

Equities

UNITED STATES

PAHC US Outperform

Price (at 21:00, 11 Nov 2014 GMT) US\$27.92

Valuation US\$ 32.07

- DCF (WACC 8.6%, beta 1.0, ERP 5.0%, RFR 5.0%, TGR 6.4%)

12-month target US\$ 32.00

12-month TSR % +16.0

GICS sector

Pharmaceuticals, Biotechnology & Life Sciences

Market cap US\$m 1,088

30-day avg turnover US\$m 2.7

Number shares on issue m 38.96

Investment fundamentals

Year end 30 Jun		2014A	2015E	2016E	2017E
Revenue	m	691.9	751.7	798.7	850.1
EBIT	m	74.1	84.1	94.8	102.5
Reported profit	m	48.1	62.5	71.7	79.2
Adjusted profit	m	48.1	62.5	71.7	79.2
Gross cashflow	m	69.6	83.9	94.6	101.3
CFPS	US\$	1.76	2.12	2.39	2.56
CFPS growth	%	87.4	20.0	12.8	7.0
PGCFPS	x	15.8	13.2	11.7	10.9
EPS adj	US\$	1.22	1.58	1.81	2.00
EPS adj growth	%	164.5	29.3	14.8	10.4
PER adj	x	22.9	17.7	15.4	14.0
Total DPS	US\$	0.63	0.38	0.38	0.38
Total div yield	%	2.3	1.4	1.4	1.4
ROA	%	15.6	18.1	19.0	18.9
ROE	%	-180.7	220.5	112.2	74.5
EV/EBITDA	x	13.4	12.2	10.9	10.3
Net debt/equity	%	1,832.3	600.7	232.5	121.6
P/BV	x	72.8	26.6	12.8	8.8

PAHC US vs S&P 500, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, November 2014

(all figures in USD unless noted)

Analyst(s)

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12 November 2014

Macquarie Securities (Australia) Limited

Phibro Animal Health

Ruling the roost as earnings deliver

Event

- We maintain our Outperform rating and boost our target price following a solid 1Q15 earnings result that posted above our expectations. Guidance for FY15 was also raised to account for the earlier-than-expected realisation of licensing sales previously expected to be realised beginning FY16. With mid-teens earnings growth supported by emerging market expansion, further product penetration on strong branding and a lower cost base due to an improved manufacturing footprint, we maintain our Outperform rating and remain positive on the outlook.

Impact

- Animal health product demand underpins growth.** Excluding the receipt of earlier-than-expected licensing revenues, the Animal Health segment posted sales and profit growth of 10% during 1Q15 relative to 1Q14, benefitting from volume growth across all major product segments. Increased Latin America and Asia Pacific demand boosted MFA sales by 4%, while demand from the US dairy industry combined with the introduction of products into select European countries boosted Nutritional Specialty sales by 38% year-on-year. In addition, volume growth across most major markets boosted Vaccine sales 20% YoY.
- We see upside to guidance on improved margin setting.** Management raised the FY15 outlook to account for the earlier-than-expected receipt of licensing revenue associated with a previously disclosed vaccine delivery technology. At the mid-point, guidance implies EBITDA margins at 14.0%, in line with our model but notably short of the 16.0% margin realised during 1Q15. We see demand for animal vaccines and medicated feed additives to continue the recent steady sales growth, with the notable decline in animal feed prices (primarily corn and soymeal prices) providing a boost to the profit margin of Phibro's primary customer base.
- Outlook remains appealing.** Phibro's return profile remains compelling, with the firm well positioned to meaningfully boost its ROIC as improving profitability combines with a modest debt pay-down and an undemanding capital expenditure program. With an established footing in emerging markets, Phibro is well positioned to take advantage of emerging global growth opportunities in higher-growth regions as industrialised protein production becomes more prevalent. We model Phibro's ROIC improving from 6.4% in FY2013, to over 20% in 2016.

Earnings and target price revision

- EPS changes: FY15E +4.2%, FY16E +2.6%. TP to US\$32 (from US\$23).

Price catalyst

- 12-month price target: US\$32.00 based on a DCF methodology.
- Catalyst: Further product penetration, pricing upticks.

Action and recommendation

- With an attractive return profile, a solid balance sheet, a cash flow outlook supporting the firm's growth objectives, we view the risk/reward as compelling.

