

Phibro Animal Health Corp.

Housekeeping

We are updating our PAHC balance sheet data in Barclays Live to reflect our estimates for the company's June 2014 fiscal year end, in order to best capture our projections of the impact of PAHC's April 11, 2014 IPO. Our EPS estimates and price target of \$21 remain unchanged.

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	30.6		17.9			13.0			

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

Equity Research

Basic Industries | North America Fertilizers & Agriculture
19 May 2014

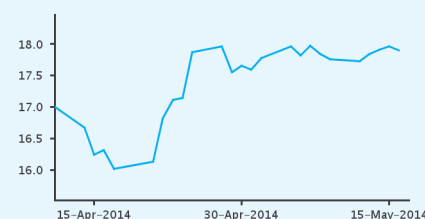
Stock Rating	OVERWEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	USD 21.00 Unchanged

Price (19-May-2014)	USD 18.47
Potential Upside/Downside	+14%
Tickers	PAHC

Market Cap (USD mn)	716
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)	-1.64

Source: Thomson Reuters

Price Performance	Exchange-Nasdaq
52 Week range	USD 19.12-15.10



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

North America Fertilizers & Agriculture

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 3.

North America Fertilizers & Agriculture

Industry View: NEUTRAL

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

Price (19-May-2014)	USD 18.47
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.

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

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.

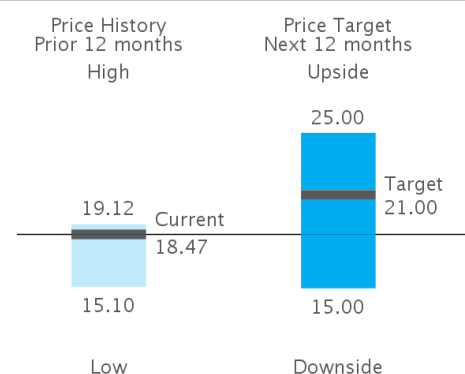
Downside case USD 15.00

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.

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)	14.1	10.7	9.4	8.2	10.6
P/E (adj) (x)	30.6	17.9	13.0	11.2	18.2
FCF yield (%)	-3.5	2.5	5.5	7.3	3.0
P/Sales (x)	1.1	1.1	1.0	0.9	1.0
P/BV (x)	-8.2	17.1	10.0	6.5	6.4
Dividend yield (%)	0.0	2.5	2.1	2.1	1.7
Total debt/capital (%)	123.2	89.4	79.1	68.8	90.1

Upside/Downside scenarios



Selected operating metrics

Source: Company data, Barclays Research
Note: FY End Jun

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Primary Stocks (Ticker, Date, Price)

Phibro Animal Health Corp. (PAHC, 19-May-2014, USD 18.47), Overweight/Neutral, A/C/D/J/L

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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.

Below is the list of companies that constitute the "industry coverage universe":

North America Fertilizers & Agriculture

Agrium Inc. (AGU)	Bunge Limited (BG)	CF Industries Holdings (CF)
CVR Partners (UAN)	Ingredion Inc. (INGR)	Intrepid Potash Inc. (IPI)
Phibro Animal Health Corp. (PAHC)	Potash Corporation of Saskatchewan (POT)	The Mosaic Company (MOS)

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USD 18.47 (19-May-2014)

Stock Rating

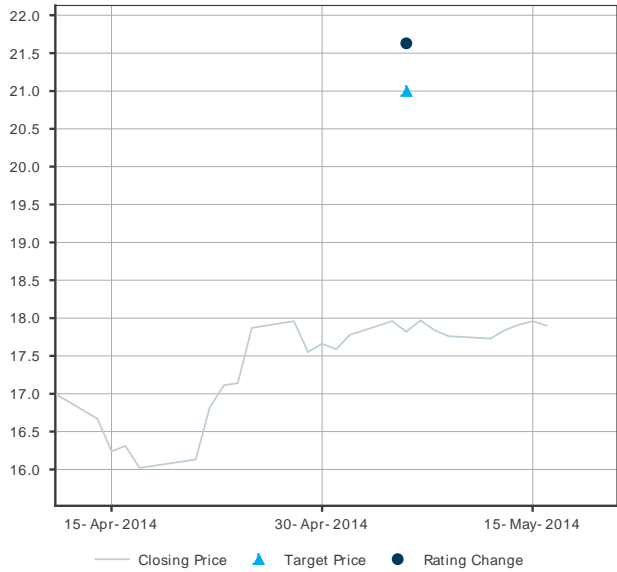
OVERWEIGHT

Industry View

NEUTRAL

Rating and Price Target Chart - USD (as of 19-May-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%

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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