

PHIBRO ANIMAL HEALTH CORP

Form 10-Q

November 06, 2018

TABLE OF CONTENTS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018
OR

TRANSITION REPORT PURSUANT TO SECTION 13 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number: 001-36410

Phibro Animal Health Corporation
(Exact name of registrant as specified in its charter)

Delaware 13-1840497
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

Glenpointe Centre East, 3rd Floor
300 Frank W. Burr Boulevard, Suite 21 07666-6712
Teaneck, New Jersey (Zip Code)

(Address of Principal Executive Offices)
(201) 329-7300
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)

Smaller
reporting
company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 30, 2018, there were 20,209,534 shares of the registrant's Class A common stock, par value \$0.0001 per share, and 20,166,034 shares of the registrant's Class B common stock, par value \$0.0001 per share, outstanding.

TABLE OF CONTENTS

PHIBRO ANIMAL HEALTH CORPORATION

TABLE OF CONTENTS

| | Page |
|--|-----------|
| PART I—FINANCIAL INFORMATION | |
| <u>Item 1.</u> | |
| <u>Financial Statements (unaudited)</u> | <u>3</u> |
| . | |
| <u>Consolidated Statements of Operations</u> | <u>3</u> |
| <u>Consolidated Statements of Comprehensive Income</u> | <u>4</u> |
| <u>Consolidated Balance Sheets</u> | <u>5</u> |
| <u>Consolidated Statements of Cash Flows</u> | <u>6</u> |
| <u>Notes to Consolidated Financial Statements</u> | <u>7</u> |
| <u>Item 2.</u> | |
| <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>20</u> |
| . | |
| <u>Item 3.</u> | |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>29</u> |
| . | |
| <u>Item 4.</u> | |
| <u>Controls and Procedures</u> | <u>29</u> |
| . | |
| PART II—OTHER INFORMATION | |
| <u>Item 1.</u> | |
| <u>Legal Proceedings</u> | <u>31</u> |
| . | |
| <u>Item 1A.</u> | |
| <u>Risk Factors</u> | <u>31</u> |
| . | |
| <u>Item 2.</u> | |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>31</u> |
| . | |
| <u>Item 3.</u> | |
| <u>Defaults Upon Senior Securities</u> | <u>31</u> |
| . | |
| <u>Item 4.</u> | |
| <u>Mine Safety Disclosures</u> | <u>31</u> |
| . | |
| <u>Item 5.</u> | |
| <u>Other Information</u> | <u>31</u> |
| . | |
| <u>Item 6.</u> | |
| <u>Exhibits</u> | <u>32</u> |
| . | |
| <u>SIGNATURES</u> | <u>33</u> |

TABLE OF CONTENTS

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

PHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| For the Periods Ended September 30 | Three Months | |
|--|--|------------|
| | 2018 | 2017 |
| | (unaudited) | |
| | (in thousands, except per share amounts) | |
| Net sales | \$ 200,153 | \$ 193,412 |
| Cost of goods sold | 134,348 | 130,030 |
| Gross profit | 65,805 | 63,382 |
| Selling, general and administrative expenses | 42,952 | 40,995 |
| Operating income | 22,853 | 22,387 |
| Interest expense, net | 2,783 | 3,118 |
| Foreign currency (gains) losses, net | (2,635) | 325 |
| Income before income taxes | 22,705 | 18,944 |
| Provision for income taxes | 6,391 | 3,052 |
| Net income | \$ 16,314 | \$ 15,892 |
| Net income per share | | |
| basic | \$ 0.40 | \$ 0.40 |
| diluted | \$ 0.40 | \$ 0.39 |
| Weighted average common shares outstanding | | |
| basic | 40,369 | 39,944 |
| diluted | 40,560 | 40,293 |
| Dividends per share | \$ 0.10 | \$ 0.10 |

The accompanying notes are an integral part of these consolidated financial statements

3

TABLE OF CONTENTSPHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| For the Periods Ended September 30 | Three Months | |
|--|----------------|-----------|
| | 2018 | 2017 |
| | (unaudited) | |
| | (in thousands) | |
| Net income | \$ 16,314 | \$ 15,892 |
| Change in fair value of derivative instruments | 541 | (622) |
| Foreign currency translation adjustment | (7,682) | 3,233 |
| Unrecognized net pension gains (losses) | 108 | 131 |
| (Provision) benefit for income taxes | (162) | 187 |
| Other comprehensive income (loss) | (7,195) | 2,929 |
| Comprehensive income | \$ 9,119 | \$ 18,821 |

The accompanying notes are an integral part of these consolidated financial statements

4

TABLE OF CONTENTSPHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| As of | September 30, 2018 | June 30, 2018 |
|---|---|------------------|
| | (unaudited) | |
| | (in thousands, except share and per share amounts) | |
| ASSETS | | |
| Cash and cash equivalents | \$ 25,860 | \$ 29,168 |
| Short-term investments | 50,000 | 50,000 |
| Accounts receivable, net | 134,815 | 135,742 |
| Inventories, net | 185,794 | 178,170 |
| Other current assets | 23,324 | 22,381 |
| Total current assets | 419,793 | 415,461 |
| Property, plant and equipment, net | 130,786 | 130,108 |
| Intangibles, net | 51,888 | 51,978 |
| Goodwill | 27,348 | 27,348 |
| Other assets | 48,660 | 46,784 |
| Total assets | \$ 678,475 | \$ 671,679 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current portion of long-term debt | \$ 12,580 | \$ 12,579 |
| Accounts payable | 61,870 | 59,498 |
| Accrued expenses and other current liabilities | 54,281 | 71,144 |
| Total current liabilities | 128,731 | 143,221 |
| Revolving credit facility | 85,000 | 70,000 |
| Long-term debt | 226,750 | 229,802 |
| Other liabilities | 45,937 | 43,702 |
| Total liabilities | 486,418 | 486,725 |
| Commitments and contingencies (Note 8) | | |
| Common stock, par value \$0.0001 per share; 300,000,000 Class A shares authorized, 20,209,534 and 19,992,204 shares issued and outstanding at September 30, 2018 and June 30, 2018, respectively; 30,000,000 Class B shares authorized, 20,166,034 and 20,365,504 shares issued and outstanding at September 30, 2018 and June 30, 2018, respectively | 4 | 4 |
| Preferred stock, par value \$0.0001 per share; 16,000,000 shares authorized, no shares issued and outstanding | — | — |
| Paid-in capital | 130,649 | 129,873 |
| Retained earnings | 145,082 | 131,560 |
| Accumulated other comprehensive income (loss) | (83,678) | (76,483) |
| Total stockholders' equity | 192,057 | 184,954 |
| Total liabilities and stockholders' equity | \$ 678,475 | \$ 671,679 |

The accompanying notes are an integral part of these consolidated financial statements

5

TABLE OF CONTENTSPHIBRO ANIMAL HEALTH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| For the Periods Ended September 30 | Three Months | |
|--|----------------|-----------|
| | 2018 | 2017 |
| | (unaudited) | |
| | (in thousands) | |
| OPERATING ACTIVITIES | | |
| Net income | \$ 16,314 | \$ 15,892 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 6,691 | 6,644 |
| Amortization of debt issuance costs and debt discount | 221 | 221 |
| Stock-based compensation | 565 | — |
| Acquisition-related cost of goods sold | — | 249 |
| Acquisition-related accrued compensation | — | 437 |
| Acquisition-related accrued interest | — | 253 |
| Deferred income taxes | (473) | 770 |
| Foreign currency (gains) losses, net | (2,981) | 345 |
| Other | 266 | 213 |
| Changes in operating assets and liabilities, net of business acquisitions: | | |
| Accounts receivable, net | (85) | (8,386) |
| Inventories, net | (9,504) | (5,196) |
| Other current assets | (3,654) | (4,458) |
| Other assets | 371 | 332 |
| Accounts payable | 2,794 | 3,652 |
| Accrued expenses and other liabilities | (9,245) | (6,165) |
| Net cash provided (used) by operating activities | 1,280 | 4,803 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (6,049) | (4,998) |
| Business acquisitions | (9,838) | (11,562) |
| Other, net | (262) | (272) |
| Net cash provided (used) by investing activities | (16,149) | (16,832) |
| FINANCING ACTIVITIES | | |
| Revolving credit facility borrowings | 71,000 | 61,870 |
| Revolving credit facility repayments | (56,000) | (41,870) |
| Payments of long-term debt, capital leases and other | (3,215) | (1,652) |
| Issuance of acquisition note payable | 3,775 | — |
| Proceeds from common shares issued | 211 | 3,486 |
| Dividends paid | (4,037) | (3,989) |
| Net cash provided (used) by financing activities | 11,734 | 17,845 |
| Effect of exchange rate changes on cash | (173) | 198 |

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| | | |
|--|-----------|-----------|
| Net increase (decrease) in cash and cash equivalents | (3,308) | 6,014 |
| Cash and cash equivalents at beginning of period | 29,168 | 56,083 |
| Cash and cash equivalents at end of period | \$ 25,860 | \$ 62,097 |

The accompanying notes are an integral part of these consolidated financial statements

6

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share amounts)

(unaudited)

1.

