

## Phibro Animal Health (PAHC, BUY, \$17.96)

**Expect Global Trends and Operating Margin Expansion to Drive Upside;  
Initiating Coverage with \$21 Price Target**

May 6, 2014

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**Please join us at our Animal Health Corporate Access Day on June 23 in New York City. A detailed schedule is available upon request.**

**Phibro is a leading Animal Health company focused on livestock**

2013A Sales \$653MM and EBITDA \$76MM; 3 main segments:

- **Animal Health:** \$385MM, 59% of sales, EBITDA margin 22%
- **Mineral Nutrition:** \$203MM, 31% of sales, EBITDA margin 6%
- **Performance Products:** \$65MM, 10% of sales, EBITDA margin 5%

**Our investment thesis is fourfold:**

- #1. Global trends over next several decades support need for products
- #2. Leading positions in high growth subsectors of Animal Health
- #3. The Animal Health industry has better dynamics than Human Health
- #4. Margin expansion will drive EPS growth

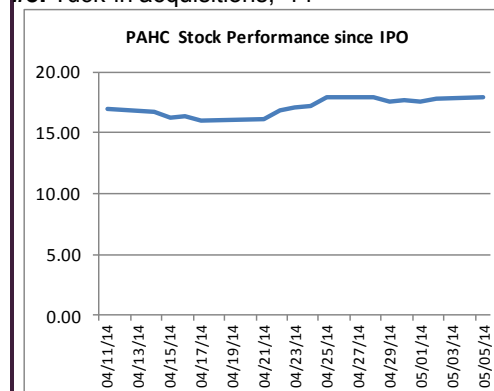
**Recent IPO raised \$125MM in primary shares on 04/10/14**

IPO proceeds used to do the following:

- Repayment of debt
- Capital return to shareholders
- Tuck-in acquisitions that will support its Animal Health business

**Next Potential Stock-Moving Catalysts**

- #1. Increasing market share and geographic expansion of existing products, '14+
- #2. New product approvals and launches, '14+
- #3. Gross margin and operating margin expansion, 14+
- #4. Debt paydown reduces interest expense, 14+
- #5. Tuck-in acquisitions, '14+



Source: Thomson

# Investment Thesis

# Phibro Animal Health (PAHC): Initiating with BUY Rating and \$21 Price Target

## Our Investment Thesis

- 1) Global trends over the next several decades support the need for Phibro's products: population growth, climate change. Please see our note [Deep Dive into Cattle Opportunity Suggests Growing Need for Drugs to Increase Productivity and Profitability](#) for details.
- 2) Leader in high growth sectors of Animal Health (MFAs, vaccines, nutritionals, Emerging Markets, poultry & swine).
- 3) The Animal Health industry has better dynamics than Human Health, lower R&D, faster regulatory reviews, & cash pay.
- 4) Margin expansion will drive EPS growth; we estimate 483bps of operating margin expansion between F'13E to F19A driven by product mix shift & operating leverage.

## Performance Drivers and Potential Stock Catalysts

- 1) Increasing market share and geographic expansion of existing products, '14+
- 2) New product approvals & launches, '14+
- 3) Gross margin & operating margin expansion, '14+
- 4) Debt paydown reduces interest expense, '14+
- 5) Tuck-in acquisitions, '14+

## Common Pushbacks and Our Views

- 1) Although the Mineral Nutrition and Performance Products businesses have lower margins than Animal Health, we still like Phibro because there are synergies between the Animal Health and Mineral Nutrition businesses. Also, we think Phibro will divest the Performance Products division (non-core asset) and reinvest the proceeds into strategic assets.
- 2) In our view, concerns about the impact of FDA restrictions on antibacterials are overdone. Only 4%-5% of Phibro's F'13 Animal Health sales would have been at risk if the FDA had restricted the use of Phibro's antibacterials.
- 3) Phibro's gross margin and operating margins are roughly half of ZTS's. This is because Phibro's Mineral Nutrition and Performance divisions have lower margins. Phibro's Animal Health business has comparable margins to that of ZTS, but ZTS's also has a Companion Animal business. In general, these types of drugs have higher margins than livestock products.

# Valuation

## Phibro Animal Health (PAHC): Valuation and Risks to Our Price Target

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### **We use a DCF analysis to get to our 12-month price target of \$21.**

- We use a WACC of 12.1% and an exit multiple of 8.5x forward EBIT to arrive at our price target.
- This compares favorably to other Animal Health companies, which trade on average at a forward EV/EBIT of 16.2x.
- This compares favorably to other Animal Health companies that have been acquired at a historical EV/EBITDA of 11.3x, which means the EV/EBIT would likely be even higher.

**Risks to our valuation include:** 1) regulatory restrictions on the use of antibacterials in food-producing animals; 2) increased competition from larger and better capitalized companies in the industry; 3) adverse weather conditions and the availability of natural resources; 4) lack of new product launches and/or existing products fail to gain market share.

## Phibro Animal Health (PAHC): Bull, Bear, and Base Case Analyses

Scenario	Valuation	Investment Thesis
<b>BULL CASE</b>	<b>F2015E EPS:</b> \$1.90 <b>12-Month Bull-Case Scenario:</b> \$28 <b>Upside/Downside Potential:</b> +56%	<ul style="list-style-type: none"> <li>•Five-year sales and EPS CAGRs of 10% and 20%, respectively</li> <li>•550 bps of operating margin expansion from F'13A to F'19E</li> <li>•Business development</li> </ul>
<b>BASE CASE</b>	<b>F2015E EPS:</b> \$1.52 <b>12-Month Base-Case Scenario:</b> \$21 <b>Upside/Downside Potential:</b> +17%	<ul style="list-style-type: none"> <li>•Five-year sales and EPS CAGRs of 6% and 11%, respectively</li> <li>•483 bps of operating margin expansion from F'13A to F'19E</li> <li>•No additional business development</li> </ul>
<b>BEAR CASE</b>	<b>F2015E EPS:</b> \$1.35 <b>12-Month Bear-Case Scenario:</b> \$15 <b>Upside/Downside Potential:</b> -14%	<ul style="list-style-type: none"> <li>•Five-year sales and EPS CAGRs of 3% and 7%, respectively</li> <li>•350 bps of operating margin expansion from F'13A to F'19E</li> <li>•No additional business development</li> </ul>

Source: Guggenheim Securities, LLC and Company Reports

## Detailed Investment Thesis



# Phibro Animal Health: Investment Thesis #1

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## **#1: Global trends over the next several decades support need for Phibro's products**

- Increased meat consumption coupled with increasingly scarce natural resources are driving a need for increased meat production efficiencies.
- Phibro's Animal Health products help prevent and manage disease outbreaks and enhance nutrition to support natural immune defense against disease.
- These products are often critical to efficient production of healthy animals.
- Global population growth will drive the need for animal proteins. The world is expected to add over 2B people by 2050, mostly in developing countries.
- Poultry and Swine are a large percentage of Phibro's sales and these white meats are usually the first meats consumed when people move into the emerging middle class.
- Livestock producers need to create more with less, given resource constraints (arable land, water shortages, climate change).
- Increasing global trade, human migration, and climate change may increase spread of infectious diseases.
- Economic development in Emerging Markets drives the demand for animal protein (meat, eggs and dairy).

## Phibro Animal Health: Investment Thesis #2

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### #2: Leading positions in high growth sub-sectors of Animal Health, industry growth rates shown below

- **Leadership across MFAs (Medicated Feed Additives) and Nutritionals with Vaccines driving additional growth**
  - *2012 to 2017E CAGRs according to Phibro Animal Health*
    - 6.8% expected growth for Vaccines
    - 5.3% expected growth for MFAs
- **Positioned in fast growing species segments with significant presence in poultry and swine**
  - *2012 to 2017E CAGRs according to Phibro Animal Health*
    - 6.6% expected growth for Swine
    - 6.2% expected growth for Poultry
    - 4.6% expected growth for Cattle
- **Poised for continued expansion in emerging markets, driven by Latin America and Asia**
  - *2012 to 2017E CAGRs according to Phibro Animal Health*
    - 7.9% expected growth for Asia/Pacific
    - 5.4% expected growth for LatAm
    - 4.1% expected growth for U.S.
    - 2.9% expected growth for W. Europe

Source: Phibro Animal Health S-1 dated 3/31/14, Pages 95 and 96 and Guggenheim Securities, LLC

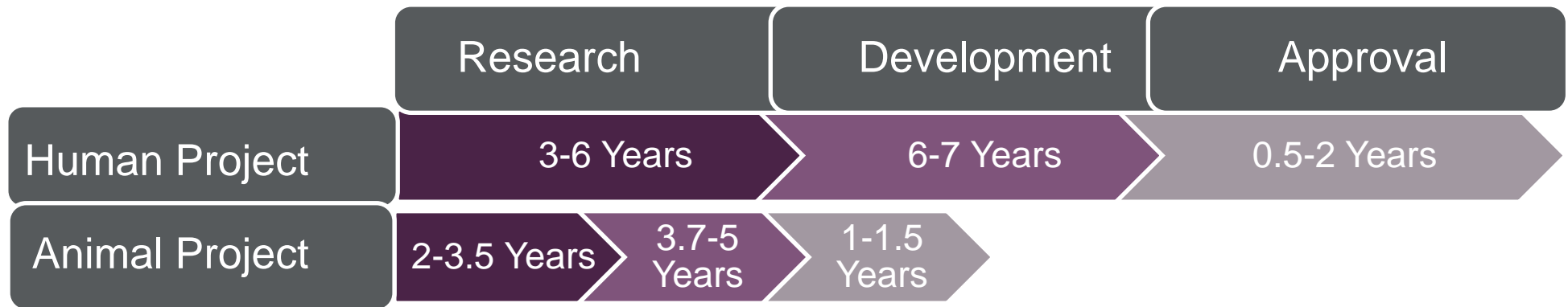
## Phibro Animal Health: Investment Thesis #3

