

February 24, 2015

# PAHC

## Boosting EPS and raising PT

|                |                     |                |
|----------------|---------------------|----------------|
| Industry View  | Stock Rating        | Price Target   |
| <b>In-Line</b> | <b>Equal-weight</b> | <b>\$35.00</b> |

PAHC has re-rated considerably since its IPO in April 2014 and is now priced in line with spec pharma. Raising PT from \$23 to \$35 (from 13x old F16E EPS of \$1.71 to 18x new F16E EPS of \$1.93). Maintain EW on in-line valuation.

| What's Changed?                  | From:   | To:     |
|----------------------------------|---------|---------|
| <b>Phibro Animal Health Corp</b> |         |         |
| Price Target                     | \$23.00 | \$35.00 |

**Boosting revenue and EPS.** We increase projections due to a turnaround in Phibro's Mineral Nutrition segment and core Animal Health momentum. For F15E (June), we raise rev by 2% from \$746M to \$759M and EPS by 9% from \$1.49 to \$1.62. For F16E, we raise rev by 3% from \$790M to \$811M and EPS by 13% from \$1.71 to \$1.93.

**Our new 18x target P/E reflects the re-rating in Phibro's multiple.** Since its IPO in April 2014, PAHC's multiple has expanded from 12x 2015E EPS to 18x 2016E EPS (vs. spec 16x 2015E to 18x 2016E). We believe this multiple expansion has been driven by greater appreciation for mgmt.'s ability to operate as a public company and growing enthusiasm for animal health industry prospects. In addition, investors have become less concerned about Phibro's concentration of revenue in animal antibiotics (MFAs).

**We raise long-term forecasts on expected greater durability of strong growth** We boost our F15-21 (6-yr CAGR) EPS from 8% to 11%, driven by 1) mgmt's strong execution since the company's IPO in April 2014, 2) Phibro's long-term global expansion potential, and 3) execution of new partnerships to enhance growth. Note Phibro announced partnerships in January with Merial SAS and with MJ Biologicals to leverage its vaccines franchise.

**A key factor in our EW rating is that PAHC's P/E on F16E is close to its P/E on F18E.** Phibro's tax rate is set to rise from 16% in F16E to 30% in F18E after NOLs are exhausted. See p. 4.

**Strategic transactions could offer upside optionality.** Phibro has strategic optionality given animal health industry consolidation. Mgmt has expressed interest in small deals and partnerships. Larger players have been acquisitive (e.g., ZTS-ABT, LLY-NVS). Separately, we believe PAHC shares would benefit if mgmt. divested Performance products, which has been a drag on growth.

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### 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>      |
| <b>Price target</b>             | <b>\$35.00</b>      |
| Shr price, close (Feb 23, 2015) | \$34.65             |
| Mkt cap, curr (mm)              | \$1,380             |
| 52-Week Range                   | \$35.18-15.10       |

| Fiscal Year Ending                     | 06/14       | 06/15e      | 06/16e      | 06/17e      |
|--|-------------|-------------|-------------|-------------|
| <b>ModelWare EPS (\$)</b>              | <b>1.23</b> | <b>1.62</b> | <b>1.93</b> | <b>2.05</b> |
| <b>Prior ModelWare EPS (\$)</b>        | <b>-</b>    | <b>1.49</b> | <b>1.71</b> | <b>1.76</b> |
| <b>P/E</b>                             | <b>17.9</b> | <b>21.4</b> | <b>18.0</b> | <b>16.9</b> |
| <b>Consensus EPS (\$)</b> <sup>§</sup> | <b>1.08</b> | <b>1.58</b> | <b>1.76</b> | <b>1.92</b> |
| Div yld (%)                            | 3.7         | 1.2         | 1.2         | 1.3         |

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework  
 § = Consensus data is provided by Thomson Reuters Estimates  
 e = Morgan Stanley Research estimates

### QUARTERLY MODELWARE EPS (\$)

| Quarter | 2014 | 2015e Prior | 2015e Current | 2016e Prior | 2016e Current |
|---------|------|-------------|---------------|-------------|---------------|
| Q1      | 0.30 | -           | 0.51a         | 0.43        | 0.45          |
| Q2      | 0.35 | -           | 0.36a         | 0.45        | 0.51          |
| Q3      | 0.36 | 0.36        | 0.36          | 0.41        | 0.47          |
| Q4      | 0.22 | 0.34        | 0.39          | 0.42        | 0.50          |

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.**

# Risk Reward

Risk-Reward View: We anticipate modest stock upside in our base case



Source: Morgans Stanley Research

## Price Target \$35

\$35 is 18x F16E EPS of \$1.93; PT supported by DCF of \$36 using WACC of 7.5% and terminal growth of 2.5% beyond F2021E.

