

Phibro Animal Health Corp.

F1Q First Impressions

Yesterday after the market close, PAHC reported 1Q15 EPS of \$0.51 versus Barclays and consensus estimate of \$0.35. Net sales for the quarter were \$187.5 million, above Barclays estimate of \$180 million and consensus \$175 million. Adjusted EBITDA was also higher than expected at \$30.5 million versus Barclays estimate of \$25 million. The top- and bottom-line beat was driven primarily by \$6 million in revenue and gross profit from an existing licensing agreement for Phibro's proprietary vaccine delivery technology with a global animal health company. The company had indicated \$4 million in their FY15 guidance provided with 4Q14 results in September.

Updated FY15 guidance provided with today's release indicates an additional \$4 million in revenue and increased guidance for sales, adjusted EBITDA and EPS. This additional \$4 million milestone was originally expected to occur in 2016, but was pulled forward into 2015. FY15 net sales guidance was increased to a range of \$739–759 million from \$735–\$755 million in September. Adjusted EBITDA was increased to \$103–107 million from \$99–103 million, and Adjusted Diluted EPS was increased to \$1.57–1.62 from \$1.46–1.51.

Excluding the licensing revenue impact, top-line performance in the Animal Health segment was mixed, with the vaccines business growing to \$11M and underperforming our estimate of \$13M for the quarter. Performance in MFAs and Other was also below our estimate of \$86M at approximately \$81M, partially offset by Nutritional Specialties which had a strong quarter at \$19.5M versus our estimate of \$17.4M, primarily driven by US volume growth for dairy products and introduction in select European countries.

While underlying trends were mixed, we think the licensing revenue highlights the value and differentiation of Phibro's franchise. This strategic value will likely get additional attention with increased investor focus on the animal health industry in the wake of activist investor Bill Ackman's Pershing Square Capital Management disclosure that he has taken a stake in Zoetis.

PAHC: Quarterly and Annual EPS (USD)

	2014		2015		2016		Change y/y		
FY Jun	Actual	Old	New	Cons	Old	New	Cons	2015	2016
Q1	0.21A	0.35E	0.51A	N/A	0.40E	0.41E	N/A	143%	-20%
Q2	0.27A	0.36E	0.36E	N/A	0.43E	0.43E	N/A	33%	19%
Q3	0.28A	0.38E	0.38E	N/A	0.41E	0.41E	N/A	36%	8%
Q4	0.22A	0.41E	0.41E	N/A	0.45E	0.44E	N/A	86%	7%
Year	1.22A	1.49E	1.66E	N/A	1.69E	1.70E	N/A	36%	2%
P/E	22.9		16.8			16.4			

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 5.

Stock Rating	OVERWEIGHT
	Unchanged
Industry View	POSITIVE
	Unchanged
Price Target	USD 22.00
	Unchanged

Price (11-Nov-2014)	USD 27.92
Potential Upside/Downside	-21%
Tickers	PAHC

Market Cap (USD mn)	1088
Shares Outstanding (mn)	38.96
Free Float (%)	99.89
52 Wk Avg Daily Volume (mn)	0.2
Dividend Yield (%)	1.4
Return on Equity TTM (%)	N/A
Current BVPS (USD)	0.39

Source: Thomson Reuters

Price Performance	Exchange-Nasdaq
52 Week range	USD 29.89-15.10



[Link to Barclays Live for interactive charting](#)

U.S. Specialty Pharmaceuticals

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U.S. Specialty Pharmaceuticals

Industry View: POSITIVE

Phibro Animal Health Corp. (PAHC)

Stock Rating: OVERWEIGHT

Income statement (\$mn)	2014A	2015E	2016E	2017E	CAGR
Revenue	692	753	798	835	6.5%
EBITDA (adj)	97	109	113	120	7.3%
EBIT (adj)	74	87	92	99	10.0%
Pre-tax income (adj)	60	73	79	87	13.1%
Net income (adj)	48	66	67	71	13.7%
EPS (adj) (\$)	1.22	1.66	1.70	1.79	13.6%
Diluted shares (mn)	39.5	39.6	39.6	39.6	0.1%
DPS (\$)	0.46	0.39	0.39	0.39	-5.4%