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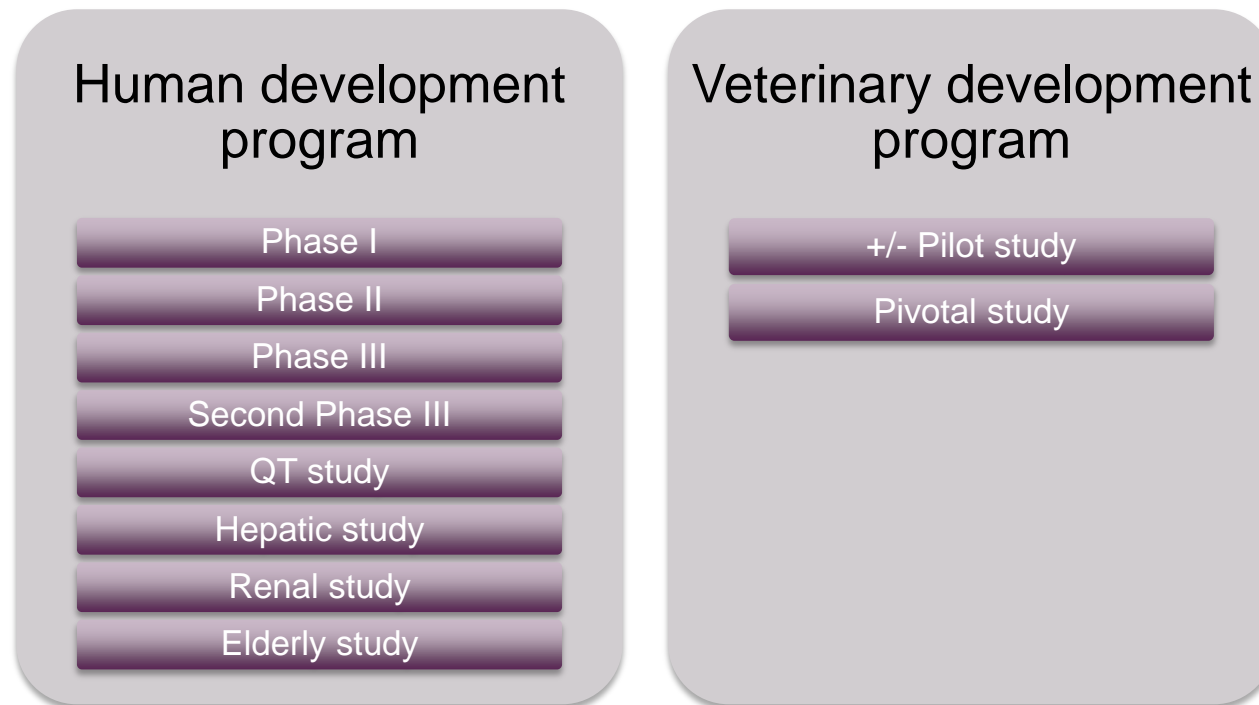
### #3: Animal Health has favorable dynamics versus Human Health

- **Limited generic competition for the foreseeable future:** Animal Health products can continue to grow post loss of patent exclusivity (LOE); two key examples for Zoetis include Rimadyl (sales have increased 35% since LOE in 2001) and Clavamox (sales have increased 51% since LOE in 2002).
- **Better R&D leverage than human drugs:** Animal R&D is faster to market. It has less risk and fewer costs.
- **Less pricing pressure than human health:** Animal Health companies sell their products to Veterinarians (who in turn sell to Pet Owners) and to Large Producers. Livestock Producers and Pet Owners generally pay for animal healthcare out of pocket. Purchasers make decisions without the influence of insurance companies or government payors that are often involved in product and pricing decisions in human healthcare.

## Animal Drug Development Takes Half the Time of Human Drug Development



Source: Guggenheim Securities, LLC and Company Reports



Source: Kindred Bio S-1, Company Reports and Guggenheim Securities, LLC

## Phibro Animal Health: Investment Thesis #4

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### #4: Margin expansion should drive EPS growth

#### ***Historical Success***

- Over the past three years, Phibro Animal Health has demonstrated an ability to grow its revenues and profitability at a rate that exceeds its revenue growth meaningfully.
- Phibro Animal Health's total net sales and adjusted EBITDA grew at compound annual growth rates (CAGRs) of 2.8% and 14.4%, respectively, from F'11A to F'13A.
- The adjusted EBITDA margin improved 220 basis points, from 9.4% in F'11A to 11.6% in F'13A.
- The Animal Health segment was the principal driver of the strong growth and margin expansion.
  - Animal Health net sales and adjusted EBITDA grew at CAGRs of 5.6% and 17.5%, respectively, from F'11A to F'13A.
  - Animal Health's adjusted EBITDA margin improved 420 bps, from 17.4% in F'11A to 21.6% in F'13A.

#### ***F2014 and Beyond***

- We expect margins to steadily improve as a result of favorable product mix shift and operating leverage, slightly offset by growing infrastructure and public company costs.
- We expect gross margin expansion from 27.4% in F'13A to 34.5% by F'19E (711bps).
  - Driven by product mix and manufacturing investments.
- We expect operating margin improvement from 9.3% in F'13A to 14.2% by F'19E (483bps).
- Management expects debt repayment to also drive EPS growth.
- Management expects to pay annual dividend of ~\$15MM, which we think could potentially increase over time.

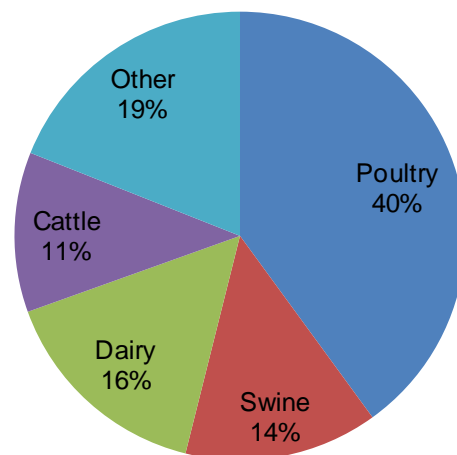
## Company Overview

## Who Is Phibro Animal Health? A Company Overview

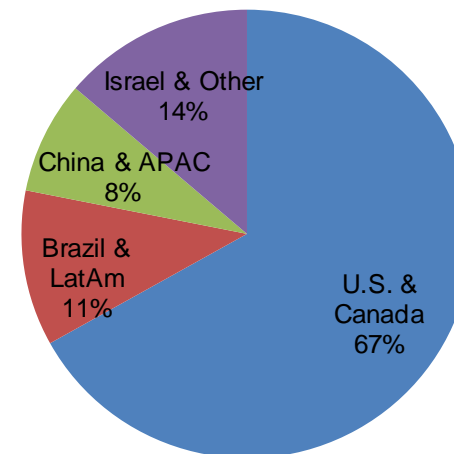
- Headquartered in Teaneck, NJ and has offices across the U.S. and worldwide
- Manufactures and markets products for more than 2,850 customers worldwide
- F2013A sales of \$653MM
- Over 1,118 employees as of 12/15/13

### F2013A Total Sales \$653MM Breakdown

**By Species**



**By Geographies**



Source: Phibro Animal Health S-1 dated 3/31/14, Page 87 and Guggenheim Securities, LLC

## Who Is Phibro Animal Health? A Company Overview (cont.)

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**Phibro Animal Health is a global, diversified Animal Health and Mineral Nutrition company that concentrates exclusively on animals for food production**

- Committed to providing livestock producers with value-based products and solutions to help them maintain and enhance the health and productivity of their animals.
- Develops, manufactures, and markets a broad range of products for food animals including poultry, swine, beef and dairy cattle, and aquaculture.
- These products help prevent, control, and treat diseases; enhance nutrition to help improve health and performance; and contribute to balanced mineral nutrition.
- Phibro Animal Health has three business segments:

### **Animal Health**

- Develops, manufactures, and markets more than 550 product presentations, including:
  - Antibacterials, which inhibit the growth of pathogenic bacteria that cause bacterial infections in animals; anticoccidials, which inhibit the growth of coccidia (parasites) that damage the intestinal tract of animals and related products (MFAs and Other).
  - Nutritional specialty products, which enhance nutrition to help improve health and performance.
  - Vaccines, which cause an increase in antibody levels against a specific virus or bacterium, thus preventing infection from viral or bacterial antigens.

### **Mineral Nutrition**

- 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.
- These products are used to fortify the daily feed requirements of their livestock diets and maintain an optimal balance of trace elements in their animals.

### **Performance Products**

- 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.



# Who Is Phibro Animal Health? A Company Overview (cont.)

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**Phibro Animal Health Corporation helps producers meet the growing consumer demand for sources of protein.**

## **Poultry**

- Poultry products are among the world's most versatile foods. Roasted, grilled, sautéed, or fried, chicken, turkey, and eggs are consumed at almost every meal.
- Poultry producers can greatly benefit from innovations and technologies in feed ingredients. The optimum mix of advanced ingredients can allow them to produce meat and eggs efficiently and economically while also adhering to the highest standards for bird health and welfare.

## **Beef Cattle**

- Beef producers know there's more to steak than great taste. A serving of beef is an excellent source of protein as well as iron, zinc, niacin, and vitamin B. It also supplies all nine essential amino acids.
- Helps customers ensure their cattle stay healthy, well-nourished ,and productive. Ultimately, that benefit gets handed down to the consumer in the form of more tender, better tasting beef.

## **Dairy Cattle**

- Every year, new information emerges that demonstrates the healthy benefits of dairy products, such as milk, cheese, and yogurt.
- For example, studies have found that the calcium from dairy foods can provide certain women with a bone health advantage over that of calcium supplements. Evidence like this reaffirms Phibro Animal Health's commitment to making advances in products for milk-producing cattle.
- By providing top quality feed ingredients, supplements, and medicines, Phibro Animal Health Corporation helps dairy producers ensure that their animals stay as healthy and productive as possible.

## **Swine**

- With essential vitamins, minerals, protein, and energy, pork is loaded with nutritional value. It's also leaner than it was 20 years ago as a result of improved breeding and feeding practices.
- For pork producers, improvements like these help fuel the popularity of this meat as well as increase the need for the most advanced nutritional products.
- Phibro Animal Health markets a number of medicines and nutritional supplements for swine. Progressive pork producers use these products to help protect animals from disease and provide nutrients during key periods of development.

## **Other Species**

- Built upon experience in major livestock markets to develop health and nutrition products for other protein sources such as farm-raised fish, sheep, and goats.
- Goal at Phibro is to provide customers in the animal feed industries with the right type of safe, nutritional supplements to help keep these animals in top physical condition.

