

February 11, 2015

PAHC

Dec. quarter below our est but in line with consensus; outlook remains solid

Industry View

In-Line

Stock Rating

Equal-weight

Phibro delivered good financial performance in the December quarter. We were too optimistic with our gross margin projection; results were essentially in line with consensus. Mgmt left F15 guidance unchanged.

F2Q top line and bottom line. Revenues were \$189M, in line with our \$188M and 4% above cons' \$182M. EPS were \$0.35, 11% below our \$0.39 and 3% below cons' \$0.36. But excluding our estimate the consensus was \$0.35. \$0.01 per share equates to approximately \$0.5M pretax. **F2Q I/S YOY growth in a nutshell** : revs +9%, gross profit +7%, oper inc +14%, pretax +16%, net inc +3%, EPS +2%. **(\$0.04) EPS downside vs. our model.** Revenues +0.02, COGS -0.08, SG&A/R&D +0.05, Other -0.00, Taxes -0.01.

Please see full set of variation tables on the following pages.

Relative to our projections, higher-margin Animal Health and Vaccine revenues were below projection and lower-margin Mineral segment was above: Animal health revenues were \$119M vs. our \$121M, MFAs and other revenues were \$87M vs. our \$88M, Nutritional specialties revenues were \$21M vs. our \$18M, Vaccines revenues were \$11M vs. our \$15M, Mineral Nutritional revenues were \$59M vs. our \$52M, Performance products revenues were \$11M vs. our \$15M.

Management left F2015 guidance unchanged. Revenue guidance remains \$739-\$759M (midpoint of \$749M) and EPS guidance is \$1.57-1.62 (midpoint \$1.60).

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Phibro Animal Health Corp (PAHC.O , PAHC US)

Specialty Pharmaceuticals / United States of America

Stock Rating

Industry View

Shr price, close (Feb 10, 2015)

Mkt cap, curr (mm)

52-Week Range

Equal-weight

In-Line

\$28.04

\$1,105

\$33.89-15.10

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Analysis

Exhibit 1: PAHC F2Q:15A Income Statement Variation (YOY)

(\$M)	Actual		MS Estimate		Variation vs. MS Est.			CONS. est.		Variation vs. CONS.		Actual
	F2Q:15A	YOY % Chg.	F2Q:15E	YOY % Chg.	Absolute	Pct	EPS Impact	F2Q:15E	Absolute	Pct	F2Q:14A	
Net Sales	189	9%	188	9%	1	0%	+0.02	182	7	4%	173	
COGS (ex-amortization)	133	10%	129	7%	4	3%	-0.08				120	
Gross profit	56	7%	59	13%	(3)	-5%	-0.06	57	(1)	-1%	52	
SG&A/R&D (excl. sh. comp exp.)	35	3%	38	10%	(2)	-6%	+0.05				34	
Operating income (EBITA excl. sh co	21	14%	22	19%	(1)	-4%	-0.02	20	1	6%	18	
+ Depreciation	4	2%	5	10%	(0)	-7%					4	
- Stock comp expenses	-	N.M.	0	N.M.	(0)	N.M.					0	
Adj. EBITDA (incl. sh comp exp)	25	12%	26	17%	(1)	-4%	-0.02	25	0	1%	22	
Other (income)/deductions	4	7%	3	-1%	0	7%	-0.00				3	
Pretax income	17	16%	18	24%	(1)	-6%	-0.02	17	1	5%	15	
Taxes	3	156%	3	136%	0	8%	-0.01				1	
Tax rate	18.5%	10.1%	16.0%	7.6%	2%	16%	-				8.4%	
Net income	14	3%	16	13%	(1)	-9%	-0.04	14	0	2%	14	
Diluted EPS	\$0.35	2%	\$0.39	13%	(\$0.04)	-10%		\$0.36	(\$0.00)	0%	\$0.35	
Diluted shares outstanding	40	1%	40	0%	0	1%					39	
* \$0.01 per share equates to approximately \$0.5M pretax												
Margin analysis	Actual		MS Estimate		Variation (b.p.)		CONS.			Actual		
	F2Q:15A		F2Q:15E		vs. MS est.	vs. F2Q:14A	F2Q:15E	Variation (b.p.)		F2Q:14A		
COGS (ex-amortization)	70.3%		68.5%		182	62				69.7%		
Gross margin	29.7%		31.5%		(182)	(62)	31.3%	(162)	-5%	30.3%		
SG&A/R&D (excl. sh. comp exp.)	18.6%		19.9%		(132)	(112)				19.7%		
Operating margin	11.0%		11.6%		(55)	45	10.8%	21	2%	10.6%		
Adj. EBITDA margin	13.2%		13.8%		(62)	31	13.7%	(44)	-3%	12.9%		
Pretax margin	9.2%		9.8%		(67)	50				8.7%		
Adj. net margin	7.5%		8.3%		(79)	(47)	7.6%	(12)	-2%	7.9%		