Please refer to page 8 for important disclosures and analyst certification, or on our website

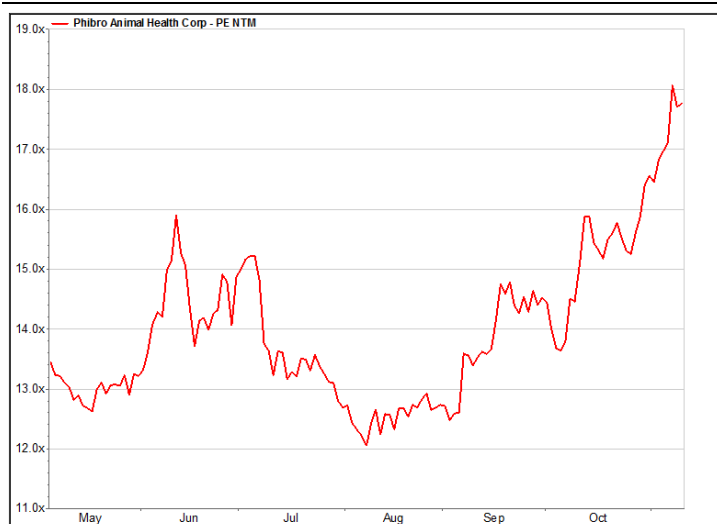
www.macquarie.com/research/disclosures.

Valuation

- Our SOTP valuation range of US\$32-33 per share aligns with our DCF based US\$32 target price. The boost in our TP is based on the lift in our near-term profit outlook, a roll-over to 2016 valuation, combined with the recent re-rating of peers that Phibro competes with across the animal health and mineral nutrition segments. To account for Phibro's lower margin profile, along with the recent share activism in Zoetis, we apply a 20% discount to the multiples of Animal Health peers.

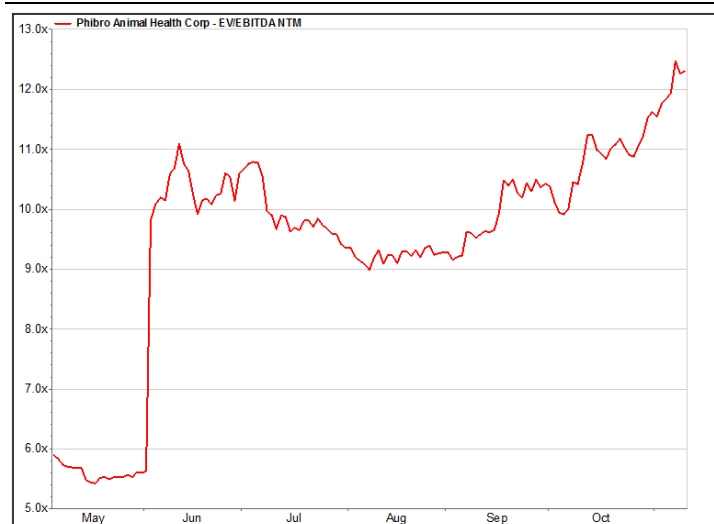
Operating Segment	Group Comparables	2016E EBITDA	2016 EV/EBITDA Multiple Avg	Implied Value	2016E EPS	2016 PE Avg.	Implied Value
Animal Health	LLY, ZTS (20% discount)	\$130	12.1x	\$1,566	\$2.00	18.6x	\$37.2
Mineral Nutrition	FMC DD MON	\$13	9.2x	\$119	\$0.20	14.3x	\$2.9
Performance Products	DD, DOW	\$5	8.6x	\$45	\$0.08	15.1x	\$1.2
Corp. Expenses & Eliminations		-\$30	9.0x	-\$272	-\$0.47	18.0x	-\$8.4
Sum		\$118	10.9x	\$1,458	\$1.81	18.2x	
(minus) Net Debt				180			
Implied Equity Value				1,278			
Share count				39.6			
Share value				\$32			\$33