## Bull \$42

20x F16E of \$2.12

**Financial results are above expectations, multiple expands, Phibro exits Performance Products, and Phibro participates in industry consolidation.** Emerging markets upside drives total sales growth of 10%, yielding F16 EPS 10% above forecast. Multiple expands due to divestiture of declining Performance Products business.

## Base \$35

18x F16E of \$1.93

**Phibro delivers strong Animal Health results and an ongoing Mineral Segment turnaround.** We project that Phibro's Animal Health segment will grow at a 6-yr. CAGR ('15-'21E) of 7%, driven by continued global expansion. Economies of scale expand margins 460bps from '15-'21E, driving 6-yr. EBITDA CAGR of 11%. Management executes well and returns Mineral Segment to growth.

## Bear \$26

15x F16E of \$1.74

**Sales shortfalls cause downside to financial outlook and stock multiple.** Sales growth is only 3%, causing 2016 EPS to be 10% below projection. Stock multiple contracts to 15x '16E. See additional risks to right.

## Investment Thesis

- **We are Equal Weight PAHC shares following a re-rating of the stock's multiple.** Although we project strong growth prospects, PAHC's valuation has expanded dramatically over the past several months and is now in-line with specialty pharma companies.
- **PAHC's PEG premium is warranted given high terminal growth.** Although PAHC's PEG is 1.6x vs. the group avg of 1.0x, we assign high terminal growth (2.5x) given long-term animal growth prospects and barriers to entry in Phibro's business (regulatory authorities are unlikely to approve new antibiotics as feed additives for animals given concerns about antibiotic resistance).
- **Macro trends should continue to support Phibro's Animal Health Business.** A growing global population and increasing affluence should drive steady global demand for animal protein consumption. Limited natural resources and producer productivity pressure will continue to drive the need for more animals in tighter spaces, thus increasing need for Animal Health solutions.
- **Increased product penetration and expansion in EM should drive annual Animal Health growth.** Mgmt. has identified a number of key growth areas including 1) expansion of MFAs and vaccines in key emerging markets, mainly Brazil, China, and Russia; 2) OmniGen launch and ramp in US (9MM cows, 20% penetration), Europe (15M cows), Brazil (2M cows) and China (5M cows); and 3) partnerships and M&A.

## Key Value Drivers

- Quarterly financial results relative to expectations.
- Continuing macro trends driving global demand for protein consumption
- Product launches and penetration in higher-growth EM markets
- Potential M&A.

## Risks to Achieving Price Target

- **Upside risks** to our price target include greater-than-anticipated revenue and earnings growth; faster-than-expected global animal protein consumption growth; value-enhancing M&A; divestiture of under-performing Performance Products segment.
- **Downside risks** to our price target include

disappointing financial results; regulatory/legal challenges; negative regulatory action against key MFA (antibiotic) franchise products, disease or weather disruptions to certain animal species demand; negative impact from planned FDA removal of growth promotion claims for antibiotics over the next three years; manufacturing problems.

## Valuation in perspective

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**EV/EBITDA valuation appears to reflect strong growth prospects.** Phibro now trades at an EV/EBITDA of 12x F16E (EV of \$1,495M includes market cap of \$1,228M and net debt as of Dec. 31 of \$267M), and F16E EBITDA is \$122M). The average 2016 EV/EBITDA for specialty pharmaceutical companies is 12x.

**A key factor in our EW rating is that PAHC's P/E on F16E is close to its P/E on F18E.** We project F16E EPS of \$1.93 and F18E EPS of \$2.11. PAHC closed at \$34.65, which represents 18x F16E and 16x F18E. F16-F18E EPS growth (est. 2-yr CAGR of 5%) will be constrained by an expected higher tax rate, because we expect Phibro to run out of NOLs (net operating loss carryforwards) by 2018, causing the company's tax rate to rise from 16% in F16E to 30% in F18E. This mutes our F16-F18E EBITDA growth (2-yr CAGR) of 11% on the bottom line.

