

Phibro Animal Health Corp.

Assuming Coverage

We are assuming coverage of Phibro Animal Health with an Overweight rating and a \$21 price target. Our 2014 and 2015 EPS estimates remain \$1.03 and \$1.42, respectively.

PAHC: Quarterly and Annual EPS (USD)

	2013		2014		2015		Change y/y		
FY Jun	Actual	Old	New	Cons	Old	New	Cons	2014	2015
Q1	0.07A	0.21A	0.21A	N/A	0.34E	0.34E	N/A	200%	62%
Q2	0.15A	0.27A	0.27A	N/A	0.36E	0.36E	N/A	80%	33%
Q3	0.18A	0.28A	0.28A	N/A	0.35E	0.35E	N/A	56%	25%
Q4	0.21A	0.27E	0.27E	N/A	0.36E	0.36E	N/A	29%	33%
Year	0.60A	1.03E	1.03E	N/A	1.42E	1.42E	N/A	72%	38%
P/E	36.7		21.4			15.6			

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

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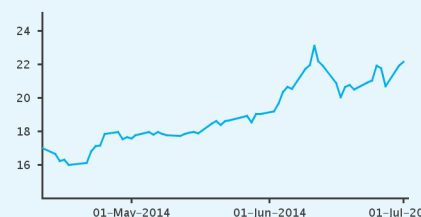
Stock Rating	OVERWEIGHT Unchanged
Industry View	POSITIVE Unchanged
Price Target	USD 21.00 Unchanged

Price (01-Jul-2014)	USD 22.16
Potential Upside/Downside	-5%
Tickers	PAHC

Market Cap (USD mn)	860
Shares Outstanding (mn)	38.79
Free Float (%)	99.97
52 Wk Avg Daily Volume (mn)	0.3
Dividend Yield (%)	N/A
Return on Equity TTM (%)	N/A
Current BVPS (USD)	-1.14

Source: Thomson Reuters

Price Performance	Exchange-Nasdaq
52 Week range	USD 23.74-15.10



[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)	2013A	2014E	2015E	2016E	CAGR
Revenue	653	684	728	771	5.7%
EBITDA (adj)	76	90	100	110	13.3%
EBIT	57	69	79	89	16.4%
Pre-tax income	18	34	65	77	62.4%
Net income	25	18	52	53	28.5%
EPS (adj) (\$)	0.60	1.03	1.42	1.66	40.0%
Diluted shares (mn)	30.5	32.9	39.4	39.4	9.0%
DPS (\$)	0.00	0.46	0.39	0.39	N/A

Margin and return data	Average				
EBITDA (adj) margin (%)	11.6	13.2	13.7	14.3	13.2
EBIT margin (%)	8.7	10.1	10.9	11.6	10.3
Pre-tax margin (%)	2.7	5.0	8.9	9.9	6.6
Net margin (%)	3.8	2.6	7.1	6.9	5.1
ROIC (%)	5.5	9.6	15.6	14.7	11.3
ROA (%)	4.0	6.9	10.7	12.1	8.4
ROE (%)	-23.4	-201.6	104.1	71.9	-12.2

Balance sheet and cash flow (\$mn)	CAGR				
Tangible fixed assets	104	108	107	106	0.6%
Intangible fixed assets	35	31	31	31	-3.7%
Cash and equivalents	27	56	56	64	32.9%
Total assets	474	511	530	549	5.0%
Short and long-term debt	366	296	271	241	-12.9%
Other long-term liabilities	62	62	62	62	0.1%
Total liabilities	543	476	459	439	-6.8%
Net debt/(funds)	338	240	215	177	-19.4%
Shareholders' equity	-69	35	72	110	N/A
Change in working capital	-35	-15	-12	-9	N/A
Cash flow from operations	0	35	60	73	460.1%
Capital expenditure	-20	-20	-20	-20	N/A
Free cash flow	-20	15	40	53	N/A

Valuation and leverage metrics	Average				
EV/EBITDA (adj) (x)	16.0	12.4	10.9	9.5	12.2
P/E (adj) (x)	36.7	21.4	15.6	13.4	21.8
FCF yield (%)	-2.9	2.1	4.6	6.1	2.5
P/Sales (x)	1.3	1.3	1.2	1.1	1.2
P/BV (x)	-9.8	20.5	12.0	7.8	7.6
Dividend yield (%)	0.0	2.1	1.8	1.8	1.4
Total debt/capital (%)	123.2	89.4	79.1	68.8	90.1

Selected operating metrics

Price (01-Jul-2014)	USD 22.16
Price Target	USD 21.00

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.