Description of Business

Phibro Animal Health Corporation (“Phibro” or “PAHC”) and its subsidiaries (together, the “Company”) is a diversified global developer, manufacturer and marketer of a broad range of animal health and mineral nutrition products for food animals including poultry, swine, cattle, dairy and aquaculture. The Company is also a manufacturer and marketer of performance products for use in the personal care, industrial chemical and chemical catalyst industries. Unless otherwise indicated or the context requires otherwise, references in this report to “we,” “our,” “us,” and similar expressions refer to Phibro and its subsidiaries.

The unaudited consolidated financial information for the three months ended September 30, 2018 and 2017, is presented on the same basis as the financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018 (the “Annual Report”), filed with the Securities and Exchange Commission on August 27, 2018 (File no. 001-36410). In the opinion of management, these financial statements include all adjustments necessary for a fair statement of the financial position, results of operations and cash flows of the Company for the interim periods, and the adjustments are of a normal and recurring nature. The financial results for any interim period are not necessarily indicative of the results for the full year. The consolidated balance sheet information as of June 30, 2018, was derived from the audited consolidated financial statements, which include the accounts of Phibro and its consolidated subsidiaries, but does not include all disclosures required by accounting principles generally accepted in the United States of America (“GAAP”). The unaudited consolidated financial information should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report.

The consolidated financial statements include the accounts of Phibro and its consolidated subsidiaries. Intercompany balances and transactions have been eliminated in the consolidated financial statements. The decision whether or not to consolidate an entity requires consideration of majority voting interests, as well as effective control over the entity.

2.

Summary of Significant Accounting Policies and New Accounting Standards

Our significant accounting policies are described in the notes to the consolidated financial statements included in our Annual Report. We adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606), effective July 1, 2018. See “New Accounting Standards” and “Statements of Operations—Additional Information.” As of September 30, 2018, there have been no other material changes to our significant accounting policies

Revenue Recognition

We recognize revenue from product sales when control of the products has transferred to the customer, typically when title and risk of loss transfer to the customer. Certain of our businesses have terms where control of the underlying products transfers to the customer on shipment, while others have terms where control transfers to the customer on delivery.

Revenue reflects the total consideration to which we expect to be entitled, in exchange for delivery of products or services, net of variable consideration. Variable consideration includes customer programs and incentive offerings, including pricing arrangements, rebates and other volume-based incentives. We record reductions to revenue for estimated variable consideration at the time we record the sale. Our estimates for variable consideration primarily use the most-likely amount method. Such estimates are generally based on contractual terms and historical experience, and are adjusted to reflect future expectations as new information becomes available. Historically, we have not had significant adjustments to our estimates of customer incentives. Sales returns and product recalls have been insignificant and infrequent due to the nature of the products we sell.

7

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Net sales include shipping and handling fees billed to customers. The associated costs are considered fulfillment activities, not additional promised services to the customer, and are included in costs of goods sold in the consolidated statements of operations when the related revenue is recognized. Net sales exclude value-added and other taxes based on sales.

Net Income per Share and Weighted Average Shares

Basic net income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the reporting period.

Diluted net income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the reporting period after giving effect to potential dilutive common shares resulting from the assumed exercise of stock options and vesting of restricted stock units. All common share equivalents were included in the calculation of diluted net income per share for all periods presented.

| For the Periods Ended September 30 | Three Months | |
|---|--------------|-----------|
| | 2018 | 2017 |
| Net income | \$ 16,314 | \$ 15,892 |
| Weighted average number of shares – basic | 40,369 | 39,944 |
| Dilutive effect of stock options and restricted stock units | 191 | 349 |
| Weighted average number of shares – diluted | 40,560 | 40,293 |
| Net income per share | | |
| basic | \$ 0.40 | \$ 0.40 |
| diluted | \$ 0.40 | \$ 0.39 |

Dividends

We declared and paid a quarterly cash dividend of \$0.10 per share, totaling \$4,037 during the three months ended September 30, 2018, to holders of our Class A common stock and Class B common stock. On November 5, 2018, we declared a dividend of \$0.12 per share, to be paid December 19, 2018.

New Accounting Standards

ASU 2018-14, Compensation—Retirement Benefits—Defined Benefit Plans—General (Topic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans, modifies existing disclosure requirements for defined benefit pension and other postretirement plans. This ASU is effective for fiscal years ending after December 15, 2020 and must be applied on a retrospective basis. We continue to evaluate the effect of adoption of this guidance on our consolidated financial statements.

ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement, modifies existing disclosure requirements for fair value measurement. This ASU is effective for fiscal years beginning after December 15, 2019. We continue to evaluate the effect of adoption of this guidance on our consolidated financial statements.

ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, allows reclassification from accumulated other comprehensive income to retained earnings of stranded tax effects related to adjustments resulting from the United States Tax Cuts and Jobs Act. This ASU is effective for annual reporting periods beginning after December 15, 2018. We do not expect adoption of this guidance to have a material effect on our consolidated financial statements.

ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, provides specific guidance for the classification of certain transactions within the statement of cash flows. We adopted this guidance during the three months ended September 30, 2018, and it did not have a material effect on our consolidated financial statements.

TABLE OF CONTENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

ASU 2016-02, Leases (Topic 842), supersedes the current lease accounting guidance, requires an entity to recognize assets and liabilities for both financing and operating leases on the balance sheet and requires additional qualitative and quantitative disclosures regarding leasing arrangements. This ASU and its amendments are effective for annual reporting periods beginning after December 15, 2018. We continue to evaluate the effect of adoption of this guidance on our consolidated financial statements.

ASU 2014-09, Revenue from Contracts with Customers (Topic 606), establishes principles for the recognition of revenue from contracts with customers. The underlying principle is to identify the performance obligations of a contract, allocate the revenue to each performance obligation and then to recognize revenue when the company satisfies a specific performance obligation of the contract. We adopted ASU 2014-09 and its amendments effective July 1, 2018, using the modified retrospective method. Comparative prior period amounts were not restated and continue to be reported under the accounting standards in effect for those periods. The adoption of the new revenue standard did not have a material effect on reported net sales or retained earnings.

The total cumulative effect of initial adoption of the new standard resulted in the following changes to our consolidated balance sheet:

| As of July 1, 2018 | Effect of Adoption | Post-adoption |
|--|--------------------|---------------|
| Other current assets | \$ 2,100 | \$ 24,481 |
| Other assets | 2,325 | 49,109 |
| Accrued expenses and other current liabilities | 343 | 71,487 |
| Other liabilities | 2,837 | 46,539 |
| Retained earnings | \$ 1,245 | \$ 132,805 |

The effect of the adoption of the new revenue standard on our consolidated balance sheet and consolidated statement of operations was:

| As of September 30, 2018 | Effect of adoption | As reported |
|--|--------------------|-------------|
| ASSETS | | |
| Other current assets | \$ 56 | \$ 23,324 |
| Other assets | 56 | 48,660 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Accrued expenses and other current liabilities | (80) | 54,281 |
| Other liabilities | 26 | 45,937 |
| Retained earnings | \$ 166 | \$ 145,082 |

| For the Period Ended September 30, 2018 | Three Months | |
|---|--------------------|-------------|
| | Effect of adoption | As reported |
| Net sales | \$ 198 | \$ 200,153 |
| Provision for income taxes | 32 | 6,391 |
| Net income | \$ 166 | \$ 16,314 |

For changes to our policy as a result of the adoption of ASU 2014-09, see “—Summary of Significant Accounting Policies and New Accounting Standards—Revenue Recognition.” See “Statements of Operations—Additional Information” for our disclosures regarding disaggregated revenue, deferred revenue and customer payment terms.

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

3.
Statements of Operations—Additional Information

Disaggregated revenue, deferred revenue and customer payment terms

We develop, manufacture and market products for a broad range of food animals including poultry, swine, beef and dairy cattle and aquaculture. The products help prevent, control and treat diseases, enhance nutrition to help improve health and contribute to balanced mineral nutrition. The animal health and mineral nutrition products are sold either directly to integrated poultry, swine and cattle integrators or through commercial animal feed manufacturers, wholesalers and distributors. The animal health industry and demand for many of the animal health products in a particular region are affected by changing disease pressures and by weather conditions, as product usage follows varying weather patterns and seasons. Our operations are primarily focused in regions where the majority of livestock production is consolidated in large commercial farms.

We have a diversified portfolio of products that are classified within our three business segments—Animal Health, Mineral Nutrition and Performance Products. Each segment has its own dedicated management and sales team.