## DCF

**Exhibit 1:** Discounted Cash Flow | Our DCF is supportive of, but not necessarily equal to, our \$35 PT, which is based upon P/E

| (\$M)                          |       | F2013A                 | F2014A | F2015E | F2016E | F2017E | F2018E | F2019E | F2020E | F2021E |
|--------------------------------|-------|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| GAAP Net Income                |       |                        |        | 64     | 68     | 72     | 84     | 94     | 105    | 118    |
| +After-tax interest expense    |       |                        |        | 11     | 11     | 10     | 9      | 8      | 7      | 6      |
| +Depreciation and amortization |       |                        |        | 22     | 23     | 24     | 23     | 23     | 23     | 23     |
| -Capital expenditure           |       |                        |        | (26)   | (23)   | (23)   | (24)   | (24)   | (26)   | (27)   |
| Change in working capital      |       |                        |        | (18)   | (15)   | (24)   | (19)   | (24)   | (12)   | (21)   |
| FCF                            |       |                        |        | 54     | 64     | 58     | 72     | 76     | 97     | 99     |
| WACC                           | 7.5%  | Equity value per share |        |        |        |        |        |        |        |        |
| Perpetuity                     | 2.5%  | Perpetuity             |        |        |        |        |        |        |        |        |
|                                |       |                        |        | 1.0%   | 1.5%   | 2.0%   | 2.5%   | 3.0%   | 3.5%   | 4.0%   |
| CF value                       | 357   | 5.5%                   | \$44   | \$49   | \$56   | \$65   | \$78   | \$97   | \$129  |        |
| TV                             | 1,317 | 6.0%                   | \$39   | \$43   | \$48   | \$55   | \$64   | \$76   | \$95   |        |
| Firm Value                     | 1,674 | 6.5%                   | \$34   | \$38   | \$42   | \$47   | \$53   | \$62   | \$74   |        |
| TV as % of firm value          | 79%   | 7.0%                   | \$31   | \$34   | \$37   | \$41   | \$46   | \$52   | \$61   |        |
| Debt                           | 264   | WACC 7.5%              | \$28   | \$30   | \$33   | \$36   | \$40   | \$45   | \$51   |        |
| Cash                           | 12    | 8.0%                   | \$25   | \$27   | \$29   | \$32   | \$35   | \$39   | \$43   |        |
| Equity Value                   | 1,422 | 8.5%                   | \$23   | \$25   | \$26   | \$29   | \$31   | \$34   | \$38   |        |
| Shares                         | 40    | 9.0%                   | \$21   | \$22   | \$24   | \$26   | \$28   | \$30   | \$33   |        |
| CF value/share                 | \$9   | 9.5%                   | \$19   | \$20   | \$22   | \$23   | \$25   | \$27   | \$29   |        |
| TV/share                       | \$33  |                        |        |        |        |        |        |        |        |        |
| Net cash/share                 | (\$6) |                        |        |        |        |        |        |        |        |        |
| Price/share                    | \$36  |                        |        |        |        |        |        |        |        |        |