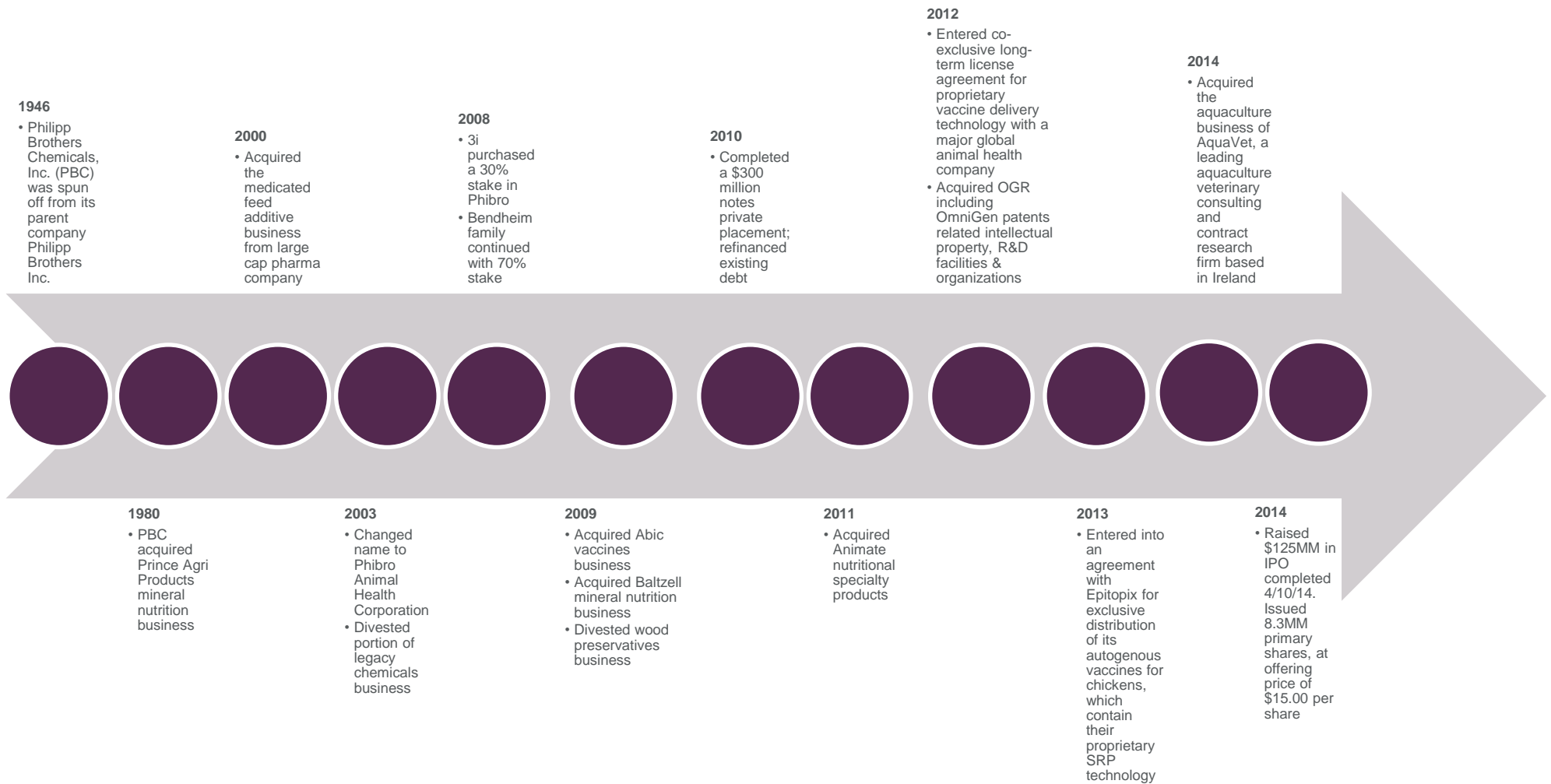
## Who Is Phibro Animal Health? A Company Overview (cont.)

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### **Phibro's Key Growth Strategy Is Threefold**

- **Extend Current Portfolio**
  - Continue its expansion into high-growth Emerging Markets (like China and Brazil)
  - Continue growth of Nutritional Specialties, including cross-selling with its Animal Health and Mineral Nutrition product portfolios
  - Leverage proprietary vaccine technologies to increase sales in poultry
- **Improve Cost Structure and Extend Research**
  - Transition to a direct sales model in key markets
  - Enhance gross margin through product mix and recent investments in manufacturing capacity
- **New Avenues for Growth**
  - Deliver new product innovation through research & development
  - Remain a partner of choice for new products and technologies

# Phibro Animal Health: Timeline of the Company's History



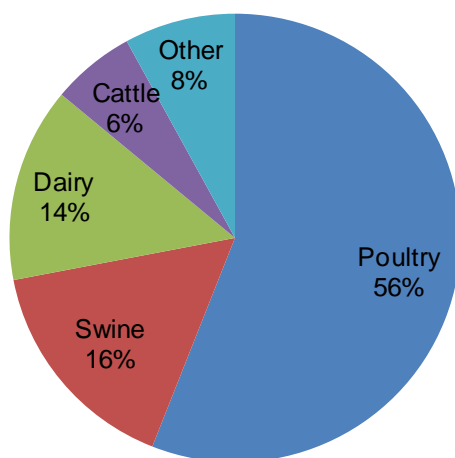
Source: Guggenheim Securities, LLC, Phibro Animal Health website and S-1 dated 3/31/14, page 100

## Phibro Animal Health: Animal Health Segment Overview

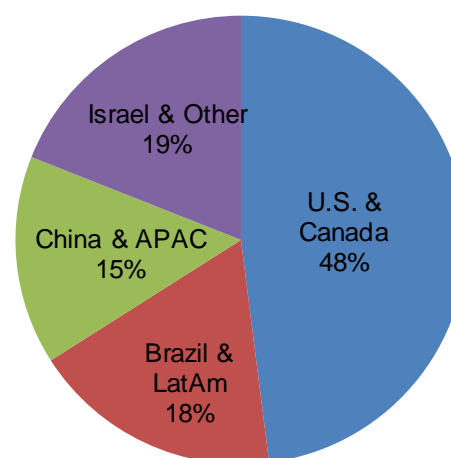
- Animal Health segment manufactures and markets more than 550 product presentations for poultry, swine, cattle, and aquaculture
- Segment operates in three sub-groups:
  - **Medicated Feed Additives (MFAs) & Other**: antibacterial, anticoccidials, ethanol processing aids
  - **Nutritional Specialties**: improve production efficiency to help improve herd health and performance
  - **Vaccines**: live and inactivated vaccines
- Products predominantly sold in North America, Latin America, and Asia; growing presence in Europe and CIS
- Sales growth driven by strong growth in Nutritional Specialties and solid growth in MFAs & Other, Nutritional Specialties growth driven by penetration of U.S. market

### F2013A Animal Health Sales \$385MM Breakdown

**By Species**



**By Geographies**



Source: Phibro Animal Health S-1 dated 3/31/14 , Page 88 and Guggenheim Securities, LLC

# Phibro Animal Health: MFAs & Other – Key Antibacterial & Anticoccidial Products

Brand	Active Ingredient	Market Entry of Active Ingredient	Description
Terramycin/TM-50/TM-100	oxytetracycline, neomycin	1951	Antibacterial with multiple applications for wide number of species (chickens, turkeys, cattle, and swine). Sold in the U.S., Latin America, and Asia to livestock producers, feed companies, and distributors
Neo-Terramycin/Neo-TM	oxytetracycline + neomycin	1999	Antibacterial with multiple applications for wide number of species (chickens, turkeys, cattle, and swine). Sold in the U.S., Latin America, and Asia to livestock producers, feed companies, and distributors
Nicarb	nicarbazin	1954	Broad spectrum anticoccidial used for coccidiosis prevention in poultry
Amprolium	amprolium	1960	Anticoccidial for poultry and cattle. PAHC sells amprolium as an active pharmaceutical ingredient and also received FDA approval to sell amprolium as Boviprol 9.6% Oral Solution to cattle and calves
Bloat Guard	poloxalene	1967	Anti-bloat treatment for cattle
Banminth	pyrantel tartrate	1972	Anthelmintic for livestock
Mecadox	carbadox	1972	Antibacterial used in swine feed to improve animal performance and control swine salmonellosis and swine dysentery. Sold primarily in the U.S. to feed companies and large integrated swine producers
Stafac/Eskalin/V-Max	virginiamycin	1975	Antibacterial marketed under brand name Stafac (swine, cattle, chicken, and turkey producers), Eskalin (dairy cows and beef cattle producers), and V-Max (beef cattle producers). Used to prevent necrotic enteritis in chickens, treat and control swine dysentery, and aid in the prevention of liver abscesses in cattle. PAHC is the sole worldwide manufacturer/seller and there are no generics in the market
Coxistac/Posistac	salinomycin	1979	Anticoccidial for poultry and cattle; disease preventative in swine. Class of compounds known as ionophores to combat coccidiosis and increase feed efficiency in poultry and swine. Marketed in Asia, Latin America, and the Middle East and has received FDA approval to sell Coxistac in the U.S.
Rumatel	morantel tartrate	1981	Anthelmintic for livestock
Cerdatac/Cerdimix	oxibendazole	1982	Anthelmintic for livestock
Aviax/Aviax II	semduramicin	1995	Anticoccidial for poultry. Class of compounds known as ionophores to combat coccidiosis and increase feed efficiency in poultry and swine. Marketed in Asia, Latin America, and the Middle East
Aviax Plus	semduramicin + nicarbazine	2010	Anticoccidial for poultry. Class of compounds known as ionophores to combat coccidiosis and increase feed efficiency in poultry and swine. Marketed in Asia, Latin America, and the Middle East

Source: Phibro Animal Health S-1 dated 3/31/14, Pages 101–102

## Definitions

**Anthelmintics** are used to control major internal nematode parasites in beef & dairy cattle and free range swine.

**Anticoccidials** are produced through fermentation & chemical synthesis and are primarily used to prevent & control the disease coccidiosis in poultry & cattle, thereby promoting more efficient livestock growth.

Phibro sells anticoccidials primarily to integrated poultry producers & feed companies in North America, Latin America & Asia and to international animal health companies.