Fig 1 PE NTM valuation – Phibro is trading at 17.8x NTM earnings



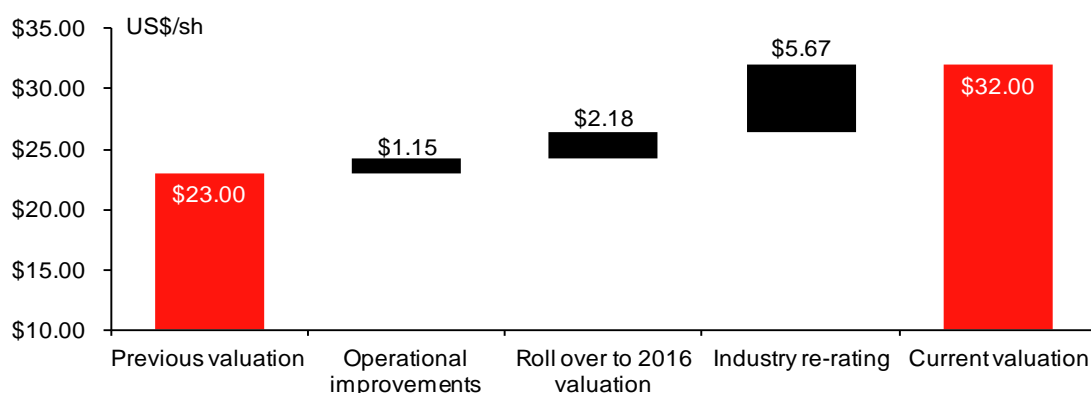
Source: Company data, Macquarie Research, November 2014

Fig 2 EV/EBITDA valuation – currently trading at an EV 12.3x NTM EBITDA



Source: Company data, Macquarie Research, November 2014

Fig 3 Valuation adjustment



Source: Company data, Macquarie Research, November 2014

Fig 4 Income Statement

(FY Dec. US\$m)	2009A	2010A	2011A	2012A	2013A	2014A	2015E	2016E	2017E
Total Segments	537.1	594.2	618.9	653.4	655.2	691.9	751.7	798.7	850.1
Net Sales	537.1	594.2	618.9	653.4	655.2	691.9	751.7	798.7	850.1
Cost of sales	407.5	439.5	473.1	488.9	475.9	484.1	517.8	536.1	569.1
Gross Profit	129.7	154.7	145.8	164.5	179.4	207.8	233.9	262.6	281.0
SG&A	84.6	101.9	104.9	114.5	122.4	133.7	149.8	167.7	178.5
R&D	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Income (EBIT)	45.0	52.8	40.8	50.1	57.0	74.1	84.1	94.8	102.5
Interest Expense, Net	31.3	34.4	34.3	35.5	35.5	13.8	13.2	11.2	9.5
Other income (expenses)	(15.8)	1.2	4.6	2.2	3.7	0.0	6.0	6.0	6.0
Pretax Income	(2.1)	19.6	11.2	16.8	25.2	60.3	76.9	89.6	99.0
Income Taxes & Others	3.4	3.8	3.8	7.1	7.0	12.2	12.9	17.9	19.8
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	(5.5)	15.8	7.4	9.7	18.2	48.1	64.0	71.7	79.2
EPS Diluted - Adjusted	(\$0.14)	\$0.40	\$0.19	\$0.25	\$0.46	\$1.22	\$1.62	\$1.81	\$2.00
Shares Outstanding - Diluted	39.4	39.4	39.4	39.4	39.4	39.4	39.6	39.6	39.6
Income Statement Analysis									
Operating Margin	8.4%	8.9%	6.6%	7.7%	8.7%	10.7%	11.2%	11.9%	12.1%
Gross Margin	24.1%	26.0%	23.6%	25.2%	27.4%	30.0%	31.1%	32.9%	33.1%
Tax Rate	-160.6%	19.3%	34.1%	42.1%	27.8%	20.2%	17.6%	20.0%	20.0%
Net Margin	-1.0%	2.7%	1.2%	1.5%	2.8%	7.0%	8.5%	9.0%	9.3%
YoY % Change									
Revenue		10.6%	4.2%	5.6%	0.3%	5.6%	8.6%	6.3%	6.4%
Operating Income		17.3%	(22.7%)	22.7%	13.7%	30.1%	13.5%	12.7%	8.1%
Pretax Income		N/M	(43.0%)	50.1%	50.0%	139.6%	27.6%	16.5%	10.4%
Net Income		N/M	(53.4%)	31.9%	87.1%	164.7%	33.0%	12.1%	10.4%
Diluted EPS		N/M	(53.4%)	31.9%	87.1%	164.5%	32.4%	12.1%	10.4%
Metrics									
Interest Coverage Ratio	1.4	1.5	1.2	1.4	1.6	5.4	6.4	8.5	10.8
D&A	0.0	0.0	16.7	17.6	18.9	21.5	21.4	22.9	22.1
EBITDA	45	53	58	68	76	96	106	118	125
YoY % Change		17.3%	8.9%	17.7%	12.1%	25.9%	10.4%	11.6%	5.8%
EBITDA Margin	8.4%	8.9%	9.3%	10.4%	11.6%	13.8%	14.0%	14.7%	14.7%
EBITDA Per Share	\$1.14	\$1.34	\$1.46	\$1.72	\$1.93	\$2.42	\$2.66	\$2.97	\$3.15