Animal Health

The Animal Health business develops, manufactures and markets products in three main categories:

- MFAs and Other: The MFAs and other business primarily consists of concentrated medicated products that are administered through animal feeds, commonly referred to as Medicated Feed Additives (“MFAs”). Specific product classifications include antibacterials, which inhibit the growth of pathogenic bacteria that cause bacterial infections in animals; anticoccidials, which inhibit the growth of coccidia (parasites) that damage the intestinal tract of animals; and other related products.

- Nutritional Specialties: Nutritional specialty products enhance nutrition to help improve health and performance in areas such as immune system function and digestive health.

- Vaccines: Our vaccines are primarily focused on preventing diseases in poultry and swine. They protect animals from either viral or bacterial disease challenges. We also manufacture and distribute autogenous vaccine products and market adjuvants to vaccine manufacturers. We have developed an innovative and proprietary delivery platform for vaccines.

Mineral Nutrition

The Mineral Nutrition business is comprised of formulations and concentrations of trace minerals such as zinc, manganese, copper, iron and other compounds, with a focus on customers in North America. The customers use these products to fortify the daily feed requirements of their livestock’s diets and maintain an optimal balance of trace elements in each animal. Mineral nutrition products are manufactured and marketed for a broad range of food animals including poultry, swine and beef and dairy cattle.

Performance Products

The Performance Products business manufactures and markets a number of specialty ingredients for use in the personal care, industrial chemical and chemical catalyst industries, predominantly in the United States.

The following tables present our revenues disaggregated by major product category and geographic region:

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Net Sales by Product Type

| For the Periods Ended September 30 | Three Months | |
|------------------------------------|--------------|------------|
| | 2018 | 2017 |
| Animal Health | | |
| MFAs and other | \$ 87,004 | \$ 79,603 |
| Nutritional specialties | 26,970 | 30,777 |
| Vaccines | 17,215 | 18,461 |
| Total Animal Health | \$ 131,189 | \$ 128,841 |
| Mineral Nutrition | 54,838 | 52,073 |
| Performance Products | 14,126 | 12,498 |
| Total | \$ 200,153 | \$ 193,412 |

Net Sales by Region

| For the Periods Ended September 30 | Three Months | |
|------------------------------------|--------------|------------|
| | 2018 | 2017 |
| United States | \$ 116,093 | \$ 113,079 |
| Latin America and Canada | 38,258 | 32,368 |
| Europe, Middle East and Africa | 24,858 | 25,308 |
| Asia Pacific | 20,944 | 22,657 |
| Total | \$ 200,153 | \$ 193,412 |

Net sales by region are based on country of destination.

Total deferred revenue was \$7,414 and \$4,530 as of September 30, 2018 and June 30, 2018, respectively. Accrued expenses and other current liabilities included \$778 and \$508 of the total deferred revenue as of September 30, 2018 and June 30, 2018, respectively. The deferred revenue resulted primarily from certain customer arrangements, including technology licensing fees and discounts on future product sales. The transaction price associated with our deferred revenue arrangements is generally based on the stand alone sales prices of the individual products or services. Our customer payment terms generally range from 30 to 120 days globally and do not include any significant financing components. Payment terms vary based on industry and business practices within the regions in which we operate. Our average worldwide collection period for accounts receivable is approximately 60 days after the revenue is recognized.

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Interest expense and Depreciation and amortization

| For the Periods Ended September 30 | Three Months | |
|---|--------------|----------|
| | 2018 | 2017 |
| Interest expense, net | | |
| Term loan | \$ 2,112 | \$ 2,033 |
| Revolving credit facility | 747 | 681 |
| Amortization of debt issuance costs and debt discount | 221 | 221 |
| Acquisition-related accrued interest | — | 253 |
| Other | 163 | 239 |
| Interest expense | 3,243 | 3,427 |
| Interest (income) | (460) | (309) |
| | \$ 2,783 | \$ 3,118 |
| Depreciation and amortization | | |
| Depreciation of property, plant and equipment | \$ 5,188 | \$ 5,183 |
| Amortization of intangible assets | 1,491 | 1,449 |
| Amortization of other assets | 12 | 12 |
| | \$ 6,691 | \$ 6,644 |

4.

Balance Sheets—Additional Information

| As of | September 30, 2018 | June 30, 2018 |
|-----------------|--------------------------|------------------|
| Inventories | | |
| Raw materials | \$ 79,384 | \$ 62,373 |
| Work-in-process | 14,707 | 14,731 |
| Finished goods | 91,703 | 101,066 |
| | \$ 185,794 | \$ 178,170 |

We evaluate our investments in equity method investees for impairment if circumstances indicate that the fair value of the investment may be impaired. The assets underlying a \$3,491 equity investment are currently idled; we have concluded the investment is not currently impaired, based on expected future operating cash flows and/or disposal value.

| As of | September 30, 2018 | June 30, 2018 |
|--|--------------------------|------------------|
| Accrued expenses and other current liabilities | | |
| Employee related | \$ 19,852 | \$ 27,333 |
| Commissions and rebates | 5,784 | 7,341 |
| Insurance-related | 1,236 | 1,168 |

| | | |
|-----------------------------------|-----------|-----------|
| Professional fees | 4,331 | 4,350 |
| Income and other taxes | 4,406 | 3,610 |
| Acquisition-related consideration | 3,877 | 12,845 |
| Fair value of derivatives | 60 | — |
| Other | 14,735 | 14,497 |
| | \$ 54,281 | \$ 71,144 |

During the quarter ended September 30, 2018, we accelerated the closing date and completed the purchase of intellectual property and certain other assets comprising the MJ Biologics, Inc. (“MJB”) business relating to animal vaccines. The Company and MJB had originally agreed in January 2015 to the purchase business combination, with a contemplated final closing date in January 2021. The final amount due, net of previously paid amounts, was \$12,775, including \$9,000 paid in July 2018 and a \$3,775 acquisition note payable in January 2019.

12

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| As of | September 30, 2018 | June 30, 2018 |
|--|--------------------------|------------------|
| Accumulated other comprehensive income (loss) | | |
| Derivative instruments | \$ 5,527 | \$ 4,986 |
| Foreign currency translation adjustment | (74,780) | (67,098) |
| Unrecognized net pension gains (losses) | (18,105) | (18,213) |
| (Provision) benefit for income taxes on derivative instruments | (1,376) | (1,241) |
| (Provision) benefit for income taxes on long-term intercompany investments | 8,166 | 8,166 |
| (Provision) benefit for income taxes on pension gains (losses) | (3,110) | (3,083) |
| | \$ (83,678) | \$ (76,483) |

5.

Debt

Term Loans and Revolving Credit Facilities

Pursuant to a credit agreement (the “Credit Agreement”), we have a revolving credit facility (the “Revolver”), where we can borrow up to \$250,000, subject to the terms of the agreement, and a term A loan with an aggregate initial principal amount of \$250,000 (the “Term A Loan,” and together with the Revolver, the “Credit Facilities”). The Credit Facilities have applicable margins equal to 2.00%, 1.75% or 1.50%, in the case of LIBOR and Eurodollar rate loans and 1.00%, 0.75% or 0.50%, in the case of base rate loans; the applicable margins are based on the First Lien Net Leverage Ratio, as defined in the Credit Agreement. The LIBOR rate is subject to a floor of 0.00%. The Credit Facilities mature on June 29, 2022.

The Credit Facilities require, among other things, the maintenance of (i) a maximum First Lien Net Leverage Ratio and (ii) a minimum consolidated interest coverage ratio, each calculated on a trailing four quarter basis, and contain an acceleration clause should an event of default (as defined in the agreement governing the Credit Facilities) occur. As of September 30, 2018, we were in compliance with the covenants of the Credit Facilities.

As of September 30, 2018, we had \$85,000 in borrowings under the Revolver and had outstanding letters of credit of \$4,191, leaving \$160,809 available for borrowings and letters of credit under the Revolver. We obtain letters of credit in connection with certain regulatory and insurance obligations, inventory purchases and other contractual obligations. The terms of these letters of credit are one year or less.

As of September 30, 2018, the interest rates for the Revolver and the Term A Loan were 3.76% and 3.49%, respectively. The weighted-average interest rates for the outstanding revolving credit facilities were 3.68% and 2.98% for the three months ended September 30, 2018 and 2017, respectively. The weighted-average interest rates for the term loans were 3.43% and 3.22% for the three months ended September 30, 2018 and 2017, respectively.

In July 2017, we entered into an interest rate swap agreement on \$150 million of notional principal that effectively converts the floating LIBOR or base rate portion of our interest obligation on that amount of debt, to a fixed interest rate of 1.8325% plus the applicable rate. The agreement matures concurrent with the Credit Agreement. The interest rate swap has been designated as a highly effective cash flow hedge. For additional details, see “—Derivatives.”

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Long-Term Debt

| As of | September 30, 2018 | June 30, 2018 |
|---|--------------------------|------------------|
| Term A Loan due June 2022 | \$ 240,625 | \$ 243,750 |
| Capitalized lease obligations | 99 | 118 |
| | 240,724 | 243,868 |
| Unamortized debt issuance costs and debt discount | (1,394) | (1,487) |
| | 239,330 | 242,381 |
| Less: current maturities | (12,580) | (12,579) |
| | \$ 226,750 | \$ 229,802 |

6.

