18.2x			17%	18%
S&P 500								16.x			14.8x				
PAHC	Phibro	Pharma	672	287	960	1.4x	9.9x	13.6x	1.3x	9.0x	11.4x	6.7%	13.3%	14%	14%

Source: ThomsonReuters (comparables), Morgan Stanley Research

† Market cap based upon fully diluted share count ‡ Net debt calculated using cash and short-term investments. *Calendarized and based upon consensus estimates.

Notes: (1) VRP and VETO report in Euros and Genus reports in British Pounds; EV calculated using current USD spot rates.

Source: Company Data, Thomson Reuters, Morgan Stanley Research

Company Model

Exhibit 8

Annual Income Statement (1 of 2)

(\$M)	F2011A	F2012A	F2013A	F2014E	F2015E	F2016E	F2017E	F2018E	F2019E	F2020E	F2021E
Net Sales	618	654	653	684	731	772	811	848	882	909	929
COGS (ex-amortization)	468	487	470	469	494	515	538	559	578	593	604
Gross profit Δ	150	167	183	214	238	257	273	289	304	316	325
SG&A (incl. R&D)	105	115	122	141	154	164	174	183	190	196	200
Operating income (EBITA)	45	53	61	74	84	93	99	106	114	120	125
<i>Add: Depreciation</i>	<i>13</i>	<i>14</i>	<i>15</i>	<i>16</i>	<i>18</i>	<i>18</i>	<i>19</i>	<i>19</i>	<i>19</i>	<i>19</i>	<i>19</i>
<i>Deduct: Stock comp expenses</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>
Adj. EBITDA	58	67	76	89	101	110	117	124	132	138	143
Other (income)/deductions	34	35	36	30	13	13	13	12	11	9	6
Interest Expense	35	36	36	30	13	13	13	12	11	9	6
Interest (Income)	(0)	(0)	(0)	(0)	-	-	-	-	-	-	-
Other (income)/expense	-	-	-	-	-	-	-	-	-	-	-
Pretax income	11	17	25	44	71	80	86	94	103	111	119
Cash taxes	4	7	7	10	13	16	17	24	28	33	36
Cash tax rate	34.1%	42.1%	27.8%	22.3%	19.0%	19.5%	20.0%	25.0%	27.5%	30.0%	30.0%
<i>Non-GAAP Taxes (excl cash tax adj)</i>	<i>5</i>	<i>7</i>	<i>3</i>	<i>10</i>	<i>13</i>	<i>19</i>	<i>26</i>	<i>28</i>	<i>31</i>	<i>33</i>	<i>36</i>
<i>Non-GAAP tax rate</i>	<i>40.4%</i>	<i>38.5%</i>	<i>11.7%</i>	<i>22.9%</i>	<i>19.0%</i>	<i>23.5%</i>	<i>30.0%</i>	<i>30.0%</i>	<i>30.0%</i>	<i>30.0%</i>	<i>30.0%</i>
Adjusted Net income	7	10	18	34	57	64	69	71	75	78	83
<i>Non-GAAP Net income</i>	<i>7</i>	<i>11</i>	<i>22</i>	<i>34</i>	<i>57</i>	<i>61</i>	<i>60</i>	<i>66</i>	<i>72</i>	<i>78</i>	<i>83</i>
Cash tax EPS	\$0.24	\$0.32	\$0.59	\$1.04	\$1.46	\$1.63	\$1.76	\$1.79	\$1.90	\$1.98	\$2.11
Non-GAAP tax EPS	\$0.21	\$0.34	\$0.72	\$1.03	\$1.46	\$1.55	\$1.54	\$1.67	\$1.83	\$1.98	\$2.11
Diluted shares outstanding	31	31	31	33	39	39	39	39	39	39	39
Average basic shares outstanding	31	31	31	32	39	39	39	39	39	39	39
Period-end basic shares outstanding	31	31	31	32	39	39	39	39	39	39	39

Source: Company Data, Morgan Stanley Research estimates

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Exhibit 9

Annual Income Statement (2 of 2)