**Coccidiosis** is a disease of the digestive tract that is of great concern to livestock producers.

## Phibro Animal Health: Key Nutritional Specialty Products

Brand	Market Entry	Description
AB20	1989	Natural flow agent that improves overall feed quality and effectiveness. One of the most thoroughly researched in the broad flow agent segment
Chromax	1992	Chromium tripicolinate is a source of organic chromium used to optimize swine production through reproductive efficiency. Predominantly used in sows where it has been proven to improve reproductive efficiency and litter size. Chromax can result in significant return on investment for swine producers because of its low cost relative to other production costs and the reproductive and litter size improvements it promotes
Biosaf	1997	Heat stable live-cell yeast that optimizes production efficiency
Procreratin 7	1997	Live-cell yeast product for ruminant nutrition. It is a single strain of saccharomyces cerevisiae DNA verified yeast
Animate	1999	Unique patented anionic mineral supplement that helps optimize the health and performance of the transition dairy cow and improves profitability for dairy producers. Maintains proper blood calcium levels in dairy cows during critical parturition period
Safmannan	2000	Yeast cell wall components that optimize production efficiency
OmniGen-AF	2004	Proprietary nutritional specialty product manufactured and marketed exclusively by PAHC that has been shown in various studies to help maintain a cow's healthy immune system and improve its natural response to potential environmental and health challenges. Optimizes immune status in dairy cows
Reap	2004	Feed enzymes that aid in nutrient availability for poultry and swine
NutrafitoPlus	2011	Proprietary blend of saponins, triterpenoids, and polyphenols that enhances absorption and utilization of nutrients for poultry, swine, ruminant, and aquatic feed. Marketed exclusively in the U.S. and other countries
Provia 6086	2013	Direct fed microbial for all classes of livestock

Source: Phibro Animal Health S-1 dated 3/31/14, Pages 102–103

## Phibro Animal Health: Key Vaccine Products

Delivery Platform	Description
TAbic	Unique and proprietary delivery platform for vaccines. TAbic is a patented platform technology for formulation and delivery of vaccine strains in effervescent tablets. This technology provides superior convenience to poultry producers by requiring less storage space, less labor, and increased dosing flexibility as compared to traditional delivery technologies using bottles. Several Phibro vaccine products are available in TAbic format

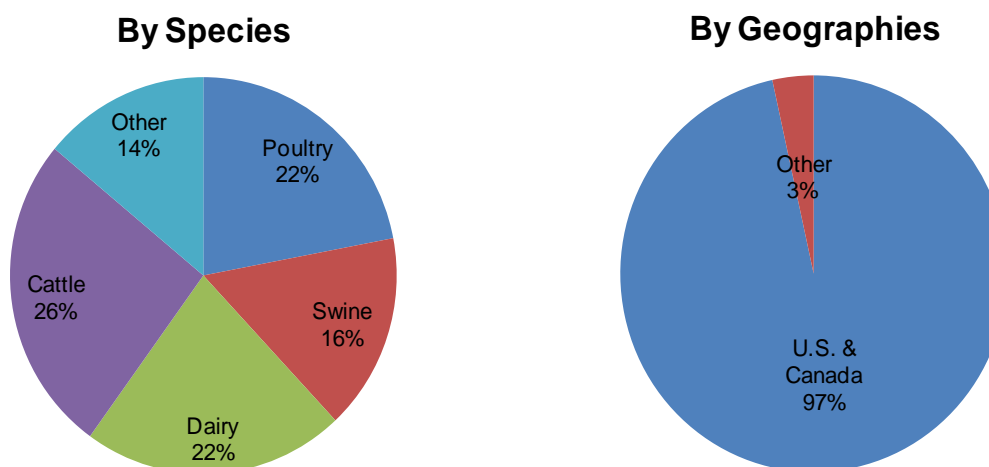
Vaccine	Description
IB Variant 1 & IB Variant 2	Intermediate virulence live vaccine strains used for prevention of infectious bronchitis in poultry
M.B. strain of Gumboro vaccine	Intermediate virulence live vaccine strain use for prevention of infectious bursal disease. Protection against the new field epidemic virus, which is more virulent than those previously encountered
V.H. strain of Newcastle disease	Pathogenic strain that is effective when applied by aerosol, coarse spray, drinking water, or eye drops

Source: Phibro Animal Health S-1 dated 3/31/14, Page 103

## Phibro Animal Health: Mineral Nutrition Division

- Through Prince Agri Products, Inc., Phibro Animal Health's 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.
- Customers use these products to fortify the daily feed requirements of their livestock diets and maintain an optimal balance of trace elements in each animal.
- Prince is a leader in the industry, selling more trace minerals to the animal feed industry than any other supplier.
- Volume growth driven by livestock production numbers, while pricing is based on costs of the underlying minerals.
- Consumption relatively insensitive to selling price, pass on price increases and decreases to customers.
- Cross-sell with Animal Health portfolio.
- Routine contact with broad livestock market allows Phibro Animal Health to identify and bring in-house promising nutritional specialty products.
- Revenue declines due to decision to deemphasize lysine sales.

### **F2013A Mineral Nutrition Sales \$203MM Breakdown**



Source: Phibro Animal Health S-1 dated 3/31/14, Page 90 and Guggenheim Securities, LLC



## Phibro Animal Health: Performance Products Division

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- 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.
  - **PhibroChem** is a leading supplier of specialty chemicals, featuring products for the paint and coatings, metal finishing, and personal care industries.
  - **Phibro-Tech** is a manufacturer, recycler, and marketer of copper-based chemicals to the industrial chemical and chemical catalyst industries.
  - **Ferro** markets a wide range of performance chemicals for global distribution from its office in the UK.
- Revenue has been flat due to lower volumes in personal care and automotive, partially offset by higher average selling prices in the industrial chemicals market.
- Non-core asset for Phibro Animal Health, which we think they will eventually divest.

## Phibro Animal Health: Properties and Manufacturing Facilities

- Phibro Animal Health supplements internal manufacturing and production capabilities with contract manufacturing organizations (CMOs) as necessary.

Business Segment	Location	Owned/Leased	Purpose(s)
Animal Health	Beit Shemesh, Israel	Land lease	Manufacturing & Research
Animal Health	Braganca Paulista, Brazil	Owned	Manufacturing & Administrative
Animal Health	Corvallis, Oregon	Owned	Research
Animal Health	Guarulhos, Brazil	Owned	Manufacturing, Sales, Premixing, Research, & Administrative
Animal Health	Hannibal, Missouri	Land lease	Manufacturing
Animal Health	Manhattan, Kansas	Leased	Research
Animal Health	Naot Hovav, Israel	Land lease	Manufacturing & Research
Mineral Nutrition	Omaha, Nebraska	Owned	Manufacturing & Premixing
Animal Health	Petach Tikva, Israel	Owned	Manufacturing & Premixing
Animal Health & Mineral Nutrition	Quincy, Illinois	Owned	Manufacturing, Sales, Premixing, Research, & Administrative
Performance Products	Santa Fe Springs, California	Owned	Manufacturing
Animal Health	St. Paul, Minnesota	Leased	Research
Corporate	Teaneck, New Jersey	Leased	Corporate & Administrative

Source: Phibro Animal Health S-1 dated 3/31/14, Page 112 and Guggenheim Securities, LLC

# Management

## Phibro Animal Health: Management Team

Name, Position	Bio
<b>Jack Bendheim</b> Chairman of the Board and Chief Executive Officer	44 years at Phibro, 44 in industry Empire Resources, Inc.
<b>Gerald Carlson</b> Director and Chief Operating Officer	11 years at Phibro, 11 in industry State of Minnesota, Ecolab Inc.
<b>Richard Johnson</b> Chief Financial Officer	11 years at Phibro, 11 in industry Laserdyne Prima, Inc., Ecolab Inc.
<b>Thomas Dagger</b> SVP, General Counsel & Corporate Secretary	7 years at Phibro, 7 in industry AT&T Corp., Cleary, Gottlieb, Steen & Hamilton
<b>Larry Miller</b> President, Animal Health	5 years at Phibro, 28 in industry Intervet/Schering Plough Animal Health, American Cyanamid Animal Health & Nutrition
<b>Dean Warras</b> President, Prince Agri Products	8 years at Phibro, 22 in industry Cargill (animal nutrition business)
<b>Daniel Bendheim</b> Director and Executive VP, Corporate Strategy	16 years at Phibro, 16 in industry South Coast Capital

Source: Phibro Animal Health S-1 dated 3/31/14, Pages 118 -121 and Guggenheim Securities, LLC

## Phibro Animal Health: Compensation Structure

Executive	Fiscal 2013 Salary	Fiscal 2013 Bonus Program	Fiscal 2013 Option Awards	Fiscal 2013 Pension Value & Deferred Comp. Chgs	Fiscal 2013 Other Comp.	Fiscal 2013 Total	Fiscal 2014 Salary	Fiscal 2014 Bonus Target
<b>Jack Bendheim</b> Chairman of the Board and Chief Executive Officer	\$1,854,000	\$630,900	NA	\$34,141	\$182,108	\$2,701,149	\$1,890,000	\$945,000
<b>Gerald Carlson</b> Director and Chief Operating Officer	\$566,500	\$347,000	\$82,091	\$26,135	\$40,093	\$1,061,819	\$578,000	\$298,000
<b>Larry Miller</b> President, Animal Health	\$425,000	\$260,900	\$62,083	\$16,450	\$18,986	\$783,419	\$433,500	\$216,800

- (1) All compensations are for fiscal year ending June 30.
- (2) Bendheim, Carlson & Miller were the three most highly compensated executives who were serving as executive officers at the end of June 30, 2013.
- (3) With respect to the company's bonus program, goals are established at the beginning of each fiscal year. Target award opportunities vary by job level and can range from 20% to 50% of annual base salary. Where minimum threshold performance targets are satisfied, annual incentive payments can range from 50% to 150% of the target award opportunity based on performance relative to goals.
- (4) Equity Incentive Plan designed to motivate executives to make decisions that focus on long-term shareholder value creation. As of June 30, 2013, common shares available for grants were 11,610, 000. Pursuant to the plan in the same time period, 3,390,000 stock options with an exercise price of \$5.23 per share are outstanding, and 2,542,500 outstanding stock options are vested and exercisable. The balance were vested and exercisable on March 1, 2014.
- (5) All other compensation include 401(k) plan company match, group term life insurance, financial & tax services, commuting & housing allowance for some of the executives.
- (6) Mr. Bendheim's employment agreement includes payments for his family's legal, audit & tax services up to maximum cost of \$250,000 per annum and payments for members of his family for non-full time employment & consulting arrangements & medical & other insurance coverage up to maximum cost of \$200,000 per annum.
- (7) Mr. Carlson received a one-time bonus of \$5,000,000 in connection with the investment by 3i QPEP in Phibro.
- (8) Messrs. Bendheim & Carlson serve on the Board of Directors but receive no compensation.