Related Party Transactions

Certain relatives of Jack C. Bendheim, our Chairman, President and Chief Executive Officer, provided services to us as employees or consultants and received aggregate compensation and benefits of approximately \$783 and \$720 during the three months ended September 30, 2018 and 2017, respectively. Mr. Bendheim has sole authority to vote shares of our stock owned by BFI Co., LLC, an investment vehicle of the Bendheim family.

7.

Income Taxes

In December 2017, the United States government enacted comprehensive income tax legislation (the “Tax Act”). The Tax Act makes broad and complex changes to United States income tax law and includes numerous elements that affect the Company, including a reduced federal corporate income tax rate from 35% to 21%, creating a territorial tax system that includes a one-time mandatory transition tax on previously deferred foreign earnings and changes to business-related exclusions, deductions and credits. The Tax Act also has consequences related to our international operations.

We have substantially completed our analysis and accounting for the Tax Act. However, the ultimate financial statement effects of the Tax Act could differ from the amounts we have recognized to date, due to additional information that becomes available, changes in regulations or interpretations, legislative action to address questions around the Tax Act or changes in accounting standards for income taxes or related interpretations. As such, the amounts we have recorded are provisional and we could adjust such amounts in the three months ended December 31, 2018, if additional new information so requires.

8.

Commitments and Contingencies

Environmental

Our operations and properties are subject to extensive federal, state, local and foreign laws and regulations, including those governing pollution; protection of the environment; the use, management, and release of hazardous materials, substances and wastes; air emissions; greenhouse gas emissions; water use, supply and discharges; the investigation and remediation of contamination; the manufacture, distribution, and sale of regulated materials, including pesticides; the importing, exporting and transportation of products; and the health and safety of our employees (collectively, “Environmental Laws”). As such, the nature of our current and former operations exposes us to the risk of claims with respect to such matters, including fines, penalties, and remediation obligations that may be imposed by regulatory authorities. Under certain circumstances, we might be required to curtail operations until a particular problem is

remedied. Known costs and expenses under Environmental Laws incidental to ongoing operations, including the cost of litigation proceedings relating to environmental matters, are included within operating results. Potential costs and expenses may also be incurred in connection with the repair or upgrade of facilities to meet existing or new requirements under Environmental Laws or to investigate or remediate potential or actual contamination and from time to time we establish reserves for such contemplated investigation and remediation costs. In many instances, the ultimate costs under Environmental Laws and the time period during which such costs are likely to be incurred are difficult to predict.

14

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

While we believe that our operations are currently in material compliance with Environmental Laws, we have, from time to time, received notices of violation from governmental authorities, and have been involved in civil or criminal action for such violations. Additionally, at various sites, our subsidiaries are engaged in continuing investigation, remediation and/or monitoring efforts to address contamination associated with historic operations of the sites. We devote considerable resources to complying with Environmental Laws and managing environmental liabilities. We have developed programs to identify requirements under, and maintain compliance with Environmental Laws; however, we cannot predict with certainty the effect of increased and more stringent regulation on our operations, future capital expenditure requirements, or the cost of compliance.

The nature of our current and former operations exposes us to the risk of claims with respect to environmental matters and we cannot assure we will not incur material costs and liabilities in connection with such claims. Based upon our experience to date, we believe that the future cost of compliance with existing Environmental Laws, and liabilities for known environmental claims pursuant to such Environmental Laws, will not have a material adverse effect on our financial position, results of operations, cash flows or liquidity.

The United States Environmental Protection Agency (the “EPA”) is investigating and planning for the remediation of offsite contaminated groundwater that has migrated from the Omega Chemical Corporation Superfund Site (“Omega Chemical Site”), which is upgradient of Phibro-Tech’s Santa Fe Springs, California facility. The EPA has named Phibro-Tech and certain other subsidiaries of PAHC as potentially responsible parties (“PRPs”) due to groundwater contamination from Phibro-Tech’s Santa Fe Springs facility that has allegedly commingled with contaminated groundwater from the Omega Chemical Site. In September 2012, the EPA notified approximately 140 PRPs, including Phibro-Tech and the other subsidiaries, that they have been identified as potentially responsible for remedial action for the groundwater plume affected by the Omega Chemical Site and for EPA oversight and response costs. Phibro-Tech contends that any groundwater contamination at its site is localized and due to historical operations that pre-date Phibro-Tech and/or contaminated groundwater that has migrated from upgradient properties. In addition, a successor to a prior owner of the Phibro-Tech site has asserted that PAHC and Phibro-Tech are obligated to provide indemnification for its potential liability and defense costs relating to the groundwater plume affected by the Omega Chemical Site. Phibro-Tech has vigorously contested this position and has asserted that the successor to the prior owner is required to indemnify Phibro-Tech for its potential liability and defense costs. Furthermore, a group of companies that sent chemicals to the Omega Chemical Site for processing and recycling has filed a complaint under CERCLA and RCRA in the United States District Court for the Central District of California against many of the PRPs allegedly associated with the groundwater plume affected by the Omega Chemical Site (including Phibro-Tech) for contribution toward past and future costs associated with the investigation and remediation of the groundwater plume affected by the Omega Chemical Site. Due to the ongoing nature of the EPA’s investigation, the preliminary stage of the ongoing litigation and Phibro-Tech’s dispute with the prior owner’s successor, at this time we cannot predict with any degree of certainty what, if any, liability Phibro-Tech or the other subsidiaries may ultimately have for investigation, remediation and the EPA oversight and response costs associated with the affected groundwater plume.

Based upon information available, to the extent such costs can be estimated with reasonable certainty, we estimated the cost for further investigation and remediation of identified soil and groundwater problems at operating sites, closed sites and third-party sites, and closure costs for closed sites, to be approximately \$6,581 and \$6,833 at September 30, 2018 and June 30, 2018, respectively, which is included in current and long-term liabilities on the consolidated balance sheets. However, future events, such as new information, changes in existing Environmental Laws or their interpretation, and more vigorous enforcement policies of regulatory agencies, may give rise to additional expenditures or liabilities that could be material. For all purposes of the discussion under this caption and elsewhere in this report, it should be noted that we take and have taken the position that neither PAHC nor any of our subsidiaries is liable for environmental or other claims made against one or more of our other subsidiaries or for which any of such other subsidiaries may ultimately be responsible.

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Claims and Litigation

PAHC and its subsidiaries are party to a number of claims and lawsuits arising out of the normal course of business including product liabilities, payment disputes and governmental regulation. Certain of these actions seek damages in various amounts. In many cases, our insurance policies will cover such claims. We believe that none of the claims or pending lawsuits, either individually or in the aggregate, will have a material adverse effect on our financial position, results of operations, cash flows or liquidity.

9.

Derivatives

We monitor our exposure to foreign currency exchange rates and interest rates and from time-to-time use derivatives to manage certain of these risks. We designate derivatives as a hedge of a forecasted transaction or of the variability of the cash flows to be received or paid in the future related to a recognized asset or liability (cash flow hedge). All changes in the fair value of a highly effective cash flow hedge are recorded as an asset or liability with a corresponding amount recorded in accumulated other comprehensive income (loss).

We routinely assess whether the derivatives used to hedge transactions are effective. If we determine a derivative ceases to be an effective hedge, we discontinue hedge accounting in the period of the assessment for that derivative, and immediately recognize any unrealized gains or losses related to the fair value of that derivative in the consolidated statements of operations.

We record derivatives at fair value in the consolidated balance sheets. For additional details regarding fair value, see “—Fair Value Measurements.”

We entered into an interest rate swap agreement on \$150,000 of notional principal that effectively converts the floating LIBOR or base rate portion of our interest obligation on that amount of debt, to a fixed interest rate of 1.8325% plus the applicable rate. The agreement matures concurrent with the Credit Agreement. The forecasted transactions are probable of occurring, and the interest rate swap has been designated as a highly effective cash flow hedge.

We entered into foreign currency option contracts to hedge cash flows related to monthly inventory purchases. The individual option contracts mature monthly through June 2020. The forecasted inventory purchases are probable of occurring and the individual option contracts were designated as highly effective cash flow hedges.

The following table summarizes the outstanding derivatives that are designated and effective as cash flow hedges as of September 30, 2018:

| Instrument | Hedge | Notional Amount at September 30, 2018 | Consolidated Balance Sheet | Fair value as of | |
|------------|----------------------|--|-------------------------------|--------------------------|------------------|
| | | | | September 30, 2018 | June 30, 2018 |
| Options | Brazilian Real calls | R\$94,500 | (1) | \$ 496 | \$ 71 |
| Options | Brazilian Real puts | R\$94,500 | (1) | \$ (556) | \$ — |
| Swap | Interest rate swap | \$150,000 | Other assets | \$ 5,728 | \$ 5,078 |

(1)

We record the net fair values of our outstanding foreign currency option contracts within the respective balance sheet line item based on the net financial position and maturity date of the individual contracts as of the balance sheet date. As of September 30, 2018, the net fair value of \$60 was included in accrued expenses and other current liabilities. As of June 30, 2018, the net fair value of \$71 was included in other current assets.