Source: Morgan Stanley Research

## Spec Comps

Exhibit 2: Spec Comp Sheet

| Ticker                | Company Name              | Price<br>as of<br>2/23/15 | 2014<br>Perf. | Mkt.<br>Cap.<br>B | Net<br>Debt<br>B | EV<br>B | 2015E      |               |          |       | 2016E      |               |          |       | LT EPS<br>Growth* |
|-----------------------|---------------------------|---------------------------|---------------|-------------------|------------------|---------|------------|---------------|----------|-------|------------|---------------|----------|-------|-------------------|
|                       |                           |                           |               |                   |                  |         | EV/<br>REV | EV/<br>EBITDA | EPS      | P/E   | EV/<br>REV | EV/<br>EBITDA | EPS      | P/E   |                   |
|                       |                           |                           |               |                   |                  |         |            |               |          |       |            |               |          |       |                   |
| U.S. Specialty Pharma |                           |                           |               |                   |                  |         |            |               |          |       |            |               |          |       |                   |
|                       | ACRX Acelrx               | \$8                       | -28%          | \$0               | (\$0.1)          | \$0.3   | NM         | NM            | (\$1.04) | NM    | 6.7x       | NM            | (\$0.72) | NM    | N/A               |
|                       | ACT Actavis               | \$292                     | 76%           | \$77              | \$15.2           | \$92.5  | 6.0x       | 14.6x         | \$17.31  | 16.9x | 5.7x       | 13.7x         | \$20.76  | 14.1x | 11%               |
|                       | AERI Aerie                | \$29                      | 54%           | \$1               | (\$0.0)          | \$0.7   | NM         | NM            | (\$1.88) | NM    | NM         | NM            | (\$1.89) | NM    | N/A               |
|                       | ALKS Alkermes             | \$74                      | 80%           | \$11              | (\$0.2)          | \$10.6  | 15.6x      | NM            | \$0.08   | NM    | 13.3x      | NM            | \$0.35   | NM    | 92%               |
|                       | AGN Allergan              | \$231                     | 111%          | \$70              | (\$2.0)          | \$68.1  | 8.7x       | 18.0x         | \$8.80   | 26.2x | 7.9x       | NM            | \$10.87  | 21.2x | 16%               |
|                       | ANTS Antares              | \$3                       | -42%          | \$0               | (\$0.0)          | \$0.3   | 4.5x       | NM            | (\$0.01) | NM    | 2.8x       | NM            | \$0.17   | 15.7x | 79%               |
|                       | AKRX Akorn                | \$48                      | 95%           | \$5               | \$1.0            | \$6.1   | 6.7x       | 15.0x         | \$1.82   | 26.4x | 5.9x       | 13.7x         | \$2.14   | 22.4x | 35%               |
|                       | PETX Aratana              | \$17                      | -11%          | \$1               | (\$0.1)          | \$0.4   | NM         | NM            | (\$1.61) | NM    | NM         | NM            | (\$1.10) | NM    | 15%               |
|                       | BDSI Biodelivery Sciences | \$15                      | 145%          | \$1               | (\$0.1)          | \$0.7   | 7.4x       | NM            | (\$0.25) | NM    | 5.3x       | NM            | \$0.30   | NM    | 25%               |
|                       | COO Cooper                | \$165                     | 34%           | \$8               | \$1.4            | \$9.5   | 4.5x       | 15.6x         | \$8.76   | 18.8x | 4.2x       | 14.4x         | \$10.00  | 16.5x | 13%               |
|                       | DEPO Depomed              | \$21                      | 89%           | \$1               | (\$0.3)          | \$0.9   | 3.6x       | 18.1x         | \$0.39   | NM    | 2.3x       | 9.5x          | \$0.91   | 22.6x | 30%               |
|                       | ENDP Endo                 | \$85                      | 28%           | \$13              | \$3.4            | \$16.5  | 4.7x       | 11.2x         | \$4.88   | NM    | 4.5x       | 10.5x         | \$5.56   | 15.3x | 8%                |