Margin Analysis	F2011A	F2012A	F2013A	F2014E	F2015E	F2016E	F2017E	F2018E	F2019E	F2020E	F2021E
COGS (ex-amortization)	75.7%	74.4%	72.0%	68.6%	67.5%	66.7%	66.3%	65.9%	65.5%	65.2%	65.0%
Gross margin	24.3%	25.6%	28.0%	31.4%	32.5%	33.3%	33.7%	34.1%	34.5%	34.8%	35.0%
SG&A (incl. R&D)	17.0%	17.5%	18.7%	20.6%	21.0%	21.3%	21.5%	21.6%	21.6%	21.6%	21.5%
Operating margin	7.3%	8.0%	9.3%	10.8%	11.5%	12.0%	12.2%	12.5%	12.9%	13.2%	13.5%
<i>Adj. EBITDA margin</i>	<i>9.4%</i>	<i>10.2%</i>	<i>11.6%</i>	<i>13.1%</i>	<i>13.8%</i>	<i>14.2%</i>	<i>14.4%</i>	<i>14.7%</i>	<i>14.9%</i>	<i>15.2%</i>	<i>15.4%</i>
Pretax margin	1.8%	2.6%	3.9%	6.4%	9.7%	10.3%	10.7%	11.1%	11.7%	12.3%	12.8%
Net margin	1.2%	1.5%	2.8%	5.0%	7.9%	8.3%	8.5%	8.3%	8.5%	8.6%	8.9%
YOY % Change	F2011A	F2012A	F2013A	F2014E	F2015E	F2016E	F2017E	F2018E	F2019E	F2020E	F2021E
Net Sales		6%	0%	5%	7%	6%	5%	5%	4%	3%	2%
COGS (ex-amortization)		4%	-3%	0%	5%	4%	4%	4%	3%	3%	2%
Gross profit Δ		11%	10%	17%	11%	8%	6%	6%	5%	4%	3%
SG&A (incl. R&D)		9%	6%	15%	9%	7%	6%	5%	4%	3%	2%
Operating income (EBITA)		16%	16%	21%	14%	10%	7%	7%	7%	6%	4%
<i>Adj. EBITDA</i>		<i>15%</i>	<i>13%</i>	<i>18%</i>	<i>13%</i>	<i>8%</i>	<i>7%</i>	<i>6%</i>	<i>6%</i>	<i>5%</i>	<i>4%</i>
Pretax income		54%	48%	71%	63%	12%	8%	9%	9%	8%	7%
Adjusted Net income		35%	85%	84%	70%	12%	8%	2%	6%	4%	7%
Cash tax EPS		35%	85%	76%	41%	12%	8%	2%	6%	4%	7%
<i>Non-GAAP tax EPS</i>		<i>59%</i>	<i>113%</i>	<i>43%</i>	<i>42%</i>	<i>6%</i>	<i>-1%</i>	<i>9%</i>	<i>9%</i>	<i>8%</i>	<i>7%</i>
Diluted shares outstanding		0%	0%	5%	20%	0%	0%	0%	0%	0%	0%

Source: Company Data, Morgan Stanley Research estimates

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Exhibit 10

Quarterly Income Statement

(\$M)	F1Q:14A	F2Q:14A	F3Q:14E	F4Q:14E	F2014E	F1Q:15E	F2Q:15E	F3Q:15E	F4Q:15E	F2015E
Net Sales	162	173	173	175	684	178	184	184	185	731
COGS (ex-amortization)	111	120	119	118	469	120	126	125	123	494
Gross profit Δ	51	52	54	57	214	58	58	60	61	238
SG&A (incl. R&D)	33	34	36	38	141	36	37	39	41	154
Operating income (EBITA)	18	18	18	19	74	22	21	20	20	84
Add: Depreciation	4	4	4	4	16	5	5	5	5	18
Deduct: Stock comp expenses	0	0	0	0	0	0	0	0	0	1
Adj. EBITDA	22	22	22	23	89	27	25	25	25	101
Other (income)/deductions	9	9	9	4	30	3	3	3	3	13
Interest Expense	9	9	9	4	30	3	3	3	3	13
Interest (Income)	(0)	(0)	-	-	(0)	-	-	-	-	-
Other (income)/expense	-	-	-	-	-	-	-	-	-	-
Pretax income	9	10	9	16	44	19	18	17	17	71
Cash taxes	3	1	3	3	10	4	3	3	3	13
Cash tax rate	28.6%	13.2%	26.6%	21.5%	22.3%	19.0%	19.0%	19.0%	19.0%	19.0%
Non-GAAP Taxes (excl cash tax adj)	1	3	3	3	10	4	3	3	3	13
Non-GAAP tax rate	14.2%	29.8%	26.6%	21.5%	22.9%	19.0%	19.0%	19.0%	19.0%	19.0%
Adjusted Net income	6	8	7	12	34	15	14	14	14	57
Non-GAAP Net income	8	7	7	12	34	15	14	14	14	57
Cash tax EPS	\$0.21	\$0.26	\$0.23	\$0.32	\$1.04	\$0.39	\$0.37	\$0.35	\$0.35	\$1.46
Non-GAAP tax EPS	\$0.25	\$0.21	\$0.23	\$0.32	\$1.03	\$0.39	\$0.37	\$0.35	\$0.35	\$1.46
Diluted shares outstanding	31	31	30	38	33	39	39	39	39	39