The following tables show the effects of derivatives on the consolidated statements of operations and other comprehensive income for the periods ended September 30, 2018 and 2017.

16

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the Three Months Ended September 30

| Instrument | Hedge | Gain (Loss) recorded in OCI | | Gain (Loss) recognized in consolidated statements of operations Consolidated Statement of Operations | Gain (Loss) recognized in consolidated statements of operations | | Consolidated Statement of Operations Line Item Total | |
|------------|-------------------------------|-----------------------------|----------|---|---|--------|--|------------|
| | | 2018 | 2017 | | 2018 | 2017 | 2018 | 2017 |
| Options | Brazilian Real puts and calls | \$ (109) | \$ (905) | Cost of goods sold | \$ 1,084 | \$ 186 | \$ 134,348 | \$ 130,030 |
| Swap | Interest rate swap | \$ 650 | \$ 283 | Interest expense, net | \$ — | \$ — | \$ 2,783 | \$ 3,118 |

We recognize gains (losses) related to these foreign currency derivatives as a component of cost of goods sold at the time the hedged item is sold. Realized net gains of \$ 1,084 related to matured contracts were recorded as a component of inventory as of June 30, 2018 and were recognized as an offset to costs of goods sold during the three months ended September 30, 2018.

10.

Fair Value Measurements

Short-term investments

As of September 30, 2018, our short-term investments consist of cash deposits held at financial institutions. We consider the carrying amounts of these short-term investments to be representative of their fair value.

Derivatives

We determine the fair value of derivative instruments based upon pricing models using observable market inputs for these types of financial instruments, such as spot and forward currency translation rates, and interest rate curves.

Fair Value of Assets (Liabilities)

| As of | September 30, 2018 | | June 30, 2018 | |
|-------------------------------|--------------------|----------|---------------|----------|
| | Level 1 | Level 2 | Level 1 | Level 2 |
| Short-term investments | \$ 50,000 | \$ — | \$ 50,000 | \$ — |
| Derivatives asset (liability) | \$ — | \$ (60) | \$ — | \$ 71 |
| Interest rate swap | \$ — | \$ 5,728 | \$ — | \$ 5,078 |

There were no Level 3 fair value measurements for the periods presented.

17

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

11.

Business Segments

We evaluate performance and allocate resources based on the Animal Health, Mineral Nutrition and Performance Products segments. Certain of our costs and assets are not directly attributable to these segments and we refer to these items as Corporate. We do not allocate Corporate costs or assets to the segments because they are not used to evaluate the segments' operating results or financial position. Corporate costs include certain costs related to executive management, business technology, legal, finance, human resources and business development. Corporate assets include cash and cash equivalents, certain debt issue costs, income tax related assets and certain other assets.

We evaluate performance of our segments based on Adjusted EBITDA. We define Adjusted EBITDA as income before income taxes plus (a) interest expense, net, (b) depreciation and amortization, (c) (income) loss from, and disposal of, discontinued operations, (d) other expense or less other income, as separately reported on our consolidated statements of operations, including foreign currency gains and losses and loss on extinguishment of debt, and (e) certain items that we consider to be unusual, non-operational or non-recurring.

The accounting policies of our segments are the same as those described in the summary of significant accounting policies included herein.

| For the Periods Ended September 30 | Three Months | |
|------------------------------------|--------------|------------|
| | 2018 | 2017 |
| Net sales | | |
| Animal Health | \$ 131,189 | \$ 128,841 |
| Mineral Nutrition | 54,838 | 52,073 |
| Performance Products | 14,126 | 12,498 |
| Total segments | \$ 200,153 | \$ 193,412 |
| Depreciation and amortization | | |
| Animal Health | \$ 5,356 | \$ 5,254 |
| Mineral Nutrition | 597 | 585 |
| Performance Products | 273 | 246 |
| Total segments | \$ 6,226 | \$ 6,085 |
| Adjusted EBITDA | | |
| Animal Health | \$ 35,716 | \$ 33,742 |
| Mineral Nutrition | 2,563 | 3,716 |
| Performance Products | 716 | 248 |
| Total segments | \$ 38,995 | \$ 37,706 |

18

TABLE OF CONTENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| For the Periods Ended September 30 | Three Months | |
|---|--------------|-----------|
| | 2018 | 2017 |
| Reconciliation of income before income taxes to Adjusted EBITDA | | |
| Income before income taxes | \$ 22,705 | \$ 18,944 |
| Interest expense, net | 2,783 | 3,118 |
| Depreciation and amortization – Total segments | 6,226 | 6,085 |
| Depreciation and amortization – Corporate | 465 | 559 |
| Corporate costs | 8,886 | 7,589 |
| Stock-based compensation | 565 | — |
| Acquisition-related cost of goods sold | — | 249 |
| Acquisition-related accrued compensation | — | 437 |
| Acquisition-related transaction costs | — | 400 |
| Foreign currency (gains) losses, net | (2,635) | 325 |
| Adjusted EBITDA – Total segments | \$ 38,995 | \$ 37,706 |

| As of | September 30, 2018 | June 30, 2018 |
|----------------------|--------------------------|------------------|
| Identifiable assets | | |
| Animal Health | \$ 461,119 | \$ 455,704 |
| Mineral Nutrition | 73,895 | 69,779 |
| Performance Products | 29,048 | 24,040 |
| Total segments | 564,062 | 549,523 |
| Corporate | 114,413 | 122,156 |
| Total | \$ 678,475 | \$ 671,679 |

The Animal Health segment includes all goodwill of the Company. The Animal Health segment includes advances to and investment in an equity method investee of \$3,491 and \$3,432 as of September 30, 2018 and June 30, 2018, respectively. The Performance Products segment includes an investment in an equity method investee of \$528 and \$437 as of September 30, 2018 and June 30, 2018, respectively. Corporate assets include cash and cash equivalents, short-term investments, certain debt issuance costs, income tax related assets and certain other assets.

TABLE OF CONTENTS

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

Our management's discussion and analysis of financial condition and results of operations ("MD&A") is provided to assist readers in understanding our performance, as reflected in the results of our operations, our financial condition and our cash flows. The following discussion summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and cash flows as of and for the periods presented below. This MD&A should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q. Our future results could differ materially from our historical performance as a result of various factors such as those discussed in "Risk Factors" and "Forward-Looking Statements."

Overview of our business

Phibro Animal Health Corporation is a global diversified animal health and mineral nutrition company. We develop, manufacture and market products for a broad range of food animals including poultry, swine, beef and dairy cattle and aquaculture. Our products help prevent, control and treat diseases, enhance nutrition to help improve health and performance and contribute to balanced mineral nutrition. In addition to animal health and mineral nutrition products, we manufacture and market specific ingredients for use in the personal care, industrial chemical and chemical catalyst industries.

Analysis of the consolidated statements of operations

Summary Results of Operations

| For the Periods Ended September 30 | Three Months | | | |
|---|--|------------|----------|-------|
| | 2018 | 2017 | Change | |
| | (in thousands, except per share amounts and percentages) | | | |
| Net sales | \$ 200,153 | \$ 193,412 | \$ 6,741 | 3% |
| Gross profit | 65,805 | 63,382 | 2,423 | 4% |
| Selling, general and administrative expenses | 42,952 | 40,995 | 1,957 | 5% |
| Operating income | 22,853 | 22,387 | 466 | 2% |
| Interest expense, net | 2,783 | 3,118 | (335) | (11)% |
| Foreign currency (gains) losses, net | (2,635) | 325 | (2,960) | * |
| Income before income taxes | 22,705 | 18,944 | 3,761 | 20% |
| Provision for income taxes | 6,391 | 3,052 | 3,339 | 109% |
| Net income | \$ 16,314 | \$ 15,892 | \$ 422 | 3% |
| Net income per share | | | | |
| basic | \$ 0.40 | \$ 0.40 | — | |
| diluted | \$ 0.40 | \$ 0.39 | \$ 0.01 | |
| Weighted average number of shares outstanding | | | | |
| basic | 40,369 | 39,944 | | |
| diluted | 40,560 | 40,293 | | |
| Ratio to net sales | | | | |
| Gross profit | 32.9% | 32.8% | | |
| Selling, general and administrative expenses | 21.5% | 21.2% | | |
| Operating income | 11.4% | 11.6% | | |
| Income before income taxes | 11.3% | 9.8% | | |
| Net income | 8.2% | 8.2% | | |
| Effective tax rate | 28.1% | 16.1% | | |

Certain amounts and percentages may reflect rounding adjustments.