Source: Phibro Animal Health S-1 dated 3/31/14 , Pages 124 -128 and Guggenheim Securities, LLC

# Financial Model

# Income Statement F2009 to F2021E

## Phibro Animal Health - Quarterly Income Statement Analysis 2009-2021E

(\$ in Millions)																								
(Year Ended June 30,)	2009 (a)	2010 (a)	2011(a)	2012(a)	2013(a)	1Q14A	2Q14A	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	CAGR 16E-21E		
Total Revenue	537.1	594.2	618.3	654.1	653.2	162.2	172.7	173.8	174.3	683.0	182.3	183.0	183.8	186.0	735.0	786.0	834.5	882.8	934.3	989.1	1,047.4	5.9		
COGS	406.4	439.5	471.7	490.0	474.2	112.7	121.6	120.9	119.7	474.9	124.2	124.7	125.2	126.7	501.0	530.0	556.8	583.5	611.9	642.0	674.1			
Gross Profit	130.8	154.7	146.7	164.1	179.0	49.5	51.2	52.8	54.6	208.1	58.0	58.3	58.5	59.2	234.0	256.0	277.7	299.3	322.4	347.1	373.3			
SG&A and R&D	81.1	97.4	101.2	111.6	117.9	31.7	32.9	34.5	35.4	134.6	35.8	36.5	37.3	39.5	149.0	161.0	170.7	180.0	189.9	195.6	201.5			
Other (Income)/Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Total Operating Expense	81.1	97.4	101.2	111.6	117.9	31.7	32.9	34.5	35.4	134.6	35.8	36.5	37.3	39.5	149.0	161.0	170.7	180.0	189.9	195.6	201.5			
Operating Income	49.7	57.3	45.4	52.6	61.1	17.8	18.2	18.3	19.2	73.5	22.3	21.8	21.3	19.7	85.0	95.0	107.0	119.3	132.5	151.4	171.8	12.6		
Interest Income	0.2	0.1	0.3	0.3	0.1	0.0	0.0	0.1	0.2	0.3	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.8			
Interest Expense	(31.5)	(34.5)	(34.6)	(35.7)	(35.8)	(8.8)	(8.7)	(8.1)	(5.6)	(31.2)	(3.0)	(3.0)	(3.0)	(3.0)	(11.9)	(14.6)	(14.3)	(12.5)	(10.5)	(10.5)	(10.5)			
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Non-Operating Items	(31.3)	(34.4)	(34.3)	(35.4)	(35.6)	(8.7)	(8.7)	(8.0)	(5.4)	(30.9)	(3.0)	(3.0)	(3.0)	(3.0)	(11.8)	(14.5)	(14.2)	(12.3)	(10.3)	(10.3)	(9.7)			
Pre-tax Income	18.4	23.0	11.2	17.1	25.4	9.0	9.5	10.3	13.8	42.6	19.3	18.8	18.3	16.8	73.2	80.5	92.9	107.0	122.2	141.1	162.1			
Tax Rate	21.8%	1.3%	34.1%	42.0%	27.9%	28.8%	13.7%	26.6%	21.5%	22.5%	19.2%	19.2%	19.2%	19.2%	19.2%	19.4%	19.9%	29.9%	30.0%	30.0%	30.0%			
Taxes	4.0	0.3	3.8	7.2	7.1	2.6	1.3	2.7	3.0	9.6	3.7	3.6	3.5	3.2	14.1	15.6	18.5	32.0	36.6	42.3	48.6			
Adjusted Net Income	14.4	22.7	7.4	9.9	18.3	6.4	8.2	7.5	10.8	33.0	15.6	15.2	14.8	13.6	59.2	64.8	74.4	75.0	85.5	98.8	113.5	11.8		
Average Shares	69.0	69.0	68.9	68.9	68.9	68.9	68.9	68.9	37.4	54.0	38.8	38.9	39.0	39.1	38.9	39.3	39.5	39.7	39.9	40.1	40.3			
Adjusted Diluted EPS	\$0.21	\$0.33	\$0.11	\$0.14	\$0.27	\$0.09	\$0.12	\$0.11	\$0.29	\$0.61	\$0.40	\$0.39	\$0.38	\$0.35	\$1.52	\$1.65	\$1.88	\$1.89	\$2.14	\$2.46	\$2.82	11.3		
% Change																								
Total Revenue	10.6%	4.1%	5.8%	-0.1%		NA	NA	NA	NA	4.6%	12.4%	5.9%	5.8%	6.7%	7.6%	6.9%	6.2%	5.8%	5.8%	5.9%	5.9%			
YOY Growth																								
COGS		8.2%	7.3%	3.9%	-3.2%	NA	NA	NA	NA	0.2%	10.2%	2.6%	3.6%	5.9%	5.5%	5.8%	5.1%	4.8%	4.9%	4.9%	5.0%			
Gross Profit		18.3%	-5.2%	11.9%	9.0%	NA	NA	NA	NA	16.3%	17.2%	13.9%	10.8%	8.4%	12.5%	9.4%	8.5%	7.8%	7.7%	7.6%	7.6%			
SG&A and R&D		20.2%	3.9%	10.2%	5.7%	NA	NA	NA	NA	14.1%	12.7%	10.9%	8.0%	11.5%	10.7%	8.1%	6.0%	5.5%	5.5%	3.0%	3.0%			
Other (Income)/Expense		NM	NM	NM	NM	NA	NA	NA	NA	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM			
Operating Income		15.3%	-20.7%	15.7%	16.1%	NA	NA	NA	NA	20.4%	25.3%	19.4%	16.1%	2.7%	15.7%	11.7%	12.7%	11.5%	11.1%	14.3%	13.5%			
Non-Operating Items		9.7%	-0.3%	3.3%	0.6%	NA	NA	NA	NA	-13.2%	-66.2%	-66.2%	-63.3%	-45.6%	-61.8%	23.1%	-2.5%	-13.2%	-16.0%	-0.1%	-5.5%			
Pre-tax Income		24.9%	-51.4%	53.7%	48.2%	NA	NA	NA	NA	67.6%	113.8%	97.8%	78.3%	21.7%	71.9%	9.9%	15.4%	15.2%	14.2%	15.5%	14.9%			
Tax Rate		-94.0%	2507.2%	23.3%	-33.5%	NA	NA	NA	NA	-19.4%	-33.3%	40.5%	-27.8%	-10.7%	-14.7%	1.0%	2.6%	50.3%	0.3%	0.0%	0.0%			
Taxes		-92.5%	1166.7%	89.5%	-1.4%	NA	NA	NA	NA	35.1%	42.7%	177.9%	28.7%	8.7%	46.5%	11.0%	18.4%	73.1%	14.5%	15.5%	14.9%			
Adjusted Net Income		57.6%	-67.5%	35.2%	84.2%	NA	NA	NA	NA	80.1%	142.5%	85.1%	96.3%	25.3%	79.2%	9.6%	14.7%	0.8%	14.0%	15.5%	14.9%			
Adjusted Diluted EPS		57.6%	NM	NM	84.2%	NA	NA	NA	NA	129.8%	330.8%	228.0%	246.8%	19.9%	148.6%	8.6%	14.1%	0.3%	13.4%	14.9%	14.3%			

Source: Guggenheim Securities, LLC and Company Reports

(a) Excludes other income/expense items that are non-operating in nature, foreign currency gain/loss, loss on extinguishment of debt, share based compensation, acquisition intangible amortization, tax effect on adjustments &amp; discontinued operations.

# Margin Analysis F2009 to F2021E

## Phibro Animal Health - Quarterly Margin Analysis 2009-2021E

	2009	2010	2011	2012	2013	1Q14A	2Q14A	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	75.7%	74.0%	76.3%	74.9%	72.6%	69.5%	70.4%	69.6%	68.7%	69.5%	68.2%	68.2%	68.2%	68.2%	68.2%	67.4%	66.7%	66.1%	65.5%	64.9%	64.4%
Gross Margin	24.3%	26.0%	23.7%	25.1%	27.4%	30.5%	29.6%	30.4%	31.3%	30.5%	31.8%	31.8%	31.8%	31.8%	31.8%	32.6%	33.3%	33.9%	34.5%	35.1%	35.6%
SG&A and R&D	15.1%	16.4%	16.4%	17.1%	18.1%	19.6%	19.1%	19.9%	20.3%	19.7%	19.6%	19.9%	20.3%	21.2%	20.3%	20.5%	20.5%	20.4%	20.3%	19.8%	19.2%
Oper. Inc.	9.3%	9.7%	7.3%	8.0%	9.3%	11.0%	10.6%	10.5%	11.0%	10.8%	12.2%	11.9%	11.6%	10.6%	11.6%	12.1%	12.8%	13.5%	14.2%	15.3%	16.4%
Operating Expenses	15.1%	16.4%	16.4%	17.1%	18.1%	19.6%	19.1%	19.9%	20.3%	19.7%	19.6%	19.9%	20.3%	21.2%	20.3%	20.5%	20.5%	20.4%	20.3%	19.8%	19.2%
Non-Oper. Items	-5.8%	-5.8%	-5.5%	-5.4%	-5.5%	-5.4%	-5.0%	-4.6%	-3.1%	-4.5%	-1.6%	-1.6%	-1.6%	-1.6%	-1.6%	-1.8%	-1.7%	-1.4%	-1.1%	-1.0%	-0.9%
Pretax Income	3.4%	3.9%	1.8%	2.6%	3.9%	5.6%	5.5%	5.9%	7.9%	6.2%	10.6%	10.3%	10.0%	9.0%	10.0%	10.2%	11.1%	12.1%	13.1%	14.3%	15.5%
Adjusted Net Income	2.7%	3.8%	1.2%	1.5%	2.8%	4.0%	4.8%	4.3%	6.2%	4.8%	8.6%	8.3%	8.0%	7.3%	8.0%	8.3%	8.9%	8.5%	9.2%	10.0%	10.8%

