

PHIBRO ANIMAL HEALTH CORP

Form 10-Q

November 06, 2018

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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 (I.R.S. Employer
incorporation or organization) 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.

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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

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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

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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

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TABLE OF CONTENTS**PHIBRO 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

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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.

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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.

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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

	Three Months	
For the Period Ended September 30, 2018	Effect of adoption	As reported