20

TABLE OF CONTENTS

Net sales, Adjusted EBITDA and reconciliation of GAAP net income to Adjusted EBITDA

We report Net sales and Adjusted EBITDA by segment to understand the operating performance of each segment.

This enables us to monitor changes in net sales, costs and other actionable operating metrics at the segment level. See “—General description of non-GAAP financial measures.”

Segment net sales and Adjusted EBITDA:

| For the Periods Ended September 30 | Three Months | | | |
|--|------------------------------------|------------|----------|-------|
| | 2018 | 2017 | Change | |
| | (in thousands, except percentages) | | | |
| Net sales | | | | |
| MFAs and other | \$ 87,004 | \$ 79,603 | \$ 7,401 | 9% |
| Nutritional specialties | 26,970 | 30,777 | (3,807) | (12)% |
| Vaccines | 17,215 | 18,461 | (1,246) | (7)% |
| Animal Health | 131,189 | 128,841 | 2,348 | 2% |
| Mineral Nutrition | 54,838 | 52,073 | 2,765 | 5% |
| Performance Products | 14,126 | 12,498 | 1,628 | 13% |
| Total | \$ 200,153 | \$ 193,412 | \$ 6,741 | 3% |
| Adjusted EBITDA | | | | |
| Animal Health | \$ 35,716 | \$ 33,742 | \$ 1,974 | 6% |
| Mineral Nutrition | 2,563 | 3,716 | (1,153) | (31)% |
| Performance Products | 716 | 248 | 468 | 189% |
| Corporate | (8,886) | (7,589) | (1,297) | * |
| Total | \$ 30,109 | \$ 30,117 | \$ (8) | (0)% |
| Adjusted EBITDA ratio to segment net sales | | | | |
| Animal Health | 27.2% | 26.2% | | |
| Mineral Nutrition | 4.7% | 7.1% | | |
| Performance Products | 5.1% | 2.0% | | |
| Corporate(1) | (4.4)% | (3.9)% | | |
| Total(1) | 15.0% | 15.6% | | |

(1)
reflects ratio to total net sales

TABLE OF CONTENTS

The table below sets forth a reconciliation of net income, as reported under GAAP, to Adjusted EBITDA:

| For the Periods Ended September 30 | Three Months | | | |
|--|------------------------------------|-----------|---------|-------|
| | 2018 | 2017 | Change | |
| | (in thousands, except percentages) | | | |
| Net income | \$ 16,314 | \$ 15,892 | \$ 422 | 3% |
| Interest expense, net | 2,783 | 3,118 | (335) | (11)% |
| Provision (benefit) for income taxes | 6,391 | 3,052 | 3,339 | 109% |
| Depreciation and amortization | 6,691 | 6,644 | 47 | 1% |
| EBITDA | 32,179 | 28,706 | 3,473 | 12% |
| Stock-based compensation | 565 | — | 565 | * |
| Acquisition-related cost of goods sold | — | 249 | (249) | * |
| Acquisition-related accrued compensation | — | 437 | (437) | * |
| Acquisition-related transaction costs | — | 400 | (400) | * |
| Foreign currency (gains) losses, net | (2,635) | 325 | (2,960) | * |
| Adjusted EBITDA | \$ 30,109 | \$ 30,117 | \$ (8) | (0)% |

Certain amounts and percentages may reflect rounding adjustments.

*

Calculation not meaningful

Comparison of three months ended September 30, 2018 and 2017

Net sales

Net sales of \$200.2 million for the three months ended September 30, 2018, increased \$6.7 million, or 3%, as compared to the three months ended September 30, 2017. Animal Health, Mineral Nutrition and Performance Products grew \$2.3 million, \$2.8 million and \$1.6 million, respectively.

Animal Health

Net sales of \$131.2 million for the three months ended September 30, 2018, grew \$2.3 million, or 2%. Net sales of MFAs and other increased \$7.4 million, or 9%, driven by continued international volume growth, particularly in the cattle sector. Reduced selling prices in certain countries due to unfavorable exchange rate movements partially offset the international volume growth. Net sales of domestic MFAs and other also contributed to the growth. Net sales of nutritional specialty products declined by \$3.8 million, or 12%, primarily due to volume declines from the continued negative dairy industry conditions, while sales to the poultry sector were approximately even with the prior year. Net sales of vaccines declined \$1.2 million, or 7%, due to turbulent economic conditions in certain international countries and the timing of certain vaccine orders in the prior year.

Mineral Nutrition

Net sales of \$54.8 million increased \$2.8 million, or 5%, for the three months ended September 30, 2018. Higher average selling prices related to increased commodity prices were the primary driver of the increased revenue. Our selling prices of mineral nutrition products generally move in direct correlation with the underlying commodity costs. Net sales also declined in part due to reduced volumes due to the competitive nature of the business.

Performance Products

Net sales of \$14.1 million increased \$1.6 million, or 13%, for the three months ended September 30, 2018, due to higher unit volumes of copper-based products coupled with higher average selling prices of certain industrial chemical products.

TABLE OF CONTENTS

Gross profit

Gross profit of \$65.8 million for the three months ended September 30, 2018, increased \$2.4 million, or 4%, as compared to the three months ended September 30, 2017. Gross profit increased to 32.9% of net sales for the three months ended September 30, 2018, as compared to 32.8% for the three months ended September 30, 2017. Animal Health gross profit increased \$3.0 million due to volume growth and favorable unit costs and product mix in MFAs and other, partially offset by volume declines of nutritional specialty products. Mineral Nutrition gross profit decreased \$1.2 million, primarily due to unfavorable product mix and constrained pricing in a competitive environment. Performance Products gross profit increased \$0.4 million, primarily due to increased volumes and favorable manufacturing costs. Gross profit increased \$0.2 million due to acquisition-related cost of goods sold included in the three months ended September 30, 2017.

Selling, general and administrative expenses

Selling, general and administrative expenses (“SG&A”) of \$43.0 million for the three months ended September 30, 2018, increased \$2.0 million, or 5%, as compared to the three months ended September 30, 2017. SG&A for the three months ended September 30, 2018, included \$0.6 million of stock-based compensation. SG&A for the three months ended September 30, 2017, included \$0.4 million in acquisition-related transaction costs and \$0.4 million in acquisition-related compensation costs. Excluding the effects of these costs, SG&A increased \$2.3 million, or 6%. Animal Health SG&A increased \$1.1 million, driven by sales force expansion and increased investments in marketing and product development. Mineral Nutrition and Performance Products SG&A costs were even with the prior year. Corporate costs increased \$1.2 million due to increased business development expenses and higher professional fees. The stock-based compensation, acquisition-related transaction costs and acquisition-related compensation costs resulted in a \$0.3 million net decrease in SG&A compared to the prior year.

Interest expense, net

Interest expense, net of \$2.8 million for the three months ended September 30, 2018, decreased \$0.3 million, or 11%, as compared to the three months ended September 30, 2017. Interest expense decreased \$0.2 million compared to the prior year, primarily due to the extinguishment of acquisition-related obligations. Interest income increased \$0.1 million due to earnings on short-term investments.

Foreign currency (gains) losses, net

Foreign currency (gains) losses, net for the three months ended September 30, 2018, amounted to net gains of \$2.6 million, as compared to \$0.3 million in net losses for the three months ended September 30, 2017. Foreign currency net gains in the three months ended September 30, 2018, were primarily due to the movement of the Turkish, Mexican and Brazilian currencies relative to the U.S. dollar. Foreign currency gains and losses primarily arose from cash and intercompany balances.

Provision for income taxes

The provision for income taxes was \$6.4 million and \$3.1 million for the three months ended September 30, 2018 and 2017, respectively. The effective income tax rate was 28.1% and 16.1% for the three months ended September 30, 2018 and 2017, respectively. The provision for income taxes included a benefit from the exercise of employee stock options of \$0.2 million and \$2.7 million for the three months ended September 30, 2018 and 2017, respectively. The effective income tax rate, without the benefit of the employee stock option exercises, would have been 28.8% and 30.6% for the three months ended September 30, 2018 and 2017, respectively. The provision for income taxes included a U.S. federal statutory tax rate of 21% and 35% for the three months ended September 30, 2018 and 2017, respectively. The provision for income taxes for the three months ended September 30, 2018, also included a \$0.3 million provision for the U.S. federal Global Intangible Low-taxed Income (GILTI) aspects of the comprehensive U.S. income tax legislation.

TABLE OF CONTENTS

Net income

Net income of \$16.3 million for the three months ended September 30, 2018, increased \$0.4 million, as compared to net income of \$15.9 million for the three months ended September 30, 2017. Increased operating income of \$0.5 million, lower interest expense of \$0.3 million and increased foreign exchange gains of \$3.0 million resulted in a \$3.8 million increase in income before income taxes. The provision for income taxes increased by \$3.3 million, primarily due to a reduced benefit from the exercise of employee stock options of \$2.5 million and increased taxes related to the higher pre-tax income; the reduced U.S. federal statutory tax rate in the current year partially offset the increases.