Margin Analysis	F1Q:14A	F2Q:14A	F3Q:14E	F4Q:14E	F2014E	F1Q:15E	F2Q:15E	F3Q:15E	F4Q:15E	F2015E
COGS (ex-amortization)	68.6%	69.7%	68.7%	67.5%	68.6%	67.3%	68.3%	67.6%	66.8%	67.5%
Gross margin	31.4%	30.3%	31.3%	32.5%	31.4%	32.7%	31.7%	32.4%	33.2%	32.5%
SG&A (incl. R&D)	20.4%	19.7%	20.9%	21.4%	20.6%	20.2%	20.2%	21.4%	22.2%	21.0%
Operating margin	11.0%	10.6%	10.4%	11.1%	10.8%	12.5%	11.5%	11.0%	11.0%	11.5%
Adj. EBITDA margin	13.3%	12.9%	12.7%	13.3%	13.1%	14.9%	13.8%	13.4%	13.4%	13.8%
Pretax margin	5.6%	5.5%	5.5%	8.9%	6.4%	10.6%	9.7%	9.3%	9.2%	9.7%
Net margin	4.0%	4.8%	4.0%	7.0%	5.0%	8.6%	7.9%	7.5%	7.5%	7.9%
YOY % Change	F1Q:14A	F2Q:14A	F3Q:14E	F4Q:14E	F2014E	F1Q:15E	F2Q:15E	F3Q:15E	F4Q:15E	F2015E
Net Sales	0%	5%	7%	7%	5%	10%	6%	6%	5%	7%
COGS (ex-amortization)	-7%	0%	3%	3%	0%	8%	4%	5%	4%	5%
Gross profit Δ	19%	19%	16%	16%	17%	15%	11%	10%	7%	11%
SG&A (incl. R&D)	16%	18%	16%	13%	15%	9%	9%	9%	9%	9%
Operating income (EBITA)	26%	20%	15%	21%	21%	25%	16%	13%	4%	14%
Adj. EBITDA	21%	19%	13%	19%	18%	23%	14%	12%	6%	13%
Pretax income	72%	53%	39%	117%	71%	110%	88%	81%	10%	63%
Adjusted Net income	196%	85%	27%	95%	84%	138%	75%	100%	13%	70%
Cash tax EPS	196%	85%	30%	60%	76%	88%	39%	55%	9%	41%
Non-GAAP tax EPS	117%	29%	12%	36%	43%	57%	71%	55%	9%	42%
Diluted shares outstanding	0%	0%	-2%	22%	5%	26%	26%	29%	4%	20%