Source: Company data, Morgan Stanley Research, Thomson Reuters

Exhibit 2: PAHC F2Q:15A Revenue Variation (YOY)

(\$M)	Actual		MS Estimate		Variation vs. MS Est.		CONS. est.	Variation vs. Cons.		Actual
	F2Q:15A	YOY % Chg.	F2Q:15E	YOY % Chg.	Absolute	Pct	F2Q:15E	Absolute	Pct	F2Q:14A
Animal health	119	10%	121	12%	(3)	-2%				108
MFAs and other	87	9%	88	10%	(1)	-1%				80
Nutritional specialties	21	27%	18	12%	2	13%				16
Vaccines	11	-8%	15	30%	(4)	-29%				11
Mineral Nutritional	59	16%	52	2%	7	14%				51
Performance products	11	-21%	15	7%	(4)	-26%				14
Net Sales	189	9%	188	9%	1	0%				173

Source: Company data, Morgan Stanley Research

Exhibit 3: PAHC F2Q:15A Income Statement Variation (Sequential)

(\$M)	Reported	Sequential Growth		Actual
	F2Q:15A	Dollar	% Chg.	F1Q:15A
Net Sales	189	2	1%	187
COGS (ex-amortization)	133	7	5%	126
Gross profit	56	(5)	-9%	61
SG&A/R&D (excl. sh. comp exp.)	35	(0)	0%	35
Operating income (EBITA excl. sh comp)	21	(5)	-21%	26
+ Depreciation	4	(0)	-1%	4
- Stock comp expenses	-	-	*	-
Adj. EBITDA (incl. sh comp exp)	25	(5)	-18%	30
Other (income)/deductions	4	-	0%	4
Pretax income	17	(5)	-24%	23
Taxes	3	1	33%	2
Tax rate	18.5%	0	75%	10.6%
Net income	14	(6)	-30%	20
Diluted EPS	\$0.35	(\$0.16)	-31%	\$0.51
Diluted shares outstanding	40	0	1%	40

Margin analysis	Reported	Variation	Actual
	F2Q:15A	b.p. difference	F1Q:15A
COGS (ex-amortization)	70.3%	308	67.2%
Gross margin	29.7%	-308	32.8%
SG&A/R&D (excl. sh. comp exp.)	18.6%	-17	18.8%
Operating margin	11.0%	-296	14.0%
Adj. EBITDA margin	13.2%	-299	16.2%
Pretax margin	9.2%	-294	12.1%
Adj. net margin	7.5%	-336	10.8%

Source: Company data, Morgan Stanley Research

Exhibit 4: PAHC F2Q:15A Revenue Variation (Sequential)

(\$M)	Reported	Sequential Growth		Actual
	F2Q:15A	Dollar	% Chg.	F1Q:15A
Animal health	119	2	1%	117
MFAs and other	87	7	8%	81
Nutritional specialties	21	1	7%	20
Vaccines	11	(6)	-37%	17
Mineral Nutritional	59	3	6%	55
Performance products	11	(4)	-24%	15
Net Sales	189	2	1%	187

Source: Company data, Morgan Stanley Research

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(as of January 31, 2015)

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	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY
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TOTAL	3,329		787		

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Phibro Animal Health Corp (PAHC.O) - As of 2/10/15 in USD
Industry : Specialty Pharmaceuticals



Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
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 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
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INDUSTRY COVERAGE: Specialty Pharmaceuticals

COMPANY (TICKER)	RATING (AS OF)	PRICE* (02/10/2015)
David Risinger		
Actavis Inc (ACT.N)	O (11/21/2014)	\$279.14
Alkermes Plc. (ALKS.O)	E (10/01/2013)	\$69.63
Allergan Inc. (AGN.N)	NA (06/16/2014)	\$226.54
Endo Health Solutions Inc (ENDP.O)	NA (01/04/2015)	\$81.11
Mallinckrodt Plc (MNK.N)	E (02/12/2014)	\$110.79
Mylan Inc. (MYL.O)	NA (01/04/2015)	\$53.97
Perrigo Co. (PRGO.N)	O (11/07/2014)	\$149.96
Phibro Animal Health Corp (PAHC.O)	E (05/06/2014)	\$28.04
Teva Pharmaceutical Industries Ltd. (TEVA.N)	E (03/14/2014)	\$57.16
Valeant Pharmaceuticals International (VRXN)	O (01/06/2015)	\$164.13
Zoetis Inc. (ZTS.N)	E (11/12/2014)	\$43.91

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.

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