Adjusted EBITDA

Adjusted EBITDA of \$30.1 million for the three months ended September 30, 2018, was even with the three months ended September 30, 2017. Animal Health Adjusted EBITDA increased \$2.0 million, or 6%, due to sales growth and increased gross profit, partially offset by increased SG&A for investments in organization and business development. Mineral Nutrition Adjusted EBITDA decreased \$1.2 million, or 31%, due to the effect of unfavorable product mix and pricing pressures on gross profit. Performance Products Adjusted EBITDA increased \$0.5 million, due to increased gross profit. Corporate expenses increased \$1.2 million due to increased business development expenses and higher professional fees.

Analysis of financial condition, liquidity and capital resources

Net increase (decrease) in cash and cash equivalents was:

| For the Periods Ended September 30 | Three Months | | |
|--|----------------|----------|------------|
| | 2018 | 2017 | Change |
| | (in thousands) | | |
| Cash provided by/(used in): | | | |
| Operating activities | \$ 1,280 | \$ 4,803 | \$ (3,523) |
| Investing activities | (16,149) | (16,832) | 683 |
| Financing activities | 11,734 | 17,845 | (6,111) |
| Effect of exchange-rate changes on cash and cash equivalents | (173) | 198 | (371) |
| Net increase/(decrease) in cash and cash equivalents | \$ (3,308) | \$ 6,014 | \$ (9,322) |

Net cash provided (used) by operating activities was comprised of:

| For the Periods Ended September 30 | Three Months | | |
|---|----------------|-----------|------------|
| | 2018 | 2017 | Change |
| | (in thousands) | | |
| EBITDA | \$ 32,179 | \$ 28,706 | \$ 3,473 |
| Adjustments | | | |
| Stock-based compensation | 565 | — | 565 |
| Acquisition-related cost of goods sold | — | 249 | (249) |
| Acquisition-related accrued compensation | — | 437 | (437) |
| Acquisition-related transaction costs | — | 400 | (400) |
| Foreign currency (gains) losses, net | (2,635) | 325 | (2,960) |
| Interest paid | (2,732) | (2,679) | (53) |
| Income taxes paid | (5,817) | (4,039) | (1,778) |
| Changes in operating assets and liabilities and other items | (20,280) | (18,196) | (2,084) |
| Cash used for acquisition-related transaction costs | — | (400) | 400 |
| Net cash provided (used) by operating activities | \$ 1,280 | \$ 4,803 | \$ (3,523) |

Certain amounts may reflect rounding adjustments.

24

TABLE OF CONTENTS

Operating activities

Net cash provided by operating activities was \$1.3 million for the three months ended September 30, 2018. Cash provided by net income and non-cash items, including depreciation and amortization and foreign exchange gains, was largely offset by cash used in the ordinary course of business for changes in operating assets and liabilities and other items. Increased inventories used \$9.5 million of cash due to the timing of sales, purchases and production. Accounts payable provided \$2.8 million of cash, primarily related to the timing of inventory purchases. Accrued expenses and other liabilities used \$9.2 million of cash primarily due to annual incentive compensation payments related to the previous fiscal year.

Investing activities

Net cash used in investing activities was \$16.1 million for the three months ended September 30, 2018. Cash used for business acquisitions was \$9.8 million. Capital expenditures were \$6.0 million as we continued to invest in our existing asset base and for capacity expansion and productivity improvements. Other investing activities used \$0.3 million of cash.

Financing activities

Net cash provided by financing activities was \$11.7 million for the three months ended September 30, 2018. Net borrowings on our Revolver provided \$15.0 million. We partially financed an acquisition of a business through the issuance of a \$3.8 million short-term note payable. We received \$0.2 million from the issuance of common shares related to the exercise of stock options. We paid \$4.0 million in dividends to holders of our Class A and Class B common stock. We paid \$3.2 million in scheduled debt and other requirements.

Liquidity and capital resources

We believe our cash on hand, our operating cash flows and our financing arrangements, including the availability of borrowings under the Revolver and foreign credit lines, will be sufficient to support our future cash needs. Our operating plan projects adequate liquidity throughout the year. However, we can provide no assurance that our liquidity and capital resources will be adequate for future funding requirements. We believe we will be able to comply with the terms of the covenants under the Credit Facilities and foreign credit lines based on our operating plan. In the event of adverse operating results and/or violation of covenants under the facilities, there can be no assurance we would be able to obtain waivers or amendments. Other risks to our meeting future funding requirements include global economic conditions and macroeconomic, business and financial disruptions that could arise. There can be no assurance that a challenging economic environment or an economic downturn would not impact our liquidity or our ability to obtain future financing. In addition, our debt covenants may restrict our ability to invest.

Certain relevant measures of our liquidity and capital resources follow:

| As of | September 30, 2018 | June 30, 2018 | Change |
|--|-------------------------------|------------------|------------|
| | (in thousands, except ratios) | | |
| Cash and cash equivalents and short-term investments | \$ 75,860 | \$ 79,168 | \$ (3,308) |
| Working capital | 227,782 | 205,651 | 22,431 |
| Ratio of current assets to current liabilities | 2.96:1 | 2.57:1 | |

We define working capital as total current assets (excluding cash and cash equivalents and short-term investments) less total current liabilities (excluding the current portion of long-term debt). We calculate the ratio of current assets to current liabilities based on this definition.

At September 30, 2018, we had \$85.0 million in outstanding borrowings under the Revolver. We had outstanding letters of credit and other commitments of \$4.2 million, leaving \$160.8 million available for borrowings and letters of credit.

TABLE OF CONTENTS

On November 5, 2018, our Board of Directors declared a cash dividend of \$0.12 per share on each share of our Class A and Class B common stock outstanding on the record date of November 28, 2018, payable on December 19, 2018.

The December 2018 quarterly dividend is a 20% increase over the \$0.10 per share quarterly dividend declared and paid previously. We expect to pay future quarterly dividends of \$0.12 per share on our Class A and Class B common stock, representing approximately \$19.4 million annually, subject to approval from the Board of Directors.

At September 30, 2018, our cash and cash equivalents and short-term investments included \$74.3 million held by our international subsidiaries. There are no restrictions on cash distributions to PAHC from our international subsidiaries.

Contractual obligations

As of September 30, 2018, there were no material changes in payments due under contractual obligations from those disclosed in the Annual Report on Form 10-K for the year ended June 30, 2018.

Off-balance sheet arrangements

We do not currently use off-balance sheet arrangements for the purpose of credit enhancement, hedging transactions, investment or other financial purposes.

In the ordinary course of business, we may indemnify our counterparties against certain liabilities that may arise.

These indemnifications typically pertain to environmental matters. If the indemnified party were to make a successful claim pursuant to the terms of the indemnification, we would be required to reimburse the loss. These indemnifications generally are subject to certain restrictions and limitations.

General description of non-GAAP financial measures

Adjusted EBITDA

Adjusted EBITDA is an alternative view of performance used by management as our primary operating measure, and we believe that investors' understanding of our performance is enhanced by disclosing this performance measure. We report Adjusted EBITDA to portray the results of our operations prior to considering certain income statement elements. We have defined EBITDA as net income (loss) plus (i) interest expense, net, (ii) provision for income taxes or less benefit for income taxes, and (iii) depreciation and amortization. We have defined Adjusted EBITDA as EBITDA plus (a) (income) loss from, and disposal of, discontinued operations, (b) other expense or less other income, as separately reported on our consolidated statements of operations, including foreign currency gains and losses and loss on extinguishment of debt, and (c) certain items that we consider to be unusual, non-operational or non-recurring. The Adjusted EBITDA measure is not, and should not be viewed as, a substitute for GAAP reported net income. The Adjusted EBITDA measure is an important internal measurement for us. We measure our overall performance on this basis in conjunction with other performance metrics. The following are examples of how our Adjusted EBITDA measure is utilized:

- senior management receives a monthly analysis of our operating results that is prepared on an Adjusted EBITDA basis;
- our annual budgets are prepared on an Adjusted EBITDA basis; and
- other goal setting and performance measurements are prepared on an Adjusted EBITDA basis.

Despite the importance of this measure to management in goal setting and performance measurement, Adjusted EBITDA is a non-GAAP financial measure that has no standardized meaning prescribed by GAAP and, therefore, has limits in its usefulness to investors. Because of its non-standardized definition, Adjusted EBITDA, unlike GAAP net income, may not be comparable to the calculation of similar measures of other companies. Adjusted EBITDA is presented to permit investors to more fully understand how management assesses performance.

TABLE OF CONTENTS

We also recognize that, as an internal measure of performance, the Adjusted EBITDA measure has limitations, and we do not restrict our performance management process solely to this metric. A limitation of the Adjusted EBITDA measure is that it provides a view of our operations without including all events during a period, such as the depreciation of property, plant and equipment or amortization of purchased intangibles, and does not provide a comparable view of our performance to other companies.