Source: Company Data, Morgan Stanley Research estimates

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Exhibit 11

Annual Revenues

(\$M)	F2011A	F2012A	F2013A	F1Q:14A	F2Q:14A	F3Q:14E	F4Q:14E	F2014E	F2015E	F2016E	F2017E	F2018E	F2019E	F2020E	F2021E
Animal health	345	375	385	101	108	107	111	427	472	508	544	578	610	635	652
MFAs and other	273	291	304	78	80	81	84	323	344	361	379	396	413	426	434
Nutritional specialties	43	48	52	14	16	17	17	64	78	90	101	111	118	124	128
Vaccines	29	37	29	9	11	9	10	40	50	57	64	71	78	85	90
Mineral Nutritional	209	210	203	46	51	51	49	197	197	199	201	203	205	207	209
Performance products	64	69	65	15	14	16	16	60	62	64	65	66	67	67	68
Net Sales	618	654	653	162	173	173	175	684	731	772	811	848	882	909	929
YOY % CHANGE	F2011A	F2012A	F2013A	F1Q:14A	F2Q:14A	F3Q:14E	F4Q:14E	F2014E	F2015E	F2016E	F2017E	F2018E	F2019E	F2020E	F2021E
Animal health		9%	3%	5%	15%	14%	10%	11%	11%	8%	7%	6%	5%	4%	3%
MFAs and other		6%	5%	1%	5%	11%	8%	6%	7%	5%	5%	5%	4%	3%	2%
Nutritional specialties		11%	10%	23%	28%	20%	21%	23%	21%	15%	12%	10%	7%	5%	3%
Vaccines		28%	-22%	19%	111%	31%	15%	38%	25%	15%	12%	11%	10%	8%	6%
Mineral Nutritional		0%	-3%	-7%	-4%	-2%	1%	-3%	0%	1%	1%	1%	1%	1%	1%
Performance products		8%	-6%	-8%	-17%	-8%	5%	-7%	3%	3%	2%	1%	1%	1%	1%
Net Sales		6%	0%	0%	5%	7%	7%	5%	7%	6%	5%	5%	4%	3%	2%
Revenue (%-total)	F2011A	F2012A	F2013A	F1Q:14A	F2Q:14A	F3Q:14E	F4Q:14E	F2014E	F2015E	F2016E	F2017E	F2018E	F2019E	F2020E	F2021E
Animal health	56%	57%	59%	62%	63%	62%	63%	62%	65%	66%	67%	68%	69%	70%	70%
MFAs and other	44%	44%	47%	48%	46%	47%	48%	47%	47%	47%	47%	47%	47%	47%	47%
Nutritional specialties	7%	7%	8%	9%	10%	10%	10%	9%	11%	12%	12%	13%	13%	14%	14%
Vaccines	5%	6%	4%	6%	7%	5%	6%	6%	7%	7%	8%	8%	9%	9%	10%
Mineral Nutritional	34%	32%	31%	28%	29%	29%	28%	29%	27%	26%	25%	24%	23%	23%	23%
Performance products	10%	11%	10%	9%	8%	9%	9%	9%	9%	8%	8%	8%	8%	7%	7%
Net Sales	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Company Data, Morgan Stanley Research estimates

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Exhibit 12

Quarterly Revenues

(\$M)	F1Q:14A	F2Q:14A	F3Q:14E	F4Q:14E	F2014E	F1Q:15E	F2Q:15E	F3Q:15E	F4Q:15E	F2015E
Animal health	101	108	107	111	427	117	118	117	120	472
MFAs and other	78	80	81	84	323	87	86	85	87	344
Nutritional specialties	14	16	17	17	64	18	19	20	21	78
Vaccines	9	11	9	10	40	13	13	12	12	50
Mineral Nutritional	46	51	51	49	197	46	50	52	49	197
Performance products	15	14	16	16	60	15	16	16	16	62
Net Sales	162	173	173	175	684	178	184	184	185	731
YOY % CHANGE	F1Q:14A	F2Q:14A	F3Q:14E	F4Q:14E	F2014E	F1Q:15E	F2Q:15E	F3Q:15E	F4Q:15E	F2015E
Animal health	5%	15%	14%	10%	11%	15%	10%	10%	8%	11%
MFAs and other	1%	5%	11%	8%	6%	11%	7%	5%	4%	7%
Nutritional specialties	23%	28%	20%	21%	23%	24%	18%	20%	22%	21%
Vaccines	19%	111%	31%	15%	38%	38%	15%	30%	20%	25%
Mineral Nutritional	-7%	-4%	-2%	1%	-3%	0%	-1%	2%	0%	0%
Performance products	-8%	-17%	-8%	5%	-7%	4%	10%	0%	0%	3%
Net Sales	0%	5%	7%	7%	5%	10%	6%	6%	5%	7%
Revenue (%-total)	F1Q:14A	F2Q:14A	F3Q:14E	F4Q:14E	F2014E	F1Q:15E	F2Q:15E	F3Q:15E	F4Q:15E	F2015E
Animal health	62%	63%	62%	63%	62%	65%	64%	63%	65%	65%
MFAs and other	48%	46%	47%	48%	47%	49%	47%	46%	47%	47%
Nutritional specialties	9%	10%	10%	10%	9%	10%	11%	11%	11%	11%
Vaccines	6%	7%	5%	6%	6%	7%	7%	6%	7%	7%
Mineral Nutritional	28%	29%	29%	28%	29%	26%	27%	28%	27%	27%
Performance products	9%	8%	9%	9%	9%	9%	8%	9%	8%	9%
Net Sales	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Company Data, Morgan Stanley Research estimates