Source: Guggenheim Securities, LLC and Company Reports



# Quarter Sales F2011 to F2021E

## Phibro Animal Health - Quarterly Revenue Model 2011-2021E

(\$ in Millions)																			
(Year Ended June 30)	2011	2012	2013	1Q14A	2Q14A	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
<i>MFAs &amp; Other</i>	273.3	290.5	303.7	78.0	80.0	80.8	84.2	323.0	85.3	85.7	86.0	87.0	344.0	361.0	388.1	417.2	448.5	482.1	518.3
<i>Nutritional Specialties</i>	43.1	47.7	52.3	14.1	16.4	17.0	16.4	64.0	19.3	19.4	19.5	19.7	78.0	90.0	96.8	104.0	111.8	120.2	129.2
<i>Vaccines</i>	28.8	36.9	28.9	9.1	11.5	9.0	10.4	40.0	12.4	12.5	12.5	12.7	50.0	57.0	61.3	65.9	70.8	76.1	81.8
Animal Health	345.2	375.2	384.9	101.2	108.0	106.8	111.1	427.0	117.1	117.5	118.0	119.4	472.0	508.0	546.1	587.1	631.1	678.4	729.3
Mineral Nutrition	209.3	210.1	203.2	46.2	50.6	51.0	48.2	196.0	49.8	50.0	50.3	50.9	201.0	206.0	208.1	210.1	212.2	214.4	216.5
Performance Products	63.9	68.8	65.0	14.9	14.1	16.0	15.0	60.0	15.4	15.4	15.5	15.7	62.0	65.0	65.3	65.7	66.0	66.3	66.6
Other New Products	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.0	15.0	20.0	25.0	30.0	35.0
<b>Total Revenues</b>	<b>618.3</b>	<b>654.1</b>	<b>653.2</b>	<b>162.2</b>	<b>172.7</b>	<b>173.8</b>	<b>174.3</b>	<b>683.0</b>	<b>182.3</b>	<b>183.0</b>	<b>183.8</b>	<b>186.0</b>	<b>735.0</b>	<b>786.0</b>	<b>834.5</b>	<b>882.8</b>	<b>934.3</b>	<b>989.1</b>	<b>1047.4</b>
<b>% Change</b>																			
<i>MFAs &amp; Other</i>		6.3%	4.5%	NA	NA	NA	NA	6.3%	9.4%	7.0%	6.5%	3.3%	6.5%	4.9%	7.5%	7.5%	7.5%	7.5%	7.5%
<i>Nutritional Specialties</i>		10.7%	9.8%	NA	NA	NA	NA	22.3%	36.9%	18.2%	14.7%	20.1%	21.9%	15.4%	7.5%	7.5%	7.5%	7.5%	7.5%
<i>Vaccines</i>		28.1%	-21.9%	NA	NA	NA	NA	38.6%	36.7%	8.4%	38.9%	21.2%	25.0%	14.0%	7.5%	7.5%	7.5%	7.5%	7.5%
Animal Health		8.7%	2.6%	NA	NA	NA	NA	10.9%	15.7%	8.9%	10.5%	7.5%	10.5%	7.6%	7.5%	7.5%	7.5%	7.5%	7.5%
Mineral Nutrition		0.4%	-3.3%	NA	NA	NA	NA	-3.5%	7.9%	-1.2%	-1.5%	5.5%	2.6%	2.5%	1.0%	1.0%	1.0%	1.0%	1.0%
Performance Products		7.8%	-5.5%	NA	NA	NA	NA	-7.8%	3.4%	9.2%	-3.1%	4.7%	3.3%	4.8%	0.5%	0.5%	0.5%	0.5%	0.5%
Other New Products		NM	NM	NA	NA	NA	NA	NM	NM	NM	NM	NM	NM	NM	114.3%	33.3%	25.0%	20.0%	16.7%
<b>Total Revenues</b>		<b>5.8%</b>	<b>-0.1%</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>4.6%</b>	<b>12.4%</b>	<b>5.9%</b>	<b>5.8%</b>	<b>6.7%</b>	<b>7.6%</b>	<b>6.9%</b>	<b>6.2%</b>	<b>5.8%</b>	<b>5.8%</b>	<b>5.9%</b>	<b>5.9%</b>

Source: Guggenheim Securities, LLC and Company Reports

# Annual Sales F2011 to F2021E

## Phibro Animal Health - Annual Revenue Model 2011-2021E

(\$ in Millions)																						
	Year End June 30,											2012/	2013/	2014E/	2015E/	2016E/	2017E/	2018E/	2019E/	2020E/	2021E/	CAGR
	2011	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2011	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	16E-21E
<b>Base Business</b>																						
MFAs & Other	273.3	290.5	303.7	323.0	344.0	361.0	388.1	417.2	448.5	482.1	518.3	6.3%	4.5%	6.3%	6.5%	4.9%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Nutritional Specialties	43.1	47.7	52.3	64.0	78.0	90.0	96.8	104.0	111.8	120.2	129.2	10.7%	9.8%	22.3%	21.9%	15.4%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Vaccines	28.8	36.9	28.9	40.0	50.0	57.0	61.3	65.9	70.8	76.1	81.8	28.1%	-21.9%	38.6%	25.0%	14.0%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
<b>Total Animal Health</b>	<b>345.2</b>	<b>375.2</b>	<b>384.9</b>	<b>427.0</b>	<b>472.0</b>	<b>508.0</b>	<b>546.1</b>	<b>587.1</b>	<b>631.1</b>	<b>678.4</b>	<b>729.3</b>	<b>8.7%</b>	<b>2.6%</b>	<b>10.9%</b>	<b>10.5%</b>	<b>7.6%</b>	<b>7.5%</b>	<b>7.5%</b>	<b>7.5%</b>	<b>7.5%</b>	<b>7.5%</b>	<b>7.5%</b>
<b>Mineral Nutrition</b>	<b>209.3</b>	<b>210.1</b>	<b>203.2</b>	<b>196.0</b>	<b>201.0</b>	<b>206.0</b>	<b>208.1</b>	<b>210.1</b>	<b>212.2</b>	<b>214.4</b>	<b>216.5</b>	<b>0.4%</b>	<b>-3.3%</b>	<b>-3.5%</b>	<b>2.6%</b>	<b>2.5%</b>	<b>1.0%</b>	<b>1.0%</b>	<b>1.0%</b>	<b>1.0%</b>	<b>1.0%</b>	<b>1.0%</b>
<b>Performance Products</b>	<b>63.9</b>	<b>68.8</b>	<b>65.0</b>	<b>60.0</b>	<b>62.0</b>	<b>65.0</b>	<b>65.3</b>	<b>65.7</b>	<b>66.0</b>	<b>66.3</b>	<b>66.6</b>	<b>7.8%</b>	<b>-5.5%</b>	<b>-7.8%</b>	<b>3.3%</b>	<b>4.8%</b>	<b>0.5%</b>	<b>0.5%</b>	<b>0.5%</b>	<b>0.5%</b>	<b>0.5%</b>	<b>0.5%</b>
<b>Other New Products</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>7.0</b>	<b>15.0</b>	<b>20.0</b>	<b>25.0</b>	<b>30.0</b>	<b>35.0</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>114.3%</b>	<b>33.3%</b>	<b>25.0%</b>	<b>20.0%</b>	<b>16.7%</b>	<b>NM</b>
<b>Total Revenues</b>	<b>618.3</b>	<b>654.1</b>	<b>653.2</b>	<b>683.0</b>	<b>735.0</b>	<b>786.0</b>	<b>834.5</b>	<b>882.8</b>	<b>934.3</b>	<b>989.1</b>	<b>1,047.4</b>	<b>5.8%</b>	<b>-0.1%</b>	<b>4.6%</b>	<b>7.6%</b>	<b>6.9%</b>	<b>6.2%</b>	<b>5.8%</b>	<b>5.8%</b>	<b>5.9%</b>	<b>5.9%</b>	<b>5.9%</b>

Source: Guggenheim Securities, LLC and Company Reports

# Balance Sheet F2012 to F2021E

## Phibro Animal Health - Balance Sheet Analysis 2012-2021E

(\$ in Millions)

(Year ended June 30)	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
<b>Assets</b>										
Cash and Cash Equivalent	53.9	27.4	12.3	5.1	8.8	20.6	17.8	19.3	75.5	145.5
Accounts Receivable	99.1	99.1	105.3	113.5	123.2	132.9	142.9	153.7	162.7	172.3
Inventories	120.1	140.0	144.5	152.9	161.8	169.9	178.1	186.8	196.0	205.8
Other current assets	28.7	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8
<b>Total Current Assets</b>	<b>301.9</b>	<b>296.4</b>	<b>291.9</b>	<b>301.3</b>	<b>323.7</b>	<b>353.3</b>	<b>368.6</b>	<b>389.6</b>	<b>464.0</b>	<b>553.4</b>
Plant, Property & Equipment	101.7	104.4	107.4	110.4	113.4	116.4	119.4	122.4	125.4	128.4
Intangible	15.0	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2
Other assets	22.3	38.2	38.2	48.2	58.2	68.2	78.2	88.2	98.2	108.2
<b>Total Other Assets</b>	<b>139.0</b>	<b>177.8</b>	<b>180.8</b>	<b>193.8</b>	<b>206.8</b>	<b>219.8</b>	<b>232.8</b>	<b>245.8</b>	<b>258.8</b>	<b>271.8</b>
<b>TOTAL ASSETS</b>	<b>440.9</b>	<b>474.1</b>	<b>472.7</b>	<b>495.0</b>	<b>530.4</b>	<b>573.1</b>	<b>601.4</b>	<b>635.3</b>	<b>722.8</b>	<b>825.2</b>
<b>Liabilities &amp; Shareholder's Equity</b>										
Current portion of long-term debt	5.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Accounts Payable	67.9	57.9	58.0	61.2	64.7	68.0	71.3	74.7	78.4	82.3
Accrued Expenses and other current liabilities	52.6	57.4	57.4	57.4	57.4	57.4	57.4	57.4	57.4	57.4
<b>Total Current Liabilities</b>	<b>125.9</b>	<b>115.4</b>	<b>115.5</b>	<b>118.7</b>	<b>122.2</b>	<b>125.5</b>	<b>128.8</b>	<b>132.2</b>	<b>135.9</b>	<b>139.8</b>
Long term debt	344.8	365.5	290.0	265.0	235.0	205.0	170.0	130.0	130.0	130.0
Other liabilities	58.5	62.1	62.1	62.1	62.1	62.1	62.1	62.1	62.1	62.1
<b>Total Liabilities</b>	<b>529.1</b>	<b>543.1</b>	<b>467.6</b>	<b>445.8</b>	<b>419.4</b>	<b>392.6</b>	<b>360.9</b>	<b>324.4</b>	<b>328.0</b>	<b>332.0</b>
Shareholders Equity	(88.2)	(68.9)	5.1	49.2	111.1	180.5	240.5	311.0	394.7	493.2
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>440.9</b>	<b>474.1</b>	<b>472.7</b>	<b>495.0</b>	<b>530.4</b>	<b>573.1</b>	<b>601.4</b>	<b>635.3</b>	<b>722.8</b>	<b>825.2</b>