Margin and return data	Average				
EBITDA (adj) margin (%)	14.0	14.4	14.2	14.3	14.3
EBIT (adj) margin (%)	10.2	10.8	11.5	N/A	10.8
Pre-tax (adj) margin (%)	8.7	9.7	9.9	10.4	9.7
Net (adj) margin (%)	N/A	N/A	N/A	N/A	N/A
ROIC (%)	15.5	17.4	14.6	14.9	15.6
ROA (%)	9.6	12.2	12.0	12.1	11.5
ROE (%)	-339.8	103.0	63.0	47.2	-31.6

Balance sheet and cash flow (\$mn)	CAGR				
Tangible fixed assets	108	106	105	104	-1.2%
Intangible fixed assets	31	31	31	31	0.0%
Cash and equivalents	57	65	76	92	17.7%
Total assets	526	552	573	596	4.3%
Short and long-term debt	0	0	0	0	0.0%
Other long-term liabilities	62	62	62	62	0.0%
Total liabilities	485	465	446	423	-4.5%
Net debt/(funds)	N/A	N/A	N/A	N/A	N/A
Shareholders' equity	41	87	127	173	62.0%
Change in working capital	N/A	N/A	N/A	N/A	N/A
Cash flow from operations	N/A	N/A	N/A	N/A	N/A
Capital expenditure	N/A	N/A	N/A	N/A	N/A
Free cash flow	N/A	N/A	N/A	N/A	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	22.9	16.8	16.4	15.6	17.9
EV/sales (x)	N/A	N/A	N/A	N/A	N/A
EV/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A
FCF yield (%)	N/A	N/A	N/A	N/A	N/A
P/BV (x)	361.4	177.5	126.1	96.4	190.3
Dividend yield (%)	1.6	1.4	1.4	1.4	1.5
Total debt/capital (%)	N/A	N/A	N/A	N/A	N/A

Selected operating metrics	Average				
SG&A/sales (%)	19.9	20.0	21.0	N/A	20.3
R&D/sales (%)	N/A	N/A	N/A	N/A	N/A
R&D growth (%)	N/A	N/A	N/A	N/A	N/A
SG&A growth (%)	N/A	N/A	N/A	N/A	N/A

Price (11-Nov-2014)	USD 27.92
Price Target	USD 22.00

Why Overweight? We see PAHC shares as a unique way to gain exposure to the strong underlying protein demand trends supporting agribusiness, and we believe that its potential for additional Animal Health market penetration with both existing and new products should support above-industry revenue growth and solid margin expansion.

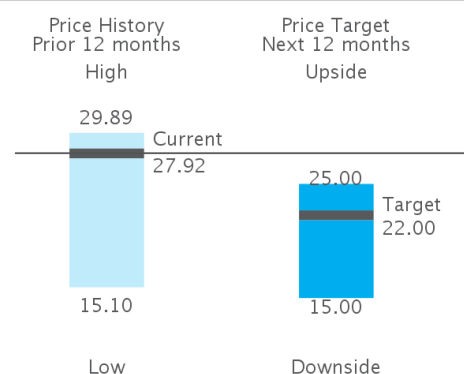
Upside case	USD 25.00
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Our upside case of \$25 assumes a slightly higher multiple applied to a est 2015 EBITDA of \$105M + a modestly higher long-term growth rate in our cash flow model. This EBITDA value results from assuming better top line growth and slight margin expansion relative to our base case.