Exhibit 13

Cash Flow

(\$M)	F2011A	F2012A	F2013A	F2014E	F2015E	F2016E	F2017E	F2018E	F2019E	F2020E	F2021E
Net income (Pro forma)	7	10	18	34	57	64	69	71	75	78	83
GAAP adjustments	(20)	(3)	7	(32)	-	(9)	(9)	-	-	-	-
Net income (GAAP)	(13)	7	25	2	57	55	60	71	75	78	83
Depreciation & amortization	17	18	19	21	22	22	22	22	22	21	21
Depreciation	12	14	15	16	18	18	19	19	19	19	19
Amortization	5	3	4	5	4	4	3	3	3	2	2
Change in operating assets and liabilities	(9)	5	(35)	(10)	(12)	(14)	(15)	(18)	(16)	(18)	(19)
Other adjustments to derive cash flows	1	2	(9)	-	-	-	-	-	-	-	-
Net cash from operating activities	(5)	32	0	13	68	63	67	75	80	81	85
Net capital expenditures	(22)	(15)	(20)	(21)	(20)	(20)	(20)	(20)	(20)	(20)	(20)
Acquisitions and Other	2	(3)	(17)	-	-	-	-	-	-	-	-
Net cash from investing activities	(19)	(18)	(37)	(21)	(20)	(20)	(20)	(20)	(20)	(20)	(20)
Cash dividends paid	(50)	-	(3)	(25)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
Net change in short-term debt	18	(4)	20	-	-	-	-	-	-	-	-
Net change in long-term debt	51	(5)	(5)	(76)	(25)	(30)	(30)	(35)	(40)	(40)	(40)
Other financing activities	(8)	-	(1)	84	-	-	-	-	-	-	-
Net cash from financing activities	10	(8)	11	(17)	(40)	(46)	(47)	(53)	(59)	(60)	(61)
Effect of exchange rates	(0)	(1)	(0)	-	-	-	-	-	-	-	-
Net increase in cash	(14)	5	(27)	(25)	8	(4)	(0)	2	1	1	4
Cash at beginning of period	63	49	54	27	3	10	7	6	8	9	10
Cash at end of period	49	54	27	3	10	7	6	8	9	10	14

Source: Company Data, Morgan Stanley Research estimates

Exhibit 14

Balance Sheet

(\$M)	F2011A	F2012A	F2013A	F2014E	F2015E	F2016E	F2017E	F2018E	F2019E	F2020E	F2021E
Cash and short-term investments		54	27	3	10	7	6	8	9	10	14
Receivables		99	99	109	118	129	137	146	153	163	172
Inventories		120	140	144	146	152	159	167	175	184	194
Other current assets		29	30	30	30	30	30	30	30	30	30
Current assets		302	296	286	304	318	332	351	367	387	409
Net property, plant and equipment		102	104	109	111	113	114	115	117	118	119
Other assets		37	73	69	64	61	58	55	52	50	48
Total Assets		441	474	463	479	492	504	522	536	555	577
Short-term debt		19	34	25	30	30	35	40	40	40	40
Accounts Payable		68	58	62	61	65	63	64	62	63	62
Other current liabilities		53	57	57	57	57	57	57	57	57	57
Current liabilities		140	149	145	148	152	156	161	159	160	159
Long-term debt		331	332	265	235	205	170	130	90	50	10
Other liabilities		59	62	62	62	62	62	62	62	62	62
Total Liabilities		529	543	472	446	419	388	353	312	272	231
Common Equity		(88)	(69)	(9)	33	72	116	168	224	283	345
Noncontrolling interest		-	-	-	-	-	-	-	-	-	-
Shareholders' Equity		(88)	(69)	(9)	33	72	116	168	224	283	345
Total Liabilities and SE		441	474	463	479	492	504	522	536	555	577

