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Neogen Corp. (NEOG)

Q1 2022 Earnings Call

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Steven James Quinlan

Chief Financial Officer, Neogen Corp.

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David Westenberg

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John Kreger

Analyst, William Blair & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Neogen First Quarter Fiscal Year 2022 Earnings Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to John Adent, President and CEO. Please go ahead.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

Thanks, Betsy. Good morning, and welcome to our regular quarterly conference call for investors and analysts. Today, we're going to be reporting on the first quarter of our 2022 fiscal year, which ended on August 31.

As usual, some of the statements made here today could be termed as forward-looking statements. Some of these statements are subject to certain risks and uncertainties and our actual results may differ from those that we discuss today. The risks associated with our business are covered in part in the company's Form 10-K as filed with the Securities and Exchange Commission.

In addition to those of you joining us by live telephone conference, I also want to welcome those of you on the Internet. Following our prepared comments this morning, we will entertain questions from participants who've joined this live conference. With me this morning is Steve Quinlan, our Chief Financial Officer, who will provide some additional details on our results for the quarter.

As you saw in our press release this morning, we're pleased to report a strong first quarter to our 2022 fiscal year. We had a 17% revenue growth across our worldwide business compared to the prior year's first quarter. We also had double-digit growth in both our Food and Animal Safety segments, including double-digit organic sales growth in both units.

In addition, our overall gross margin improved versus last year's first quarter. That improvement really was due to a shift in product mix toward our higher margin Food Safety products and a price increase that we implemented on August 1.

So for the first time in seven quarters, I think we're beginning to see business return close to a pre-COVID environment in the US. With the loosening of restrictions, it's really allowed our sales team to get back out in the field and have face-to-face meetings with their customers.

And in the quarter, we've seen our customers get back – really gained back the confidence they've lost over the past 18 months and start to make purchases that they previously held off on due to the uncertainty of the pandemic. Now not all the markets we operate in are doing this, but I'm pleased and the general trend is good.

These conditions have positively impacted our core product lines, including food allergens, pathogens, our natural toxin test kits, as the sales of these products, we think, have returned to our pre-COVID levels.

I'm also happy because our new products continue to succeed in the marketplace in this first quarter. Our AccuPoint Advanced Next Gen ATP sanitation monitoring system, which we launched in May of 2021, has continued to gain market share this quarter with really impressive sales growth. The portable handheld system that quickly and effectively detects ATP is a measure of the cleanliness of a facility. And it's nice because it connects our NEOGEN Analytics platform, which helps our customers manage their data and create a streamlined testing process.

I've talked about our next gen system before, but, boy, the sales of that system just continue to impress. And in the year since we've launched the next-gen spoilage detection system, it's seeing tremendous success in the marketplace. It's providing fast, reliable diagnostics to customers across many different industries, including [ph] – I think we sell in (03:42) food, beverage, nutraceutical and cosmetics. Compared to the first quarter two years ago, sales of that system nearly doubled, and we continue to be really excited about this system.

It's also worth mentioning our ThyroKare supplement for the treating of hypothyroidism in dogs. It's regained market share really nicely since we relaunched it in February. Sales of the supplement contributed really to the impressive quarter of our animal care products this quarter.

It was an excellent quarter for Neogen and I'm really proud of the tireless work that the members of our team have put in to achieve these results, especially through all the challenges that COVID-19 has presented and still continues to present. Our strength continues to be our ability to adapt in changing times. We always find new market spaces, we expand – and then we expand on our mission of protecting the people, the animals we care about.

Now I'm going to turn it over to Steve for some more color on the numbers for the quarter. Steve?

Steven James Quinlan

Chief Financial Officer, Neogen Corp.

Thanks, John, and welcome to everyone listening this morning. Before I talk about the numbers, I'd like to echo John's comments about how proud we are of our global team. Our results this quarter are largely results of their collective hard work.

Earlier today, we issued a press release announcing the results for our first quarter, which ended on August 31. Revenues for the quarter were \$128.3 million, an increase of 17% compared to \$109.3 million in the same quarter a year ago. Net income for the quarter was \$17.1 million or \$0.16 a share compared to \$15.9 million or \$0.15 a share a year ago. The earnings per share for both periods reflect our 2-for-1 stock split on June 4 of this year.

In the next few minutes, I'll give you some color around the numbers and I'll start by talking about the currency impacts to the business in the first quarter, which were positive. Several currencies in which we operate were stronger against the dollar in the first quarter as compared to the first quarter fiscal 2021, including the pound, which was 9% higher, and the Mexican peso, up 11%. Even the Brazilian real, which has devalued significantly in the last couple of years, was 3% higher against the dollar in this year's first quarter.

Revenues were \$2.3 million higher on a comparative basis for the first quarter due to these currency tailwinds. Most of that impact was felt in the Food Safety segment, as the majority of the international businesses report in through this segment. Revenues for the Food Safety segment were \$62.7 million in the first quarter of fiscal 2022, an increase of 16% compared to \$54.2 million in last year's first quarter.