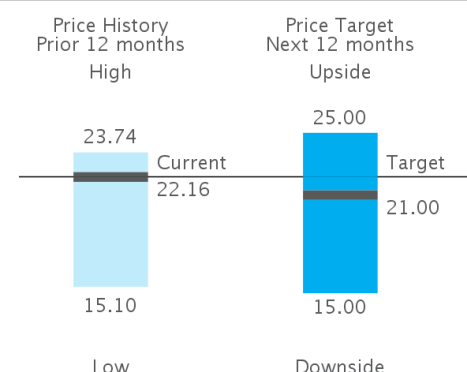
Upside case USD 25.00

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.

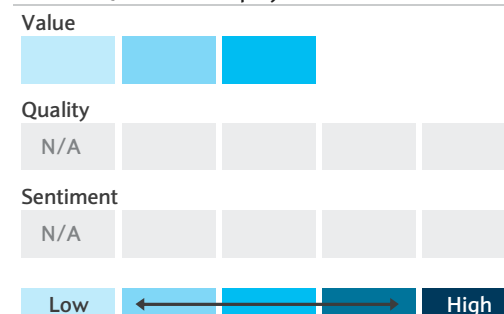
Downside case USD 15.00

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



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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.

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Primary Stocks (Ticker, Date, Price)

Phibro Animal Health Corp. (PAHC, 01-Jul-2014, USD 22.16), Overweight/Positive, A/C/D/J/L

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Stock Rating

Overweight - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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Industry View

Positive - industry coverage universe fundamentals/valuations are improving.

Neutral - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

Negative - industry coverage universe fundamentals/valuations are deteriorating.

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Charles River Laboratories (CRL)	Covance Inc. (CVD)	Forest Laboratories Inc. (FRX)
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 22.16 (01-Jul-2014)

Stock Rating

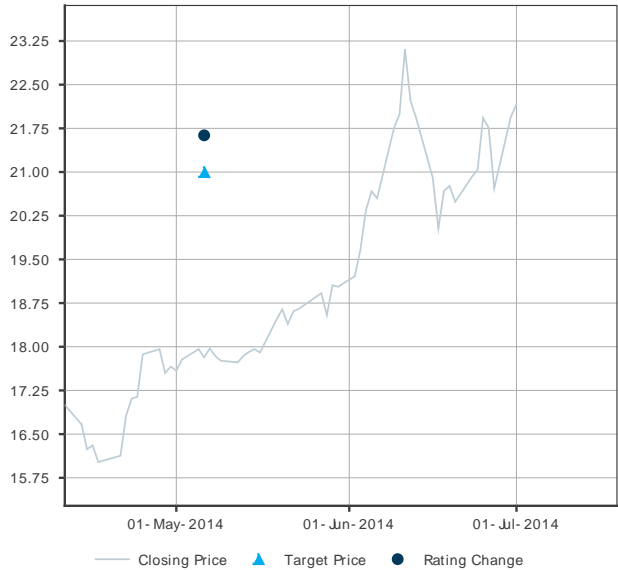
OVERWEIGHT

Industry View

POSITIVE

Rating and Price Target Chart - USD (as of 01-Jul-2014)

Currency=USD



Date	Closing Price	Rating	Adjusted Price Target
06-May-2014	17.82	Overweight	21.00

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

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

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Valuation Methodology: In our view, an appropriate valuation for PAHC stock is to give the company a small but substantial discount to the trading level of ZTS stock, in accordance with PAHC's smaller revenue and lower margins – largely stemming from PAHC's lower-margin Mineral Nutrition and Performance Product divisions – and higher debt level. We set our price target for PAHC at \$21, reflecting an average of two valuation methodologies: (1) using a multiple of 10.25x our projected 2015 EBITDA of \$100M and (2) a discounted cash flow model assuming an 8.2% discount rate and a long-term growth rate of 3.0%

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