Source: Company Data, Morgan Stanley Research estimates

Exhibit 15

Financial Metrics

(\$M)	F2011A	F2012A	F2013A	F2014E	F2015E	F2016E	F2017E	F2018E	F2019E	F2020E	F2021E
Operating efficiency											
Accounts receivable turnover		6.6x	6.6x	6.6x	6.5x	6.3x	6.1x	6.0x	5.9x	5.8x	5.6x
Inventory turnover		4.1x	3.6x	3.3x	3.4x	3.5x	3.5x	3.4x	3.4x	3.3x	3.2x
Fixed asset turnover		6.4x	6.3x	6.4x	6.7x	6.9x	7.1x	7.4x	7.6x	7.8x	7.8x
Capex as % sales		2.3%	3.1%	3.0%	2.7%	2.6%	2.5%	2.4%	2.3%	2.2%	2.2%
Depreciation to fixed assets ratio		NM	0.1x	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x
Accounts payable turnover		7.2x	7.5x	7.8x	8.0x	8.2x	8.4x	8.8x	9.2x	9.5x	9.7x
Days sales outstanding		55	55	56	57	58	60	61	62	63	66
Days payables outstanding		51	49	47	46	45	43	41	40	38	38
Days inventory held		90	101	111	107	106	106	107	108	111	114
Cash conversion cycle (days)		94	108	119	118	120	122	126	130	136	142
Liquidity											
Working capital		162	147	141	156	166	176	190	208	227	250
Current ratio		2.2	2.0	2.0	2.0	2.1	2.1	2.2	2.3	2.4	2.6
Quick ratio		1.3	1.0	1.0	1.1	1.1	1.1	1.1	1.2	1.3	1.4
Cash ratio		0.4	0.2	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1
Profitability											
Adjusted EPS	\$0.24	\$0.32	\$0.59	\$1.04	\$1.46	\$1.63	\$1.76	\$1.79	\$1.90	\$1.98	\$2.11
GAAP EPS	(\$0.41)	\$0.22	\$0.80	\$0.06	\$1.46	\$1.40	\$1.53	\$1.79	\$1.90	\$1.98	\$2.11
GAAP vs adjusted	(\$0.65)	(\$0.09)	\$0.21	(\$0.98)	\$0.00	(\$0.23)	(\$0.23)	\$0.00	\$0.00	\$0.00	\$0.00
Adjusted EBIT*	\$41	\$49	\$57	\$69	\$80	\$89	\$96	\$103	\$111	\$118	\$123
Adjusted EBITDA*	\$58	\$67	\$76	\$89	\$101	\$110	\$117	\$124	\$132	\$138	\$143
Operating cash flow per share	(\$0.15)	\$1.02	\$0.01	\$0.39	\$1.73	\$1.59	\$1.70	\$1.90	\$2.03	\$2.06	\$2.16
FCF per share		\$1.21	\$0.12	\$0.48	\$1.50	\$1.35	\$1.44	\$1.61	\$1.71	\$1.71	\$1.76
OCF		46	56	74	87	93	99	99	102	104	107
FCF		38	4	16	59	53	57	64	67	67	69
FCF less dividends		38	1	(9)	43	37	40	46	49	48	49
FCF less dividends/share buybacks		38	(0)	(9)	43	37	40	46	49	48	49
% FCF returned to shareholders		0%	103%	157%	26%	31%	30%	28%	28%	29%	30%
Book value per share	(\$2.83)	(\$2.21)	(\$0.26)	\$0.85	\$1.84	\$2.94	\$4.28	\$5.70	\$7.18	\$8.77	
Growth rates											
Adjusted EPS			84.9%	75.8%	41.0%	11.6%	7.8%	2.2%	5.7%	4.4%	6.5%
GAAP EPS			256.8%	-92.9%	2467.0%	-4.1%	9.0%	17.5%	5.7%	4.4%	6.5%
FCF per share			-89.9%	294.0%	209.2%	-10.0%	7.1%	12.0%	6.0%	-0.1%	2.9%
Return on asset/equity											
EBT margin		2.6%	3.9%	6.4%	9.7%	10.3%	10.7%	11.1%	11.7%	12.3%	12.8%
ROA		2.3%	4.0%	7.2%	12.2%	13.2%	13.9%	13.8%	14.1%	14.3%	14.7%
Leverage (assets/equity)		(5.0)	(5.8)	(12.1)	38.0	9.2	5.3	3.6	2.7	2.2	1.8
Tax effect		57.9%	NM	77.7%	81.0%	80.5%	80.0%	75.0%	72.5%	70.0%	70.0%
ROE		-11.3%	-23.4%	-87.3%	463.6%	121.1%	73.5%	49.7%	38.0%	30.8%	26.5%