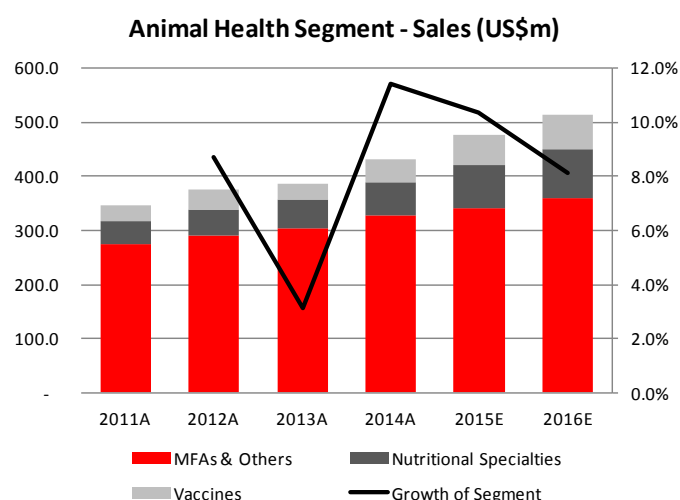
Source: Company data, Macquarie Research, November 2014

Animal Health segment

The Animal Health business develops, manufactures and markets more than 550 product presentations. The segment is reported in three businesses:

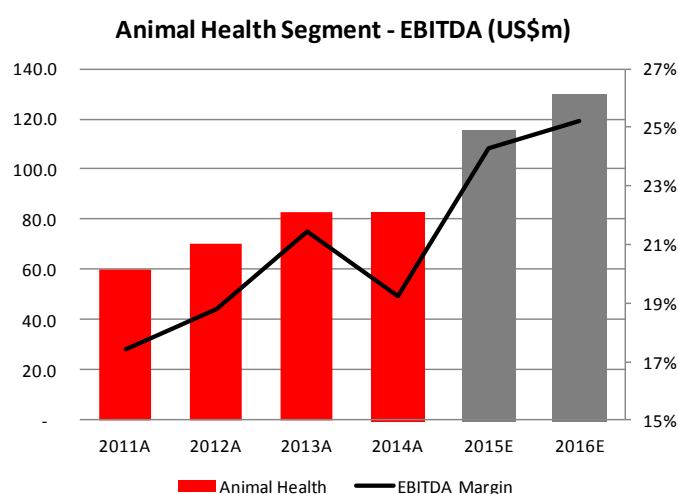
- **MFAs and Other** business is primarily concentrated medicated products that are administered through animal feeds, commonly referred to as Medicated Feed Additives (MFAs). This includes antibacterials, which inhibit the growth of pathogenic bacteria that cause bacterial infections in animals; anticoccidials, which inhibit the growth of parasites (coccidia) that damage the intestinal tract of animals; and related products. Growth in this business primarily stems from increased penetration into emerging markets. MFAs and Other also includes other processing aids, such as for the ethanol fermentation industry.
- **Nutritional Specialties.** Includes nutritional specialty products, which enhance nutrition to help improve health and performance. Many of Phibro's proprietary nutritional specialty products have been developed through basic research in cooperation with private research companies or by leading universities with whom the firm collaborates and then further develops through commercial trials with customers. Major products include OmniGen, patented nutritional specialty product that has been shown in several studies to help maintain a cow's healthy immune system, and Animate, a patented nutritional specialty product that helps optimize the health and performance of the dairy cow. Market share for OmniGen is strong, with the firm estimating over 20% penetration of the 9 million US dairy cow herd. The product has also been launched in Europe and Brazil in the last year, targeting industrial producers representing approximately 15 million dairy cows in Europe and almost 2 million in Brazil. Regulatory approval is being sought in China, which has approximately 5 million dairy cows.
- **Vaccines,** which cause an increase in antibody levels against a specific virus or bacterium, thus preventing infection from that viral or bacterial antigen. The firm's vaccines products are primarily focused on preventing diseases in the poultry industry, which is globally the fastest-growing food animal species of scale, and are marketed globally.