Source: Guggenheim Securities, LLC and Company Reports

# Cash Flow Statement F2012 to F2021E

## Phibro Animal Health - Cash Flow Analysis 2012-2021E

(\$ in Millions)										
(Year ended June 30)	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
<b>Cash flows provided by Operating Activities:</b>										
Net Income	7.0	24.9	33.0	59.2	64.8	74.4	75.0	85.5	98.8	113.5
Depreciation and Amortization	17.5	19.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Amortization of deferred financing costs, imputed interest & debt discount	1.7	1.9	-	-	-	-	-	-	-	-
Other	0.5	(10.6)	-	-	-	-	-	-	-	-
Net Changes in Working Capital	5.1	(34.8)	(10.5)	(13.4)	(15.1)	(14.6)	(14.9)	(16.0)	(14.5)	(15.5)
<b>Net cash provided by Operating Activities</b>	<b>31.9</b>	<b>0.4</b>	<b>39.5</b>	<b>62.8</b>	<b>66.8</b>	<b>76.8</b>	<b>77.1</b>	<b>86.5</b>	<b>101.2</b>	<b>115.0</b>
<b>Cash flows from Investing Activities</b>										
Purchases of PP&E	(14.8)	(19.9)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)
Net proceeds from sale of assets	0.6	1.3	-	-	-	-	-	-	-	-
Acquisitions, net of cash acquired	(3.4)	(18.7)	-	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
Other	-	-	-	-	-	-	-	-	-	-
<b>Net cash used in Investing Activities</b>	<b>(17.6)</b>	<b>(37.3)</b>	<b>(20.0)</b>	<b>(30.0)</b>	<b>(30.0)</b>	<b>(30.0)</b>	<b>(30.0)</b>	<b>(30.0)</b>	<b>(30.0)</b>	<b>(30.0)</b>
<b>Cash flows from Financing Activities</b>										
(Repayment) or Issuance of long term debt	(8.2)	13.9	(75.5)	(25.0)	(30.0)	(30.0)	(35.0)	(40.0)	-	-
Cash dividends paid	-	(3.0)	(25.0)	(15.0)	(15.0)	(15.0)	(15.0)	(15.0)	(15.0)	(15.0)
Other	-	-	66.0	-	12.0	10.0	-	-	-	-
<b>Net cash (used in) provided by Financing Activities</b>	<b>(8.2)</b>	<b>10.9</b>	<b>(34.5)</b>	<b>(40.0)</b>	<b>(33.0)</b>	<b>(35.0)</b>	<b>(50.0)</b>	<b>(55.0)</b>	<b>(15.0)</b>	<b>(15.0)</b>
<b>Effect of exchange-rate on cash</b>	<b>(0.7)</b>	<b>(0.5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net (decrease) increase in cash and equivalents</b>	<b>5.3</b>	<b>(26.5)</b>	<b>(15.1)</b>	<b>(7.2)</b>	<b>3.8</b>	<b>11.8</b>	<b>(2.9)</b>	<b>1.5</b>	<b>56.2</b>	<b>70.0</b>
Cash and equivalents at beginning of year	48.6	53.9	27.4	12.3	5.1	8.8	20.6	17.8	19.3	75.5
<b>Cash and equivalents at end of year</b>	<b>53.9</b>	<b>27.4</b>	<b>12.3</b>	<b>5.1</b>	<b>8.8</b>	<b>20.6</b>	<b>17.8</b>	<b>19.3</b>	<b>75.5</b>	<b>145.5</b>

Source: Guggenheim Securities, LLC and Company Reports

# Discounted Cash Flow Analysis

ASSUMPTIONS	
Be	1.60
Rf	1.5%
Re	15.1%
Rd	5.0%
Debt 2015	\$265
Equity	\$699
Value (D+E)	\$964
Return on Market	10.0%
Growth Rate	3.0%
Exit Multiple	8.5x
WACC	12.1%
Tax Rate 2015	19.2%
Cash 2015	\$5

	Year Ended June 30,				
	2016E	2017E	2018E	2019E	2020E
EBIT	\$95.0	\$107.0	\$119.3	\$132.5	\$151.4
Less Cash Taxes	15.6	18.5	32.0	36.6	42.3
EBIAT	\$79.4	\$88.6	\$87.3	\$95.8	\$109.1
Plus Depreciation & Amortization	17.0	17.0	17.0	17.0	17.0
Less Capital Expenditures	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)
Changes in Working Capital	(15.1)	(14.6)	(14.9)	(16.0)	(14.5)
Free Cash Flow	\$61.3	\$71.0	\$69.4	\$76.8	\$91.5
Discounted Free Cash Flow	\$54.7	\$56.5	\$49.3	\$48.7	\$51.8
Terminal Value					\$1,460.6
Discounted Terminal Value					\$826.5
Enterprise Value	\$1,087.6				
Less Debt	(\$265.0)				
Plus Cash	\$5.1				
Equity Value	\$827.6				
Fully Diluted Shares Outstanding	38.9				
Price/Share	\$21.26				

Source: Guggenheim Securities, LLC and Company Reports

## Event Calendar

## Phibro Animal Health: Event Calendar

Date	Driver	Upcoming Event
<b>Calendar 2014</b>		
July 2014	Carbadox	Codex could adopt language curtailing its use
2014	Teaneck, NJ	FDA re-inspects facility, issued 483s last time
<b>Calendar 2015+</b>		
Late 2016	U.S. Animal Health Antibiotics	FDA wants sponsors to complete process for label changes relating to new GFI213

Source: Guggenheim Securities, LLC and Company reports

## Equity and M&A Comparables



# Animal Health Equity Company Comparables 2013 to 2015E

Ticker	Company	Price as of 05/05/2014	Debt/ EBITDA <sup>2</sup>	2015 EV/ EBITDA <sup>3</sup>	2015 EV/ EBIT <sup>4</sup>	2015 Price/ Sales <sup>5</sup>	Div. Yield	FCF Yield	Cash on Hand (MM)	EPS <sup>1</sup>			P/E <sup>1</sup>			2010-15E EPS Gr. Rate	PEG Ratio on 2014E	% Change	Stock Price		
										13	14E	15E	13	14E	15E				2012	2013	YTD 2014
.DJIA-DI	Dow Jones Industrial Avg.	\$16,530.55	3.0x	9.5x	12.0x	1.6x	2.2%	4.3%	\$20,109.0	5.38	5.78	6.26	15.8x	14.8x	13.6x	8.3%	1.8x	7.3%	25.5%	0.5%	
.SPX-UT	S&P 500	\$1,884.66	2.9x	9.4x	11.7x	1.6x	1.6%	21.9%	\$3,779.7	108.85	117.32	127.11	17.3x	16.1x	14.8x	8.3%	1.9x	13.4%	28.5%	2.9%	
ABAX	Abaxis Inc	\$40.70	0.0x	21.5x	26.7x	4.6x	0.0%	2.5%	\$101.8	0.80	0.65	0.91	51.0x	62.3x	44.7x	9.4%	6.6x	34.1%	8.0%	2.9%	
PETX	Aratana	\$13.88	(0.5x)	NM	NM	NM	0.0%	NM	\$45.8	(7.48)	(1.45)	(1.49)	NM	NM	NM	NM	NM	NM	218.3%	(28.6%)	
940-HK	China Animal Healthcare Ltd	¥4.96	0.2x	9.9x	11.5x	5.2x	0.0%	2.9%	\$1,054.8	0.13	0.21	0.30	38.8x	23.4x	16.8x	NM	NM	14.9%	91.4%	60.0%	
600195-SH	China Animal Husbandry Industry Co Ltd	¥12.46	0.3x	NM	12.7x	1.1x	5.3%	NM	\$546.6	0.66	0.66	0.81	18.8x	18.8x	15.5x	0.1%	150.7x	(27.2%)	26.4%	(21.9%)	
EAHLN	Eco Animal Health Group Plc	GBP 185.00	NM	NM	NM	NM	0.0%	0.0%	\$5.7	10.40	6.21	7.30	17.8x	29.8x	25.3x	21.1%	1.4x	16.5%	(14.9%)	(16.4%)	
VERN.R.A-ZG	Genera Dd	HRK 37.21	NM	NM	NM	NM	0.0%	NM	\$3.6	N/A	N/A	N/A	NM	NM	NM	NM	NM	(15.3%)	(15.6%)	(7.0%)	
300186-SZ	Guangdong Dahuanong Animal Health Products Co Ltd	¥7.68	0.0x	7.4x	6.7x	2.3x	0.0%	2.7%	\$1,170.6	0.41	0.50	0.72	18.7x	15.4x	10.7x	15.9%	1.0x	(6.9%)	33.5%	(16.6%)	
HSKA-US	Heska Corp	\$11.60	1.0x	8.6x	15.0x	0.8x	0.0%	NM	\$6.0	(0.37)	0.16	0.37	NM	73.9x	31.1x	NM	NM	11.0%	7.8%	32.9%	
HESTERBIO-BY	Hester Biosciences Ltd	INR 91	NM	NM	NM	NM	8.8%	0.0%	N/A	10.11	11.30	N/A	9.0x	8.1x	NM	NM	NM	37.3%	6.0%	(13.1%)	
IDXX-US	Idexx Laboratories Inc	\$129.88	1.3x	17.5x	20.8x	4.1x	0.0%	2.7%	\$286.2	3.47	3.84	4.34	37.5x	33.9x	29.9x	12.9%	2.6x	20.6%	13.2%	22.2%	
600201-SH	Inner Mongolia Jinyu Group Co Ltd	¥29.38	NM	NM	NM	7.0x	0.0%	3.4%	\$743.6	0.92	0.95	1.30	31.9x	31.0x	22.7x	25.9%	1.2x	19.5%	81.0%	13.8%	
KIN	Kindred Bio	\$15.31	NM	NM	NM	62.0x	0.0%	0.0%	\$11.0	(0.76)	(0.90)	(1.57)	NM	NM	NM	NM	NM	NM	56.4%	36.6%	
MWIV-US	Mwi Veterinary Supply Inc	\$164.08	0.8x	15.0x	16.2x	0.7x	0.0%	3.2%	\$0.5	4.91	5.62	6.47	33.4x	29.2x	25.4x	19.1%	1.5x	65.6%	58.3%	(8.1%)	
NEOG	Neogen Corp	\$40.70	0.0x	22.0x	25.9x	5.3x	0.0%	1.7%	\$68.8	0.75	0.77	0.94	53.9x	53.0x	43.3x	13.1%	4.0x	47.9%	46.4%	(8.0%)	
PAHC	Phibro Animal Health	\$17.96	3.2x	9.5x	11.4x	0.9x	2.2%	0.6%	\$15.9	0.27	0.61	1.52	67.5x	29.4x	11.8x	35.8%	0.8x	NM	NM	18.5%	
300119-SZ	Tianjin Ringpu Bio-technology Co Ltd	\$9.17	0.3x	10.5x	10.5x	2.9x	8.7%	0.0%	\$483.6	0.43	0.53	0.70	21.3x	17.2x	13.1x	21.5%	0.8x	27.2%	38.1%	(30.0%)	
WOOF-US	Vca Antech Inc	\$30.00	1.8x	8.6x	10.6x	1.3x	0.0%	6.0%	\$125.0	1.69	1.83	2.02	17.8x	16.4x	14.9x	7.3%	2.3x	6.6%	48.2%	(2.7%)	
VETO-FR	Vetoquinol Sa	€ 39.40	NM	NM	NM	1.4x	3.8%	4.9%	\$81.2	2.03	2.28	2.51	19.4x	17.3x	15.7x	4.6%	3.7x	26.4%	14.9%	29.0%	
VRP-FR	Virbac Sa	€ 172.15	NM	NM	NM	1.8x	4.4%	4.2%	\$36.7	7.14	7.70	8.54	24.1x	22.3x	20.2x	6.8%	3.3x	25.0%	5.1%	9.3%	
002100-SZ	Xinjiang Tecon Animal Husbandry Bio Technology Co Ltd	¥9.67	1.2x	8.9x	12.5x	0.9x	0.0%	0.6%	\$194.7	0.37	0.49	0.67	26.1x	19.7x	14.5x	18.7%	1.1x	(10.9%)	73.6%	(21.4%)	
600226-SH	Zhejiang Shenghua Biok Biology Co Ltd	¥5.67	NM	NM	32.2x	1.3x	0.5%	0.6%	\$141.3	0.07	0.13	0.21	81.0x	43.6x	27.0x	-9.2%	(4.7x)	(20.1%)	4.5%	(9.6%)	
ZTS	Zoetis Inc	\$30.53	2.7x	12.2x	13.8x	3.1x	0.9%	3.3%	\$610.0	1.40	1.53	1.74	21.8x	20.0x	17.6x	NM	NM	NM	24.5%	(5.3%)	
<b>Average</b>			<b>0.9x</b>	<b>12.6x</b>	<b>16.2x</b>	<b>5.9x</b>	<b>1.6%</b>	<b>2.2%</b>					<b>32.8x</b>	<b>29.7x</b>	<b>22.2x</b>	<b>13.5%</b>	<b>11.8x</b>	<b>15.1%</b>	<b>39.3%</b>	<b>1.7%</b>	