|                       | HZNP Horizon              | \$19                      | 143%          | \$2               | \$0.2            | \$1.8   | 3.8x       | 9.6x          | \$1.09   | 17.1x | 3.2x       | 7.1x          | \$1.36   | 13.6x | 18%               |
|                       | INSY Insys                | \$55                      | 103%          | \$2               | (\$0.1)          | \$1.9   | 6.7x       | 17.6x         | \$1.88   | 29.2x | 5.2x       | 13.1x         | \$2.78   | 19.7x | 28%               |
|                       | IPXL Impax                | \$41                      | 61%           | \$3               | (\$0.4)          | \$2.5   | 3.2x       | 11.0x         | \$1.67   | 24.6x | 2.8x       | 9.4x          | \$2.10   | 19.5x | 18%               |
|                       | JAZZ Jazz                 | \$173                     | 36%           | \$11              | \$0.6            | \$11.5  | 8.2x       | 13.6x         | \$10.11  | 17.1x | 7.0x       | 11.2x         | \$12.39  | 14.0x | 24%               |
|                       | KYTH Kythera              | \$42                      | 16%           | \$1               | (\$0.1)          | \$0.8   | NM         | NM            | (\$3.81) | NM    | 8.3x       | NM            | (\$1.50) | NM    | 15%               |
|                       | LCI Lannett               | \$64                      | 91%           | \$2               | (\$0.2)          | \$2.2   | 5.4x       | 9.3x          | \$4.11   | 15.7x | 5.2x       | 9.4x          | \$3.76   | 17.2x | 18%               |
|                       | MNK Mallinckrodt          | \$120                     | 125%          | \$14              | \$3.1            | \$17.0  | 4.7x       | 12.8x         | \$7.18   | 16.7x | 4.4x       | 12.4x         | \$7.60   | 15.8x | 11%               |
|                       | MNTA Momenta              | \$14                      | -26%          | \$1               | (\$0.2)          | \$0.5   | 4.6x       | 137.1x        | (\$0.59) | NM    | 3.3x       | 6.5x          | \$0.35   | NM    | N/A               |
|                       | PAHC Phibro               | \$35                      | 110%          | \$1               | \$0.3            | \$1.6   | 2.2x       | 15.3x         | \$1.62   | 21.4x | 2.0x       | 13.3x         | \$1.93   | 18.0x | 10%               |
|                       | PRGO Perrigo              | \$152                     | -1%           | \$21              | \$1.2            | \$22.0  | 4.6x       | 9.5x          | \$7.44   | 20.4x | 3.5x       | 9.0x          | \$8.52   | 17.9x | 11%               |
|                       | SGNT Sagent               | \$28                      | 12%           | \$1               | (\$0.2)          | \$0.8   | 2.3x       | NM            | \$0.26   | NM    | 2.0x       | 12.7x         | \$0.84   | 32.7x | 70%               |
|                       | SLXP Salix                | \$156                     | 76%           | \$10              | \$2.4            | \$12.3  | 9.3x       | 27.6x         | \$3.78   | 41.2x | 6.3x       | 13.3x         | \$8.53   | 18.3x | 19%               |
|                       | TEVA Teva                 | \$57                      | 41%           | \$49              | \$9.0            | \$57.7  | 2.9x       | 9.2x          | \$5.24   | 10.8x | 2.9x       | 9.2x          | \$5.34   | 10.6x | 2%                |
|                       | TXMD Therapeuticsmd       | \$5                       | -2%           | \$1               | (\$0.1)          | \$0.7   | NM         | NM            | (\$0.32) | NM    | NM         | NM            | (\$0.35) | NM    | N/A               |
|                       | VRX Valeant               | \$199                     | 48%           | \$68              | \$17.3           | \$85.16 | 9.3x       | 18.1x         | \$10.27  | 19.4x | 8.4x       | 16.0x         | \$12.13  | 16.4x | 11%               |
|                       | ZTS Zoetis                | \$46                      | 39%           | \$23              | \$3.1            | \$26.0  | 5.3x       | 18.1x         | \$1.68   | 27.2x | 5.0x       | 15.9x         | \$1.98   | 23.0x | 15%               |
|                       | ZGNX Zogenix              | \$2                       | -55%          | \$0               | (\$0.1)          | \$0.2   | 2.8x       | NM            | (\$0.43) | NM    | 2.0x       | NM            | (\$0.31) | NM    | 25%               |
| Median                |                           |                           | 48%           |                   |                  |         | 4.7x       | 15.0x         |          | 19.9x | 4.8x       | 12.4x         |          | 17.5x | 18%               |