Fig 5 We model solid sales growth, driven by steady growth in demand for Medicated Feed Additives...



Source: Company data, Macquarie Capital (USA), November 2014

Fig 6 ...which combined with a disciplined cost base provides notable margin expansion opportunity



Source: Company data, Macquarie Capital (USA), November 2014

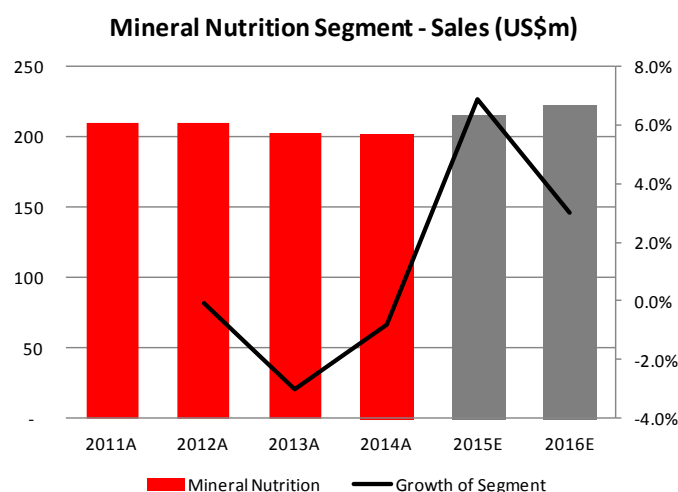
Mineral Nutrition segment

Nutrient rich cash generator. Phibro'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, primarily focused on customers in North America who use these products to fortify the daily feed requirements of their livestock diets and maintain an optimal balance of trace elements in each animal.

We anticipate healthy volume growth. Volume growth in the mineral nutrition sector is primarily driven by livestock production numbers, while pricing is largely based on costs of the underlying commodity metals.

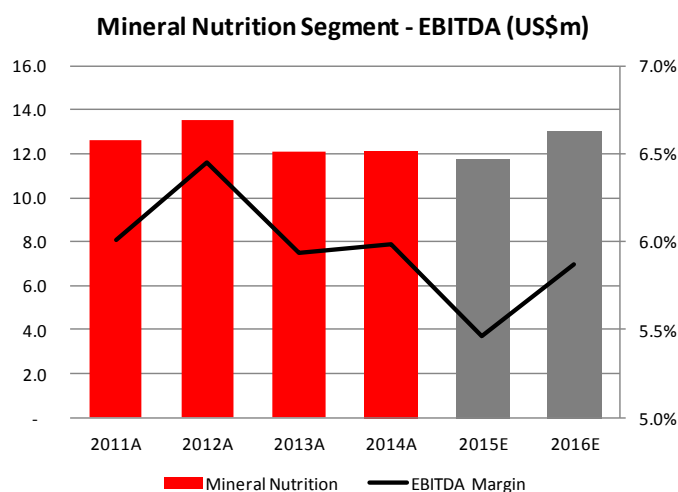
Production chain integration provides competitive advantage. Given the firm's routine contact with the entire supply chain, Phibro is effectively able to leverage this business to additionally market additional innovative Animal Health products to the same customers that buy Mineral Nutrition products on an ongoing basis

Fig 7 We model only modest sales growth...



Source: Company data, Macquarie Capital (USA), November 2014

Fig 8 ...along with earnings below the prior peak



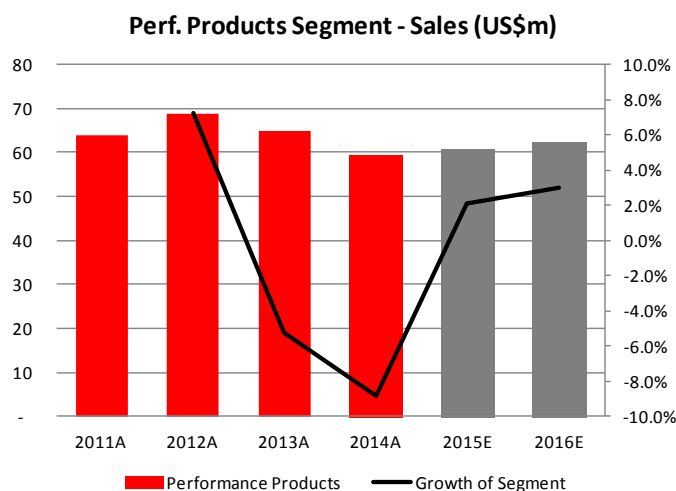
Source: Company data, Macquarie Capital (USA), November 2014

Performance Products segment

Non-core with minimal overlap to remaining business.