Certain significant items

Adjusted EBITDA is calculated prior to considering certain items. We evaluate such items on an individual basis. Such evaluation considers both the quantitative and the qualitative aspect of their unusual or non-operational nature. Unusual, in this context, may represent items that are not part of our ongoing business; items that, either as a result of their nature or size, we would not expect to occur as part of our normal business on a regular basis. We consider foreign currency gains and losses to be non-operational because they arise principally from intercompany transactions and are largely non-cash in nature.

New accounting standards

For discussion of new accounting standards, see “Notes to Consolidated Financial Statements—Summary of Significant Accounting Policies and New Accounting Standards.”

Critical Accounting Policies

Critical accounting policies are those that require application of management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, management is required to make certain estimates and assumptions during the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Significant estimates include depreciation and amortization periods of long-lived and intangible assets, recoverability of long-lived and intangible assets and goodwill, realizability of deferred income tax and value-added tax assets, legal and environmental matters and actuarial assumptions related to our pension plans. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period they are determined to be necessary. Actual results could differ from those estimates. Our significant accounting policies are described in the notes to the consolidated financial statements included in the Annual Report. As of September 30, 2018, there have been no material changes to any of the critical accounting policies contained therein, except for the adoption of the new standard related to revenue recognition. See “Notes to Consolidated Financial Statements—Summary of Significant Accounting Policies and New Accounting Standards” for the changes made to our revenue recognition policy, following the adoption of Financial Accounting Standards Board Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606).

Forward-Looking Statements

This report contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical or current fact included in this report are forward-looking statements. Forward-looking statements discuss our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “aim,” “anticipate,” “believe,” “estimate,” “expect,” “forecast,” “outlook,” “potential,” “project,” “projection,” “plan,” “intend,” “seek,” “believe,” “may,” “could,” “should,” “can,” “can have,” “likely,” the negatives thereof and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our estimated and projected earnings, revenues, costs, expenditures, cash flows, growth rates and financial results, our plans and

TABLE OF CONTENTS

objectives for future operations, growth or initiatives, strategies, or the expected outcome or impact of pending or threatened litigation are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected. Examples of such risks and uncertainties include:

- perceived adverse effects on human health linked to the consumption of food derived from animals that utilize our products could cause a decline in the sales of those products;
- restrictions on the use of antibacterials in food-producing animals may become more prevalent;
- a material portion of our sales and gross profits are generated by antibacterials and other related products;
- competition in each of our markets from a number of large and small companies, some of which have greater financial, research and development (“R&D”), production and other resources than we have;
- outbreaks of animal diseases could significantly reduce demand for our products;
- our business may be negatively affected by weather conditions and the availability of natural resources;
- the continuing trend toward consolidation of certain customer groups as well as the emergence of large buying groups;
- our ability to control costs and expenses;
- any unforeseen material loss or casualty;
- exposure relating to rising costs and reduced customer income;
- competition deriving from advances in veterinary medical practices and animal health technologies;
- unanticipated safety or efficacy concerns;
- our dependence on suppliers having current regulatory approvals;
- our raw materials are subject to price fluctuations and their availability can be limited;
-

natural and man-made disasters, including but not limited to fire, snow and ice storms, flood, hail, hurricanes and earthquakes;

- terrorist attacks, particularly attacks on or within markets in which we operate;
- our ability to successfully implement our strategic initiatives;
- our reliance on the continued operation of our manufacturing facilities and application of our intellectual property;
- adverse U.S. and international economic market conditions, including currency fluctuations;
- failure of our product approval, R&D, acquisition and licensing efforts to generate new products;
- the risks of product liability claims, legal proceedings and general litigation expenses;
- the impact of current and future laws and regulatory changes;
- modification of foreign trade policy may harm our food animal product customers
- our dependence on our Israeli and Brazilian operations;
- our substantial level of indebtedness and related debt-service obligations;
- restrictions imposed by covenants in our debt agreements;

TABLE OF CONTENTS

- the risk of work stoppages; and

- other factors as described in “Risk Factors” in Item 1A. of this Annual Report on Form 10-K.

While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from our expectations, or cautionary statements, are disclosed under “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” All forward-looking statements are expressly qualified in their entirety by these cautionary statements. You should evaluate all forward-looking statements made in this report in the context of these risks and uncertainties.

We caution you that the important factors referenced above may not contain all of the factors that are important to you. In addition, we cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences we anticipate or affect us or our operations in the way we expect. The forward-looking statements included in this report are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. If we do update one or more forward-looking statements, no inference should be made that we will make additional updates with respect to those or other forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

In the normal course of operations, we are exposed to market risks arising from adverse changes in interest rates, foreign currency exchange rates and commodity prices. As a result, future earnings, cash flows and fair values of assets and liabilities are subject to uncertainty. We use, from time to time, foreign currency contracts and interest rate swaps as a means of hedging exposure to foreign currency risks and fluctuating interest rates, respectively. We also utilize, on a limited basis, certain commodity derivatives, primarily on copper used in manufacturing processes, to hedge the cost of anticipated purchase or supply requirements. We do not utilize derivative instruments for trading or speculative purposes. We do not hedge our exposure to market risks in a manner that completely eliminates the effects of changing market conditions on earnings, cash flows and fair values. We monitor the financial stability and credit standing of our major counterparties.

For financial market risks related to changes in interest rates, foreign currency exchange rates and commodity prices, reference is made to the “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Qualitative and Quantitative Disclosures about Market Risk” section in the Annual Report and to the notes to the consolidated financial statements included therein. There were no material changes in the Company’s financial market risks from the risks disclosed in the Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Company’s management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”). Based upon that evaluation as of September 30, 2018, our Chief Executive Officer and Chief Financial Officer each concluded that, as of the end of such period, our disclosure controls and procedures were not effective because of material weaknesses in our internal control over financial reporting, as described in Management’s Report on Internal Control over Financial Reporting in “Item 9A. Controls and Procedures” in the Annual Report on Form 10-K for the year ended June 30, 2018.

Material Weakness Remediation Efforts

We continue to make further progress in implementing a broad range of changes to strengthen our internal control over financial reporting and to remediate the material weaknesses that existed as of June 30, 2018. Our actions to address material weaknesses have included the design and implementation of

TABLE OF CONTENTS

additional formal accounting policies and procedures to ensure transactions are properly initiated, recorded, processed, reported, appropriately authorized and approved. Also, our efforts to ensure maintenance of the appropriate level of segregation of duties includes restricting access to key financial systems and records to appropriate users. We have decreased the level of segregation of duties conflicts and continue to determine the extent it is necessary to limit access and modify responsibilities of certain personnel, as well as designing and implementing additional user access controls and compensating controls. We will continue to build on the progress we have made in our remediation plan. We cannot determine when our remediation plan will be fully completed, and we cannot provide any assurance that these remediation efforts will be successful or that our internal control over financial reporting will be effective as a result of these efforts.

Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting during the three months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

30

TABLE OF CONTENTS

PART II—OTHER INFORMATION

Item 1.

Legal Proceedings

Information required by this Item is incorporated herein by reference to “Notes to the Consolidated Financial Statements—Commitments and Contingencies” in Part I, Item 1, of this Quarterly Report on Form 10-Q.

Item 1A.

Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in the “Risk Factors” section in the Annual Report, which could materially affect our business, financial condition or future results.

There were no material changes in the Company’s risk factors from the risks disclosed in the Annual Report.

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3.

Defaults Upon Senior Securities

None.

Item 4.

Mine Safety Disclosures

None.

Item 5.

Other Information

None.

31

TABLE OF CONTENTS

Item 6.

Exhibits

Exhibit 10.18* First Amendment, dated July 31, 2018 to the Intellectual Property Purchase Agreement, drafted as of January 20, 2015, by and among MJ Biologics, Inc. and Phibro Animal Health Corporation

Exhibit 31.1 Chief Executive Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 302

Exhibit 31.2 Chief Financial Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 302

Exhibit 32.1 Chief Executive Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 906

Exhibit 32.2 Chief Financial Officer—Certification pursuant to Sarbanes-Oxley Act of 2002 Section 906

Exhibit 101.INS** XBRL Instance Document

Exhibit 101.SCH** XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL** XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.DEF** XBRL Taxonomy Extension Definition Linkbase Document

Exhibit 101.LAB** XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE** XBRL Taxonomy Extension Presentation Linkbase Document

*

Confidential treatment of certain provisions of this exhibit has been requested with the Securities and Exchange Commission. Omitted material for which confidential treatment has been requested has been filed separately with the Securities and Exchange Commission.

**

Furnished with this Quarterly Report. Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933 and are deemed not filed for purposes of section 18 of the Exchange Act.

TABLE OF CONTENTS

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Phibro Animal Health Corporation

/s/ Jack C. Bendheim

November 6, 2018 By: Jack C. Bendheim
Chairman, President and Chief Executive Officer
/s/ Richard G. Johnson

November 6, 2018 By: Richard G. Johnson
Chief Financial Officer