

Phibro Animal Health Corp.

Solid finish to '14

Last night, PAHC reported fiscal 4Q14 EPS of \$0.22, below consensus and Barclays estimates of \$0.27, but the headline number belies underlying strength with upside versus both our revenue and EBITDA estimates. Moreover, the quarter came in above the guidance provided by PAHC management in March of \$0.19-\$0.21 excluding \$0.15 of non-recurring cash income tax items. The EPS miss was driven by non-recurring cash income tax items as well as changes in shares outstanding.

However, top-line sales and EBITDA were strong, with net sales for the quarter of \$184 million representing an increase of 12% over the same quarter last year, above consensus and Barclays estimates of \$175 million, and above guidance of \$174 - \$177 million representing 6 - 8% growth. EBITDA for the quarter was \$24 million representing an increase of 23% year over year, above Barclays estimate of \$23 million and consensus \$23.5 million, and towards the upper end of the guidance range of \$23 - \$24 million representing growth of 15 - 20%.

Animal Health and Mineral Nutrition both increased 13% year over year while the Performance Products segment continued to struggle, down 1%. Animal Health accounted for 62% of net revenues for the quarter, and up \$13.4 million or 13% compared to fiscal 4Q13. Last quarter, the company noted an increase of \$8.4 million in MFA (Medical Feed Additives) driven by APAC and Latin American markets. This quarter, MFA grew \$9.2 million driven primarily by Brazil, Latin America, and APAC.

Initial FY15 outlook looks strong. Management provided favourable FY2015 guidance of net sales \$735 - \$755 million representing 6 - 9% growth, EBITDA of \$99 - \$103 million representing 9 - 14% growth, and adjusted diluted EPS of \$1.46 - \$1.51. Phibro expects the Animal Health segment to be the primary driver of sales, adjusted EBITDA, and adjusted diluted EPS in FY2015.

We raise our FY15 EPS estimate to \$1.49 and take our price target to \$22. Our new target represents 14.7x our FY15 estimate of \$1.49 (previously \$1.42).

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	0.34E	0.35E	N/A	N/A	0.40E	N/A	67%	14%
Q2	0.27A	0.36E	0.36E	N/A	N/A	0.43E	N/A	33%	19%
Q3	0.28A	0.35E	0.38E	N/A	N/A	0.41E	N/A	36%	8%
Q4	0.22A	0.36E	0.41E	N/A	N/A	0.45E	N/A	86%	10%
Year	1.22A	1.42E	1.49E	N/A	N/A	1.69E	N/A	22%	13%
P/E	17.1		13.9			12.3			

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4.

Stock Rating	OVERWEIGHT Unchanged
Industry View	POSITIVE Unchanged
Price Target	USD 22.00 raised 5% from USD 21.00

Price (16-Sep-2014)	USD 20.83
Potential Upside/Downside	+6%
Tickers	PAHC

Market Cap (USD mn)	811
Shares Outstanding (mn)	38.96
Free Float (%)	99.89
52 Wk Avg Daily Volume (mn)	0.2
Dividend Yield (%)	2.0
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)	2014A	2015E	2016E	2017E	CAGR
Revenue	692	745	790	827	6.1%
EBITDA (adj)	91	102	113	119	9.5%
EBIT (adj)	70	81	91	98	12.0%
Pre-tax income (adj)	60	66	78	87	12.8%
Net income (adj)	48	59	67	70	13.4%
EPS (adj) (\$)	1.22	1.49	1.69	1.78	13.4%
Diluted shares (mn)	39.5	39.5	39.5	39.5	0.0%
DPS (\$)	0.46	0.39	0.39	0.39	-5.4%

Margin and return data	Average				
EBITDA (adj) margin (%)	13.1	13.7	14.3	14.4	13.9
EBIT (adj) margin (%)	10.1	10.8	11.6	11.8	11.1
Pre-tax (adj) margin (%)	N/A	N/A	N/A	N/A	N/A
Net (adj) margin (%)	7.0	7.9	8.5	8.5	8.0
ROIC (%)	15.5	15.7	14.7	15.1	15.2
ROA (%)	9.6	11.0	12.0	12.2	11.2
ROE (%)	-339.8	98.5	67.4	49.6	-31.1

Balance sheet and cash flow (\$mn)	CAGR				
Tangible fixed assets	108	107	105	104	-1.0%
Intangible fixed assets	31	31	31	31	0.0%
Cash and equivalents	57	58	68	85	14.7%
Total assets	526	544	565	586	3.7%
Short and long-term debt	296	271	241	211	-10.7%
Other long-term liabilities	62	62	62	62	0.0%
Total liabilities	485	465	446	422	-4.5%
Net debt/(funds)	240	214	174	126	-19.3%
Shareholders' equity	41	79	119	164	59.3%
Change in working capital	-20	-14	-9	-8	N/A
Cash flow from operations	35	61	75	82	32.3%
Capital expenditure	-20	-20	-20	-20	N/A
Free cash flow	15	41	55	62	59.1%

Valuation and leverage metrics	Average				
P/E (adj) (x)	17.1	13.9	12.3	11.7	13.8
EV/sales (x)	0.3	0.3	0.2	0.2	0.3
EV/EBITDA (adj) (x)	2.6	2.1	1.5	1.1	1.8
FCF yield (%)	1.9	5.0	6.6	7.5	5.3
P/BV (x)	16.5	9.8	6.6	4.7	9.4
Dividend yield (%)	2.2	1.9	1.9	1.9	2.0
Total debt/capital (%)	87.9	77.4	67.0	56.3	72.2

Selected operating metrics	Average				
SG&A/sales (%)	N/A	N/A	N/A	N/A	N/A
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 (16-Sep-2014) USD 20.83
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.