Underlined companies are covered by MS. For ALKS, ENDP, MYL, MNK, PRGO, HSP, MYL, SGNT, TEVA and ZTS all metrics except Shares Outstanding, Market cap, Net Debt, Dividend per Share, Dividend Yield and P LT EPS growth for MS covered companies is 2014E-2018E EPS CAGR. PRGO estimates are FY15 and FY16 for 2014E and 2015E.

\*Thomson Reuters Consensus LT EPS growth: The growth rate reflects a 3-5 year horizon calculated from broker data over the previous 100 days. It is expressed as an annual percentage and is not associated with a give Please note that all important disclosures including personal holdings disclosures and Morgan Stanley disclosures appear on the Morgan Stanley public website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures).

Source: Thomson Reuters, Morgan Stanley Research

## Financials

## Exhibit 3: Income Statement, Margins &amp; Valuation

| Income Statement (\$M)    | F2014    | F2015E | F2016E | F2017E | F2018E | F2019E | F2020E | F2021E |
|---------------------------|----------|--------|--------|--------|--------|--------|--------|--------|
| <i>FY ending June</i>     |          |        |        |        |        |        |        |        |
| Net sales                 | 692      | 759    | 811    | 866    | 919    | 972    | 1,023  | 1,071  |
| COGS                      | 480      | 525    | 556    | 589    | 620    | 651    | 680    | 707    |
| Gross Profit              | 212      | 234    | 256    | 277    | 299    | 321    | 343    | 364    |
| SG&A/R&D                  | 137      | 144    | 151    | 159    | 167    | 175    | 182    | 188    |
| EBITA                     | 74       | 90     | 104    | 118    | 132    | 146    | 160    | 176    |
| EBITDA                    | 91       | 107    | 122    | 137    | 151    | 165    | 179    | 195    |
| Other expenses (income)   | 13       | 13     | 13     | 13     | 12     | 11     | 10     | 8      |
| Pre-tax Income            | 61       | 77     | 91     | 106    | 120    | 134    | 150    | 168    |
| Taxes                     | 12       | 12     | 15     | 24     | 36     | 40     | 45     | 50     |
| Tax rate                  | 20.2%    | 16.1%  | 16.0%  | 23.0%  | 30.0%  | 30.0%  | 30.0%  | 30.0%  |
| Net Income                | 48       | 64     | 77     | 81     | 84     | 94     | 105    | 118    |
| EPS                       | \$1.23   | \$1.62 | \$1.93 | \$2.05 | \$2.11 | \$2.36 | \$2.65 | \$2.97 |
| Dil. Sh. Outstd.          | 39       | 40     | 40     | 40     | 40     | 40     | 40     | 40     |
| % Growth YOY              | F2014    | F2015E | F2016E | F2017E | F2018E | F2019E | F2020E | F2021E |
| Net Sales                 | 6%       | 10%    | 7%     | 7%     | 6%     | 6%     | 5%     | 5%     |
| COGS                      | 2%       | 9%     | 6%     | 6%     | 5%     | 5%     | 4%     | 4%     |
| Gross Profit              | 16%      | 11%    | 9%     | 9%     | 8%     | 7%     | 7%     | 6%     |
| SG&A/R&D                  | 13%      | 5%     | 5%     | 5%     | 5%     | 5%     | 4%     | 3%     |
| EBITA                     | 21%      | 22%    | 16%    | 14%    | 11%    | 10%    | 10%    | 10%    |
| EBITDA                    | 21%      | 17%    | 14%    | 12%    | 10%    | 9%     | 9%     | 9%     |
| Net Income                | 164%     | 33%    | 19%    | 6%     | 3%     | 12%    | 12%    | 12%    |
| Diluted EPS               | 109%     | 32%    | 19%    | 6%     | 3%     | 12%    | 12%    | 12%    |
| Margin Analysis           | F2014    | F2015E | F2016E | F2017E | F2018E | F2019E | F2020E | F2021E |
| Gross margin              | 30.6%    | 30.9%  | 31.5%  | 32.0%  | 32.5%  | 33.0%  | 33.5%  | 34.0%  |
| SG&A/R&D as % of Sales    | 19.9%    | 19.0%  | 18.7%  | 18.3%  | 18.2%  | 18.0%  | 17.8%  | 17.5%  |
| EBITA margin              | 10.7%    | 11.9%  | 12.8%  | 13.7%  | 14.3%  | 15.0%  | 15.7%  | 16.5%  |
| EBITDA margin             | 13.2%    | 14.1%  | 15.1%  | 15.9%  | 16.4%  | 16.9%  | 17.5%  | 18.2%  |
| Net Margin                | 7.0%     | 8.5%   | 9.4%   | 9.4%   | 9.1%   | 9.7%   | 10.3%  | 11.0%  |
| Gross Margin (bps change) | 254      | 29     | 63     | 50     | 50     | 50     | 50     | 50     |
| Op. Margin (bps change)   | 137      | 116    | 96     | 82     | 69     | 63     | 71     | 79     |
| Valuation                 | F2014    | F2015E | F2016E | F2017E | F2018E | F2019E | F2020E | F2021E |
| Price/Earnings            | 17.9x    | 21.3x  | 17.9x  | 16.8x  | 16.4x  | 14.6x  | 13.0x  | 11.6x  |
| EV/EBITDA                 | 12.5x    | 15.1x  | 12.9x  | 11.3x  | 10.0x  | 8.8x   | 7.7x   | 6.7x   |
| EV/Sales                  | 1.7x     | 2.1x   | 2.0x   | 1.8x   | 1.6x   | 1.5x   | 1.4x   | 1.2x   |
| Dividend / Share          | \$0.82   | \$0.40 | \$0.42 | \$0.44 | \$0.46 | \$0.49 | \$0.51 | \$0.54 |
| Dividend Yield            | 3.7%     | 1.2%   | 1.2%   | 1.3%   | 1.3%   | 1.4%   | 1.5%   | 1.6%   |
| FCF / Share               | (\$0.25) | \$1.35 | \$1.60 | \$1.47 | \$1.82 | \$1.92 | \$2.45 | \$2.50 |
| FCF Yield                 | -1.1%    | 3.9%   | 4.6%   | 4.3%   | 5.3%   | 5.6%   | 7.1%   | 7.2%   |