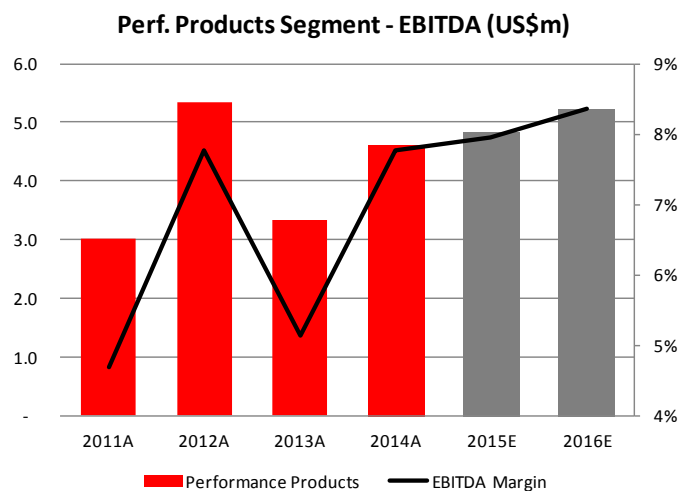
In our opinion, Phibro's Performance Products business remains non-core, holding minimal overlap to remaining businesses. The segment manufactures and markets a number of specialty ingredients for use in the personal care, automotive, industrial chemical and chemical catalyst industries, predominantly in the United States. As at the end of FY2014, the segment contributed 9% of firm-wide sales and just 6% of EBITDA on relatively low profitability. Management continue to de-emphasise this legacy segment, with recent divestments set to continue as the firm prioritises the higher margin core business, to which the Performance Products segment holds minimal overlap

Fig 9 We model only tepid sales growth...