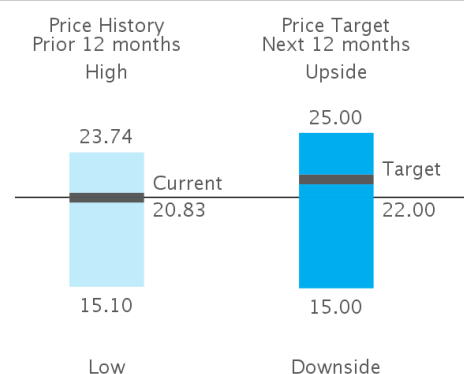
Upside case USD 25.00

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.

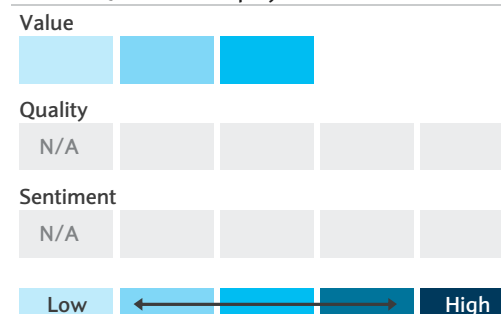
Downside case USD 15.00

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



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

Phibro Animal Health Corp. reported fiscal 4Q14 EPS in its second quarter as a publicly traded company of \$0.22, coming in below consensus and Barclays estimates of \$0.27, but above management guidance provided in March of \$0.19 - \$0.21 excluding \$0.15 of non-recurring cash income tax items. The earnings miss was driven by non-recurring cash income tax items as well as changes in shares outstanding. However, top-line sales and EBITDA were strong, with net sales for the quarter of \$184 million representing an increase of 12% over the same quarter last year, above consensus and Barclays estimates of \$175 million, and above guidance of \$174 - \$177 million representing 6 – 8% growth. EBITDA for the quarter was \$24 million representing an increase of 23% year over year, above Barclays estimate of \$23 million and consensus \$23.5 million, and towards the upper end of the guidance range of \$23 - \$24 million representing growth of 15 – 20%. Management provided favourable FY2015 guidance of net sales \$735 - \$755 million representing 6 – 9% growth, EBITDA of \$99 - \$103 million representing 9 – 14% growth, and adjusted diluted EPS of \$1.46 - \$1.51.

For the fiscal year ended June 2014, net sales were \$692 million representing an increase of 6%, above Barclays and consensus estimates of \$684 million. Pro forma adjusted diluted EPS for the fiscal year was \$1.22, compared to Barclays \$1.03 and consensus \$1.08. EBITDA for the year was \$91 million representing an increase of 20% year over year, slightly above Barclays \$90 million and just below consensus of \$91.5 million.

Animal Health and Mineral Nutrition both increased 13% year over year while the Performance Products segment continued to struggle, down 1%. Animal Health accounted for 62% of net revenues for the quarter, and up \$13.4 million or 13% compared to fiscal 4Q13. Last quarter, the company noted an increase of \$8.4 million in MFA (Medical Feed Additives) driven by Asia Pacific and Latin American markets. This quarter, MFA grew \$9.2 million driven primarily by Brazil, Latin America, and Asia Pacific. Phibro also reported strong growth in the Nutrition specialty products and Vaccine segments, growing 17% and 21%, respectively. We think emerging markets, where meat consumption is increasing in parallel with better economic conditions, will continue to be a growth driver for the Animal Health business.

Animal Health was also the largest contributor to gross profit, which increased \$6.1 million to 29.5% on net sales for the quarter. Improvements in Animal Health gross profit of \$5 million were driven by volume growth and favourable product mix, as well as higher average selling prices, offset by higher unit costs and other items. SG&A expenses increased \$8 million, driven by a \$5.4 million loss on an insurance claim previously recorded as an asset. This related to customer claims against damages that were the result of an animal health poultry product.

Phibro expects the Animal Health segment to be the primary driver of sales, adjusted EBITDA, and adjusted diluted EPS in FY2015. Animal Health net sales and adjusted EBITDA are also expected to benefit from \$4 million in revenue associated with the licensing of Phibro's proprietary vaccine delivery technology.

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Primary Stocks (Ticker, Date, Price)

Phibro Animal Health Corp. (PAHC, 16-Sep-2014, USD 20.83), Overweight/Positive, A/C/D/J/L

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U.S. Specialty Pharmaceuticals

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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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Phibro Animal Health Corp. (PAHC)

USD 20.83 (16-Sep-2014)

Stock Rating

OVERWEIGHT

Industry View

POSITIVE

Rating and Price Target Chart - USD (as of 16-Sep-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

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Valuation Methodology: Our \$22 price target is based on 14.7x our FY15 EPS estimate of \$1.49.

Risks which May Impede the Achievement of the Barclays Research Price Target: Increased regulatory controls over medical feed additives for livestock production, a slowdown in global economic growth that reduces demand for animal proteins, the spread of any outbreaks of animal disease, or the failure of the company to receive expected registrations/approvals for entry into new countries would all serve to reduce Phibro's financial results relative to our projections.

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