

Phibro Animal Health Corporation

PAHC - BUY - Vaccibody Licensing Deal Enhances PAHC's Pipeline

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FLASH NOTE

SECTOR: Specialty Pharmaceuticals

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Vaccibody deal adds another potential long-term growth driver for PAHC (BUY, \$19.21). Our primary investment thesis for PAHC shares is operating margin expansion of the base business. If successfully executed, products from the Vaccibody deal would be potential upside to our estimates for PAHC. Today after the close, PAHC and the Norwegian vaccine company, Vaccibody, signed a global exclusive license agreement that grants PAHC and its affiliates the right to develop, market and sell novel vaccines for the poultry market using the Vaccibody platform technology. Under the agreement, PAHC and its affiliates have an option to exclusively commercialize new indications for poultry vaccines. PAHC will conduct and finance the development of the poultry vaccines, and Vaccibody is entitled to certain milestone payments upon successful completion of proof of concept for each indication and royalties upon commencement of commercial sales. According to PAHC, the global poultry vaccine market is over \$1B a year.

Potential Catalysts. 1) FY15 guidance mid-September; 2) Increasing market share and geographic expansion of existing products, '14+; 3) New product approvals and launches, '14+; 4) Gross margin and operating margin expansion, 14+; 5) Debt paydown reduces interest expense, 14+; 6) Tuck-in acquisitions, '14+.

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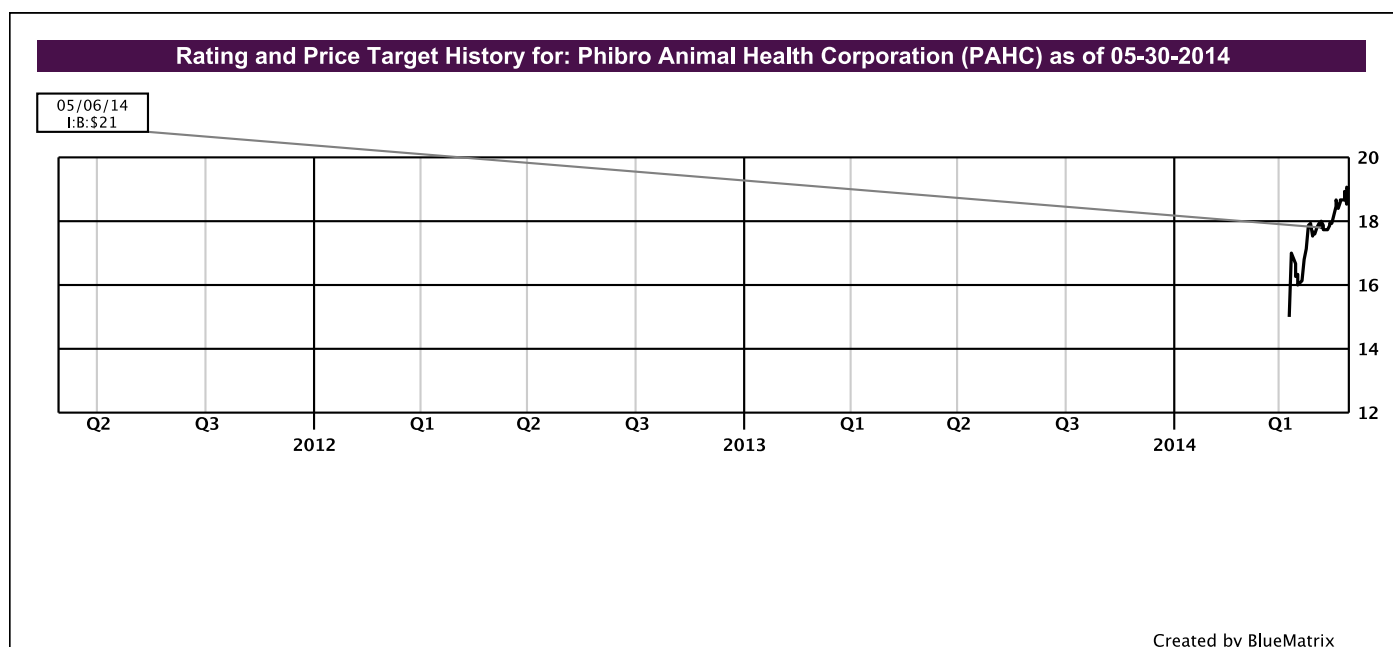
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