Source: Morgan Stanley Research, Company Data

**Exhibit 4: Balance Sheet & Cash Flow**

| Balance Sheet (\$M)                                  | F2014       | F2015E      | F2016E      | F2017E      | F2018E      | F2019E      | F2020E      | F2021E      |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <i>FY ending June</i>                                |             |             |             |             |             |             |             |             |
| Cash and short-term investments                      | 12          | 12          | 18          | 19          | 35          | 54          | 89          | 126         |
| A/R  | 114         | 122         | 138         | 146         | 160         | 169         | 178         | 192         |
| Inventory  | 143         | 166         | 157         | 185         | 178         | 209         | 204         | 225         |
| Other current assets                                 | 30          | 30          | 30          | 30          | 30          | 30          | 30          | 30          |
| PP&E   | 109         | 118         | 121         | 125         | 129         | 133         | 138         | 145         |
| Other assets   | 64          | 59          | 55          | 52          | 49          | 46          | 43          | 40          |
| <b>TOTAL ASSETS</b>                                  | <b>472</b>  | <b>506</b>  | <b>520</b>  | <b>557</b>  | <b>581</b>  | <b>641</b>  | <b>682</b>  | <b>758</b>  |
| Total debt   | 289         | 264         | 234         | 204         | 174         | 144         | 109         | 74          |
| A/P and Accrued liabilities                          | 60          | 72          | 64          | 76          | 65          | 80          | 71          | 86          |
| Other current liabilities                            | 50          | 50          | 50          | 50          | 50          | 50          | 50          | 50          |
| Other non-current liabilities                        | 58          | 58          | 58          | 58          | 58          | 58          | 58          | 58          |
| <b>TOTAL LIABILITIES</b>                             | <b>457</b>  | <b>443</b>  | <b>406</b>  | <b>388</b>  | <b>347</b>  | <b>332</b>  | <b>288</b>  | <b>268</b>  |
| S/E  | 15          | 63          | 114         | 169         | 234         | 309         | 394         | 490         |
| Total Liabilities and S/E                            | 472         | 506         | 520         | 557         | 581         | 641         | 682         | 758         |
| Cash Flow Statement (\$M)                            | F2014       | F2015E      | F2016E      | F2017E      | F2018E      | F2019E      | F2020E      | F2021E      |
| Net income   | (3)         | 64          | 68          | 72          | 84          | 94          | 105         | 118         |
| Depreciation   | 17          | 17          | 19          | 20          | 20          | 20          | 20          | 20          |
| Change in working capital                            | (28)        | (18)        | (15)        | (24)        | (19)        | (24)        | (12)        | (21)        |
| Other operating activities                           | 13          | 5           | 4           | 4           | 3           | 3           | 3           | 3           |
| <b>CASH FROM OPERATIONS</b>                          | <b>(1)</b>  | <b>68</b>   | <b>75</b>   | <b>72</b>   | <b>88</b>   | <b>93</b>   | <b>116</b>  | <b>120</b>  |
| Capex  | (20)        | (26)        | (23)        | (23)        | (24)        | (24)        | (26)        | (27)        |
| Other investing activities (incl. M&A)               | 0           | -           | -           | -           | -           | -           | -           | -           |
| <b>CASH FROM INVESTING</b>                           | <b>(19)</b> | <b>(26)</b> | <b>(23)</b> | <b>(23)</b> | <b>(24)</b> | <b>(24)</b> | <b>(26)</b> | <b>(27)</b> |
| Cash dividends paid                                  | (25)        | (16)        | (17)        | (18)        | (18)        | (19)        | (20)        | (21)        |
| Net change in debt                                   | (80)        | (26)        | (30)        | (30)        | (30)        | (30)        | (35)        | (35)        |
| Other financing activities (incl. Share Repurchases) | 110         | -           | -           | -           | -           | -           | -           | -           |
| <b>CASH FROM FINANCING</b>                           | <b>5</b>    | <b>(42)</b> | <b>(47)</b> | <b>(48)</b> | <b>(48)</b> | <b>(49)</b> | <b>(55)</b> | <b>(56)</b> |
| Exchange rate effect                                 | (0)         | -           | -           | -           | -           | -           | -           | -           |
| <b>Net change in cash</b>                            | <b>(16)</b> | <b>0</b>    | <b>6</b>    | <b>1</b>    | <b>15</b>   | <b>19</b>   | <b>35</b>   | <b>37</b>   |
| Other Metrics  | F2014       | F2015E      | F2016E      | F2017E      | F2018E      | F2019E      | F2020E      | F2021E      |
| <b>LEVERAGE:</b>                                     |             |             |             |             |             |             |             |             |
| Net Debt   | 278         | 252         | 216         | 185         | 139         | 90          | 20          | (52)        |
| Debt / EBITDA  | 3.2x        | 2.5x        | 1.9x        | 1.5x        | 1.2x        | 0.9x        | 0.6x        | 0.4x        |
| Net Debt / EBITDA                                    | 3.0x        | 2.3x        | 1.8x        | 1.3x        | 0.9x        | 0.5x        | 0.1x        | NM          |
| <b>PROFITABILITY:</b>                                |             |             |             |             |             |             |             |             |
| ROE  | NM          | 164.6%      | 86.6%       | 57.6%       | 41.5%       | 34.6%       | 30.0%       | 26.7%       |
| RNOA   | 17.2%       | 19.4%       | 21.1%       | 22.6%       | 23.7%       | 24.6%       | 25.8%       | 27.1%       |
| <b>LIQUIDITY:</b>                                    |             |             |             |             |             |             |             |             |
| Current Ratio  | 2.7         | 2.2         | 2.4         | 2.4         | 2.8         | 2.8         | 3.2         | 3.4         |
| Quick Ratio  | 1.4         | 1.1         | 1.3         | 1.3         | 1.6         | 1.5         | 1.9         | 2.0         |
| <b>OPERATIONAL EFFICIENCY:</b>                       |             |             |             |             |             |             |             |             |
| Days Receivable                                      | 56          | 57          | 58          | 60          | 61          | 62          | 62          | 63          |
| Days Payable   | 45          | 46          | 45          | 43          | 41          | 41          | 41          | 41          |
| Days Inventory                                       | 108         | 107         | 106         | 106         | 107         | 108         | 111         | 111         |