Source: Company Data, Morgan Stanley Research

Exhibit 16

Capital Structure

\$M	F2011A	F2012A	F2013A	F2014E	F2015E	F2016E	F2017E	F2018E	F2019E	F2020E	F2021E
Net debt		296	338	287	255	228	199	162	121	80	36
Net debt-to-equity		(3.4)	(4.9)	(33.2)	7.6	3.2	1.7	1.0	0.5	0.3	0.1
Net Debt to Capital		113.1%	114.0%	102.2%	85.3%	74.2%	62.0%	47.9%	34.2%	21.4%	9.0%
Total Debt		350	366	290	265	235	205	170	130	90	50
Total Debt to Capital		133.7%	123.2%	103.1%	88.8%	76.4%	63.9%	50.2%	36.7%	24.1%	12.6%
Total Debt to EBITDA		5.2x	4.8x	3.2x	2.6x	2.1x	1.8x	1.4x	1.0x	0.7x	0.3x
Net Debt to EBITDA		4.4x	4.5x	3.2x	2.5x	2.1x	1.7x	1.3x	0.9x	0.6x	0.2x
Interest coverage ratio		1.4x	1.6x	2.3x	6.1x	6.8x	7.6x	8.6x	10.4x	13.5x	19.3x
Interest expense		36	36	30	13	13	13	12	11	9	6
Dividend payout ratio		0%	12%	NM	27%	29%	28%	25%	25%	25%	25%
Dividend per share		\$0.00	\$0.00	\$0.76	\$0.39	\$0.41	\$0.43	\$0.45	\$0.48	\$0.50	\$0.52
Dividend growth		NM	NM	NM	NM	5%	5%	5%	5%	5%	5%

Source: Company Data, Morgan Stanley Research



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Industry Coverage: Specialty Pharmaceuticals

Company (Ticker)	Rating (as of)	Price* (05/05/2014)
Christopher Caponetti, CFA		
Endo Health Solutions Inc (ENDP.O)	O (05/02/2014)	\$67.38
Mallinckrodt Plc (MNK.N)	E (02/12/2014)	\$72.97
David Risinger		
Phibro Animal Health Corp (PAHC.O)	E (05/06/2014)	\$17.96
Actavis Inc (ACT.N)	++	\$207.9
Alkermes Plc. (ALKS.O)	E (10/01/2013)	\$47.75
Allergan Inc. (AGN.N)	E (05/01/2013)	\$169
Forest Laboratories Inc. (FRX.N)	++	\$93.49
Mylan Inc. (MYL.O)	E (10/14/2013)	\$49.89
Perrigo Co. (PRGO.N)	O (12/19/2013)	\$145.8
Teva Pharmaceutical Industries Ltd. (TEVA.N)	E (03/14/2014)	\$50.65
Valeant Pharmaceuticals International (VRX.N)	O (01/08/2014)	\$136.19
Zoetis Inc. (ZTS.N)	E (01/08/2014)	\$30.53

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* Historical prices are not split adjusted.