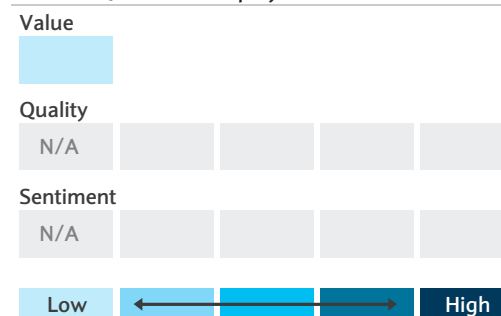
Downside case	USD 15.00
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Our downside case of \$15 assumes a slightly lower multiple applied to a est 2015 EBITDA of \$89M + a modestly lower long-term growth rate in our cash flow model. This EBITDA value results from assuming slower top line growth and slight margin compression relative to our base case.

Upside/Downside scenarios



POINT® Quantitative Equity Scores



Source: POINT®. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, please go to the equity company page on Barclays Live.

Key Takeaways

Yesterday after the market close, PAHC reported 1Q15 EPS of \$0.51 versus Barclays and consensus estimate of \$0.35. Net sales for the quarter were \$187.5 million, above Barclays estimate of \$180 million and consensus \$175 million. Adjusted EBITDA was also higher than expected at \$30.5 million versus Barclays estimate of \$25 million.

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FIGURE 1
PAHC FY15 guidance trend

	Guidance Issued 11/11/14	Guidance Issued 9/16/14
Net Sales	\$739 - \$759	\$735 - \$755 million
Adjusted EBITDA	\$103 - \$107	\$99 - \$103 million
Adjusted Diluted EPS	\$1.57 - \$1.62	\$1.46 - \$1.51
Interest Expense		~\$14 million
Cash Income Taxes		\$10 - \$12 million
Adjusted diluted shares		39.6 million
	Additional \$4 million of licensing revenue and profit for vaccine delivery technology	\$4 million revenue related to licensing of vaccine technology

Source: Company data, Barclays Research

Gross profit for the quarter was \$60.3 million, above our estimate of \$58 million. The improvement was driven by margin performance in the Animal Health business which increased \$3.7 million excluding the effect of the licensing revenue. SG&A for the quarter was better than our expectations at \$34.2 million versus Barclays estimate of \$38.6 million.

Excluding the licensing revenue impact, top-line performance in the Animal Health segment was mixed, with the vaccines business growing \$1.9 million to \$11 million and underperforming our estimate of \$13 million for the quarter. Performance in MFAs and Other was also below our estimate of \$86 million at approximately \$81 million, partially offset by Nutritional Specialties which had a strong quarter at \$19.5 million versus our estimate of \$17.4 million, primarily driven by US volume growth for dairy products and introduction in select European countries.

In the Mineral Nutrition segment, net sales of \$55.4 million and EBITDA of \$3.5 million outperformed our estimate of \$49.5 million and \$ 3.0 million respectively, driven by current market conditions and customer demand for trace mineral products. The performance products division underperformed with net sales of \$14.8 million and EBITDA of \$1.0 million versus our estimate of \$15.6 million and \$1.2 million respectively, driven by lower average selling prices partially offset by higher volumes for some products.

Phibro will host a conference call and webcast at 9:00am EDT on Wednesday, November 12, 2014 to review this quarter's results.

Conference call details: Today at 9am ET; +1 (877) 853-5634 (US); +1 (315) 625-6893 (International); Conference ID: 13267229; webcast: <http://investors.pahc.com>