Source: Company data, Macquarie Capital (USA), November 2014

Fig 10 ...supporting a modest uptick in earnings

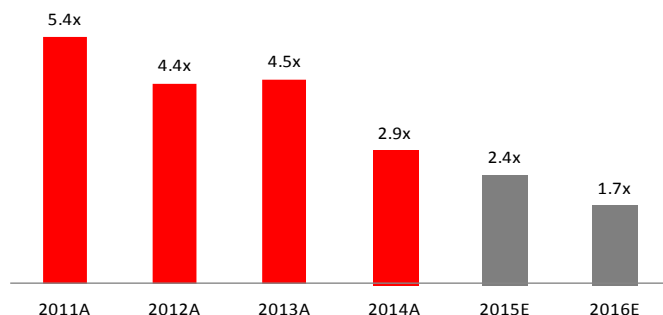


Source: Company data, Macquarie Capital (USA), November 2014

Balance sheet remains conservative

Fig 11 We model a modest pay down in debt

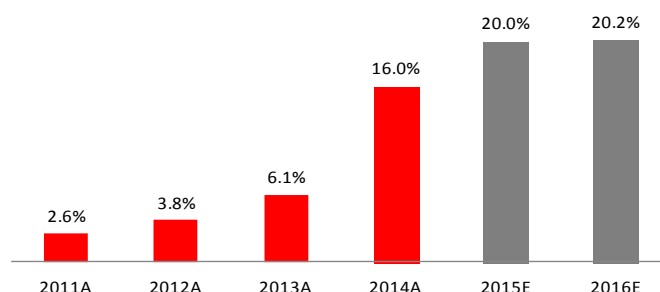
Net Debt/EBITDA



Source: Company data, Macquarie Research, November 2014

Fig 12 PAHC's return profile looks appealing

ROIC



Source: Company data, Macquarie Research, November 2014

Fig 13 Balance sheet

(FY Dec. US\$m)	2011A	2012A	2013A	2014A	2015E	2016E	2017E
Assets							
Cash & ST Investments	48.6	53.9	27.4	11.8	31.2	71.2	109.5
Accounts Receivable, Net	97.7	99.0	99.0	113.9	115.6	122.9	130.8
Inventories	124.1	118.4	140.2	143.2	163.4	166.4	177.1
Other Current Assets	24.4	28.9	30.6	30.4	31.0	31.7	32.3
Total Current Assets	294.8	300.2	297.1	299.3	341.3	392.2	449.7
Property, Plant & Equipment, Net	109.2	100.3	104.8	109.2	103.4	96.5	78.6
Intangible Assets	12.9	15.0	35.2	29.8	30.4	31.0	31.6
Other Assets	18.2	22.0	37.8	34.1	34.1	34.1	34.1
Total Assets	435.1	437.5	474.9	472.3	509.2	553.7	594.0
Liabilities and Shareholder's Equity							
ST Debt & Current Portion Of Long-Term Debt	5.5	5.4	0.1	3.0	3.0	3.0	3.0
Accounts Payable & Accrued Liabilities	63.0	66.8	58.4	59.6	75.2	79.9	85.0
Income Tax Payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Current Liabilities	47.8	52.6	57.2	49.9	52.4	55.0	57.7
Total Current Liabilities	116.3	124.8	115.7	112.4	130.5	137.8	145.7
Long-Term Debt, Net	352.5	344.8	365.5	286.4	277.7	268.9	260.2
Deferred Tax Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities	36.1	56.2	62.0	58.3	59.5	60.7	61.9
Total Liabilities	504.9	525.7	543.3	457.2	467.6	467.4	467.8
Total Shareholders' Equity	-69.7	-88.2	-68.4	15.1	41.5	86.3	126.3
Total Liabilities & Shareholders' Equity	435.1	437.5	474.9	472.3	509.2	553.7	594.0
Ratios							
Current Ratio	2.5x	2.4x	2.6x	2.7x	2.6x	2.8x	3.1x
Cash & Marketable Securities/Share	\$1.23	\$1.37	\$0.69	\$0.30	\$0.79	\$1.80	\$2.77
Receivables Turnover	6.3x	6.6x	6.6x	6.5x	6.5x	6.5x	6.5x
Inventory Turnover	3.8x	5.4x	5.1x	4.9x	4.6x	4.8x	4.8x
Working Capital Turnover	3.5x	3.7x	3.6x	3.7x	3.6x	3.1x	2.8x
Asset Turnover	1.4x	1.5x	1.4x	1.5x	1.5x	1.4x	1.4x
Payables Turnover	9.8x	10.1x	10.5x	11.7x	10.0x	10.0x	10.0x
Net Debt/EBITDA	5.4x	4.4x	4.5x	2.9x	2.4x	1.7x	1.2x
Book Value/Share	(1.77)	(2.24)	(1.74)	0.38	1.05	2.18	3.19
Debt to Equity	-5.1x	-4.0x	-5.3x	19.1x	6.8x	3.2x	2.1x
Du Pont Analysis							
Net Margin	1.2%	1.5%	2.8%	7.0%	8.5%	9.0%	9.3%
x Asset Turnover	1.42	1.49	1.38	1.46	1.48	1.44	1.43
= Net Return On Assets	1.7%	2.2%	3.8%	10.2%	12.6%	13.0%	13.3%
x Leverage Ratio	-6.24	-4.96	-6.94	31.18	12.26	6.42	4.70
= Return On Equity	-10.6%	-11.0%	-26.6%	317.6%	154.1%	83.1%	62.7%
ROE	(10.6%)	(12.3%)	(23.2%)	(180.7%)	225.8%	112.2%	74.5%

Source: Company data, Macquarie Research, November 2014

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense

Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2014

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	48.73%	59.90%	35.63%	42.00%	60.28%	42.11%	(for US coverage by MCUSA, 6.09% of stocks followed are investment banking clients)
Neutral	33.76%	24.97%	39.08%	52.67%	36.17%	38.42%	(for US coverage by MCUSA, 8.12% of stocks followed are investment banking clients)
Underperform	17.52%	15.13%	25.29%	5.33%	3.55%	19.47%	(for US coverage by MCUSA, 0.51% of stocks followed are investment banking clients)

PAHC US vs S&P 500, & rec history



(all figures in USD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Capital (USA), November 2014

12-month target price methodology

PAHC US: US\$32.00 based on a DCF methodology

Company-specific disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
29-May-2014	PAHC US	Outperform	US\$23.00

Target price risk disclosures:

PAHC US: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification:

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