Source: Morgan Stanley Research, Company Data



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Phibro Animal Health Corp (PAHC.O) - As of 2/22/15 in USD  
Industry : Specialty Pharmaceuticals



Stock Rating History: 2/1/12 : NA/I; 5/6/14 : E/I; 2/13/15 : E/I

Price Target History: 5/6/14 : 19; 9/24/14 : 23; 2/13/15 : 23

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)

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)

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## INDUSTRY COVERAGE: Specialty Pharmaceuticals

| COMPANY (TICKER)                             | RATING (AS OF)  | PRICE* (02/23/2015) |
|--|-----------------|---------------------|
| <b>Risinger, David</b>                       |                 |                     |
| Actavis Inc (ACT.N)                          | O (11/21/2014)  | \$292.45            |
| Alkermes Plc. (ALKS.O)                       | E (10/01/2013)  | \$73.64             |
| Allergan Inc. (AGN.N)                        | NA (06/16/2014) | \$230.81            |
| Endo Health Solutions Inc (ENDP.O)           | NA (01/04/2015) | \$84.94             |
| Mallinckrodt Plc (MNK.N)                     | E (02/12/2014)  | \$120.18            |
| Mylan Inc. (MYL.O)                           | NA (01/04/2015) | \$57.65             |
| Perrigo Co. (PRGO.N)                         | O (11/07/2014)  | \$152.05            |
| Phibro Animal Health Corp (PAHC.O)           | E (02/13/2015)  | \$34.65             |
| Teva Pharmaceutical Industries Ltd. (TEVA.N) | E (03/14/2014)  | \$56.55             |
| Valeant Pharmaceuticals International (VRXN) | O (01/06/2015)  | \$198.75            |
| Zoetis Inc. (ZTS.N)                          | E (11/12/2014)  | \$45.58             |

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

\* Historical prices are not split adjusted.

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