FIGURE 2

Phibro 1Q15 Performance

Phibro: 1QFY15 Results; 2014 Estimates, Guidance								
(\$ millions except EPS)	1QFY15						FY15 Estimates	
	Actual	Barclays est	Variance	Cons est	Y/Y	Q/Q	Barclays	Cons
Revenues	\$188	\$180	4%	\$175	15.7%	2.1%	\$746	\$742
Animal Health:								
Total Net Sales	\$117	\$116	1.0%		15.8%	2.7%	\$471	
MFAs and Other	\$81	\$86	-5.8%		3.6%	-7.3%	\$344	
Nutritional Specialties	\$20	\$17	12.1%		38.3%	19.6%	\$75	
Vaccines	\$17	\$13	30.0%		85.7%	59.4%	\$53	
Adjusted EBITDA	\$33	\$28	16.9%		34.9%	24.5%	\$113	
Mineral Nutrition:								
Net Sales	\$55	\$49	14.2%		19.9%	0.9%	\$213	
Adjusted EBITDA	\$4	\$3	16.7%		40.0%	0.0%	\$13	
Performance Products:								
Net Sales	\$15	\$16	-5.1%		-0.7%	0.7%	\$61	
Adjusted EBITDA	\$1	\$1	-16.7%		-9.1%	-33.3%	\$5	
Gross Margin	\$60	\$58	3.8%		21.8%	11.0%	\$236	
Gross Margin %	32%	32%					32%	
Total Adjusted EBITDA	\$31	\$25	23.5%		41.2%	26.0%	\$102	
Adjusted EBITDA %	16%	14%					14%	
Adjusted Net Income	\$20	\$14	47.4%		210.8%	129.5%	\$59	
EPS (adj)	\$0.51	\$0.35	47%	\$0.35	141.5%	129.5%	\$1.49	\$1.49
Avg Shares Outstanding	40	40	0%		28.7%	0.0%	40	

Source: Barclays Research estimates, Company reports.

Source: Company data, Barclays Research

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Primary Stocks (Ticker, Date, Price)

Phibro Animal Health Corp. (PAHC, 11-Nov-2014, USD 27.92), Overweight/Positive, A/C/D/I/L

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U.S. Specialty Pharmaceuticals

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ICON plc (ICLR)	Jazz Pharmaceuticals PLC (JAZZ)	Mallinckrodt (MNK)
Mylan Inc. (MYL)	Pacira Pharmaceuticals Inc. (PCRX)	PAREXEL International (PRXL)
Phibro Animal Health Corp. (PAHC)	Quintiles Transnational (Q)	Teva Pharmaceutical Industries (TEVA)
Zoetis Inc. (ZTS)		

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A high/low Quality score indicates financial statement strength/weakness. Measures of quality include ROIC and corporate default probability.

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Phibro Animal Health Corp. (PAHC)

USD 27.92 (11-Nov-2014)

Stock Rating

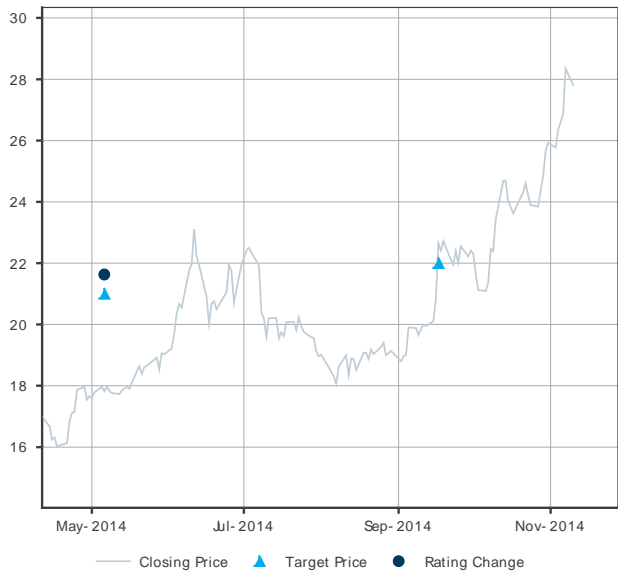
OVERWEIGHT

Industry View

POSITIVE

Rating and Price Target Chart - USD (as of 11-Nov-2014)

Currency=USD



Source: IDC, Barclays Research

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Valuation Methodology: Our \$22 price target is based on 13x our FY15 EPS estimate of \$1.66.

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