Source: Thomson Reuters and Guggenheim Securities, LLC

(1) EPS estimates are adjusted for non-operating items and 2013, 2014 and 2015 EPS estimates are consensus

(2) Debt/EBITDA is off of estimated 2014 EBITDA

(3), (4), and (5) multiples are off of 2015 estimates

(6) Arithmetic Average

# Animal Health M&A Comps 2006 to 2014

Year	Buyer Name	Seller Name	EV (\$MM)	EV /Sales	EV / EBITDA <sup>1</sup>
2006	Central Garden & Pet	Farnam Cos.	291	1.8x	NA
2009	Sanofi	Merck (50% interest in Merial)	4,000	3.0x	10.2x
2010	Henry Schein	Butler Animal Health Supply	410	NA	NA
2010	Bayer AG	Bomac Laboratories	101	2.2x	NA
2010	VCA Antech	Pet DRx	41	0.6x	NA
2011	Henry Schein	Provet Holdings	91	0.3x	NA
2011	Elanco	Janssen Animal Health	308	1.5x	NA
2011	Lextron	Animal Health International	247	0.3x	11.2x
2012	Henry Schein	Butler Schein Animal Health	724	0.4x	NA
2012	Royal DSM	Tortuga	547	1.1x	7.4x
2012	Dechra Pharmaceuticals	Eurovet Animal Health	177	1.8x	NA
2012	Bayer Healthcare	Teva Animal Health	145	NA	NA
2012	Bayer Healthcare	KMG Chemicals	10.2	0.9x	NA
2012	Perrigo	Sargeant's Pet Care	235	1.7x	NA
2012	Merial	Dosch Pharmaceuticals (Animal Health)	NA	NA	NA
2013	MWI Veterinary Supply	PCI Animal Health	17	0.5x	NA
2013	Neogen	Scidra Genomics	NA	NA	NA
2013	Perrigo	Velcera	160	2.7x	NA
2013	Heska Corp.	Cuatro Veterinary USA	14	0.7x	9.2x
2013	Elanco	China Animal Healthcare	500	3.7x	8.4x
2013	Aratana Therapeutics	Vet Therapeutics	48	NA	NA
2013	Zoetis	Advanced Food Technologies (AFT)	NA	NA	NA
2013	Henry Schein	Medivet (80% ownership position)	NA	NA	NA
2014	Aratana Therapeutics	Okapi Sciences NV	45	NA	NA
2014	Vetoquinol	Bioniche	61	2.0x	7.8x
2014	Elanco	Lohmann	NA	NA	14.5x
2014	Elanco	Novartis Animal Health	5,400	4.9x	NA
<b>Average</b>			<b>\$944</b>	<b>1.9x</b>	<b>11.3x</b>
<b>Median</b>			<b>\$155</b>	<b>1.7x</b>	<b>9.9x</b>
<b>High</b>			<b>\$11,850</b>	<b>5.6x</b>	<b>19.8x</b>
<b>Low</b>			<b>\$5</b>	<b>0.3x</b>	<b>7.4x</b>

Source: Guggenheim Securities, LLC, Factset, Company Reports

(1) EV means Enterprise Value. Multiples are calculated on historical sales and EBITDA; Heska acquisition is showing EV/EBIT

(2) Average is arithmetic.

(3) Vetoquinol acquisition of Bioniche Animal Health is in Canadian dollars.

# Animal Health Glossary

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1. **Animal and Plant Health Inspection Service (APHIS):** Department of Agriculture (USDA) agency responsible for monitoring the quality of licensed biologicals through the Center for Veterinary Biologics.
2. **Animal Health Products:** The pharmaceuticals, vaccines, feed additives, and pesticides used in modern food production and the medicines that keep pet animals healthy.
3. **Antimicrobial:** An agent that kills bacteria or suppresses their multiplication or growth. Includes antibiotics and synthetic agents.
4. **Center for Veterinary Medicine (CVM):** Branch of the Food and Drug Administration (FDA) that reviews and regulates the approval of all animal drugs to ensure that they are safe and effective in animals and are not harmful to humans.
5. **Diagnostic Test Kit:** Biological or medical device that allows farmers and veterinarians to detect illness in animals.
6. **Efficacy:** Proof of a product's effectiveness. Used in approving animal health products.
7. **Food Safety and Inspection Services (FSIS):** Department of Agriculture (USDA) agency that monitors the use of drugs in livestock by routinely sampling for residues in food animals.
8. **Major Species:** Cattle, horses, swine, chickens, turkeys, dogs, and cats are designated as the major species by the FDA. These are the largest domesticated species populations for which animal medicines are produced.
9. **Minor Species:** All animals other than humans that are not one of the major species. Examples include zoo animals, ornamental fish, parrots, ferrets, and guinea pigs. Some animals of agricultural importance are also minor species, such as sheep, goats, catfish, game birds, and honey bees (because they produce an edible product), among others.
10. **New Animal Drug Application (NADA):** Application by a drug manufacturer to the FDA for approval of a new animal drug. Government and industry refer to any compound that is available for sale as a "approved NADA."

## Additional Companies Mentioned

Company Name	Ticker	Rating	Price	Currency	Company Name	Ticker	Rating	Price	Currency
Abbott Labs	ABT	NC	38.84	USD	Gilead	GILD	Buy	79.83	USD
AcelRx	ACRX	Buy	10.89	USD	Henry Schein	HSIC	NC	115.18	USD
Actavis	ACT	Buy	207.90	USD	Heska	HSKA	NC	11.60	USD
Akorn	AKRX	Buy	25.40	USD	Hospira	HSP	Buy	46.92	USD
Allergan	AGN	Buy	169.00	USD	Impax Labs	IPXL	Buy	26.64	USD
Amgen	AMGN	NC	113.18	USD	Jazz	JAZZ	Buy	141.98	USD
Antares	ATRS	NC	2.81	USD	Johnson & Johnson	JNJ	NC	100.00	USD
Aratana	PETX	NC	13.88	USD	Kindred Biosciences inc	KIN	Buy	15.31	USD
AT&T Inc.	T	NC	35.76	USD	Lilly's Elanco	LLY	NC	58.88	USD
Baxter	BAX	NC	74.51	USD	Medicines Company	MDCO	Buy	26.68	USD
Bayer AG ADS	BAYRY	NC	138.94	USD	Merck	MRK	NC	58.63	USD
Becton Dickinson	BDX	NC	113.49	USD	MWI Veterinary Supply	MWIV	NC	164.08	USD
Biogen IDEC	BIIB	NC	290.06	USD	Mylan Labs	MYL	Neutral	49.89	USD
Bristol Myers Squibb	BMJ	NC	50.03	USD	Neogen	NEOG	NC	40.70	USD
CareFusion	CFN	NC	39.39	USD	Nestle S.A.	NESN-vx	NC	67.75	CHF
Celgene	CELG	NC	148.36	USD	Orexo AB	ORX-SK	Buy	104.25	SEK
Cempra	CEMP	NC	9.23	USD	Pernix	PTX	Neutral	4.47	USD
Cooper	COO	NC	134.11	USD	Perrigo	PRGO	Buy	145.80	USD
Covidien	COV	NC	71.62	USD	Sagent	SGNT	Neutral	19.83	USD
CR Bard	BCR	NC	140.32	USD	Salix	SLXP	NC	111.58	USD
Cubist	CBST	NC	70.83	USD	Sanofi	SNY	NC	54.54	USD
Dechra Pharma	DPH-LN	NC	7.09	GBP	Shire	SHPG	NC	174.48	USD
Durata	DRTX	NC	14.27	USD	Tetraphase	TTPH	Buy	10.39	USD
Ecolab Inc.	ECL	NC	105.31	USD	Teva	TEVA	Neutral	50.65	USD
Eli Lilly	LLY	NC	58.88	USD	Valeant	VRX-T	Buy	149.30	CAD
Empire Resources, Inc	ERS	NC	4.15	USD	VCA Antach Inc	WOOF	NC	30.00	USD
Endo	ENDP	NC	67.38	USD	Vetoquinol	VETOF	NC	41.55	USD
Forest Labs	FRX	NC	93.49	USD	Zoetis Inc	ZTS	Buy	30.53	USD

Source: Thomson and updated as of 05/05/14

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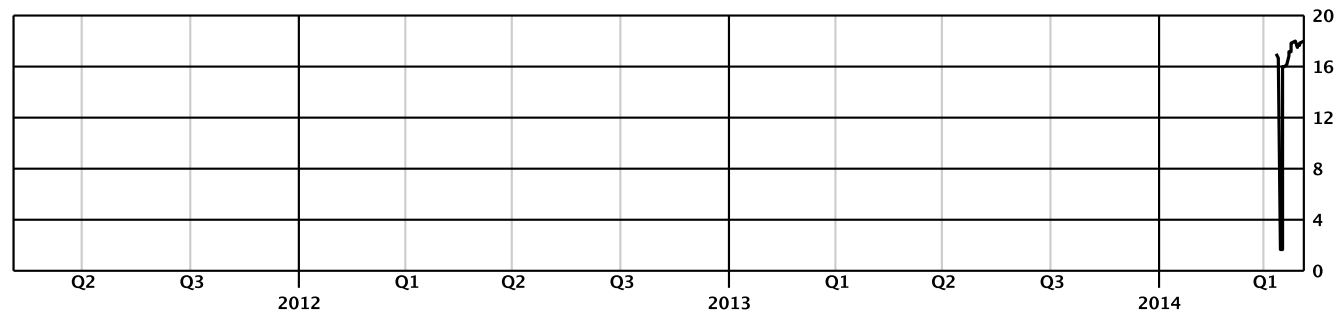
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