Megazyme, our acquisition from last December, contributed to the increase. Excluding these sales, organic growth in the Food Safety segment was 10%, the third straight quarter of double-digit organic growth for this segment. As John mentioned, we experienced broad growth across most of our core product lines as our markets have opened up and we've capitalized our new product introductions.

Our international revenues rose 20% for the quarter, aided in part by the currency tailwinds. Neogen China continued its strong growth, posting a 59% increase. Now they're still recording strong sales of cleaners and disinfectants, but most of their growth was in genomics as our commercial dairy, swine and sheep customers, all significantly increased sample volumes compared to the first quarter in the prior year. China also outperformed our expectations with sales of Megazyme products in the first quarter.

At Neogen Latinoamerica, 4% revenue growth in local currency in the first quarter resulted in a 16% increase in US dollars due to assistance from the strength in peso. This operation posted nice increases in environmental sampling products and culture media.

Our UK operations posted a 9% increase when sales were converted to US dollars, had an overall decline of 2% in pounds due to lower sales at Quat-Chem. If you remember, in the prior year first quarter, Quat-Chem recorded large sales of hand sanitizers to the UK government health ministry, which did not recur this year. But I am pleased to report growth in our genomics business and with our diagnostic test kits in the UK and Europe. This is despite issues we've had exporting into the EU after Brexit. We do have a plan in place to resolve these issues that will go into effect next month.

At our Brazilian operations, 2022 first quarter sales decreased 15%, primarily due to a large non-recurring insecticide sale to a government health organization in Nicaragua in the first quarter of the prior year. Additionally, Brazil has experienced an extended drought during the growing season, which greatly reduced the corn harvest. The reduced volume along with relatively clean crops resulted in a 36% decrease in sales of aflatoxin test kits in Brazil.

Our domestic Food Safety business grew 13% for the quarter, accelerating on the growth we started to see last year, as many of our customers have resumed to more normal operations. As John mentioned, we recently launched our next generation AccuPoint reader used for environmental sampling, which contributed to 14% growth in this product line.

Sales of our new Soleris instrument, which was just launched just over a year ago, were flat, but the number of new placements we've had over the past year contributed to a 9% increase in sales with the consumables used in these instruments, which detects spoilage organisms in processed food.

On a worldwide basis, sales of our mycotoxin test kits were up 6% with nice growth in our DON and zearalenone test kits, offset by the decline in aflatoxin test kit sales in Brazil that I previously mentioned.

Our line of allergen test kits increased 17% in the first quarter and Listeria Right Now continue to record nice increases with revenues up 51% in the quarter. We also experienced strong growth in culture media products, which were up 36% with increases in sales to our diagnostics customers and increased business with a vaccine manufacturer.

About the only ongoing negative in our Food Safety products this quarter was drug residues, which declined 22%. As I've been mentioning for the past few quarters, we're struggling with this product line due to the prior year termination of the European distribution agreement and competitive price pressure.

The Animal Safety segment recorded revenues of \$65.6 million for the quarter, up 19% over the \$55.1 million achieved in last year's first quarter. Organic sales were also up 19% with just a small contribution from the StandGuard acquisition, which occurred in the first quarter of the prior year.

Our Animal Safety segment is also benefiting from strong markets, especially the companion animal and veterinary markets. Sales of our animal care products increased 28% as higher consumer spending on pets continues. We also made big gains in veterinary instruments, which rose 52%. This category includes needles and syringes, and we benefited from strong gains in our private label needle line.

Sales of insect control products increased 23%, primarily from growth in the StandGuard product line and business with restaurants. That's recovering after many were closed or have reduced operations in the first quarter of the prior year. Even though our rodent control products were coming off an extremely strong year in fiscal 2021, we still posted a gain of 5% in those products. And our cleaners and disinfectants sales through the Animal Safety segment increased 6%.

Worldwide genomic revenues increased 14% on growth in beef and dairy cattle and swine and sheep genotyping. Our Lincoln, Nebraska lab also recorded a large sale for a non-recurring plant research project. Partially offsetting this growth was a decline in sales to the US companion animal market, as sample volumes were lower compared to a strong prior year first quarter. We believe that this is timing, more than a shift in demand, and anticipate higher sample volumes in the second quarter and second half of the year.

In addition to recording nice gains in genomics business at our Australian operations, we almost doubled revenues of Food Safety products there, as our sales team continues to grow the business we purchased from a former distributor in March of 2020.

Gross margins were 46.8% for the quarter compared to 46% even in last year's first quarter. The higher margins are primarily the result of sales of higher margin products in our Food Safety segment, including incremental sales of Megazyme products and strong performance across many of our diagnostic test kit product lines. In the prior year quarter, Food Safety segment sales included a higher percentage of lower margin cleaners and disinfectants sold through our Quat-Chem and Neogen China operations.

I'm very pleased with our gross margin improvement, as we've absorbed significant increases in supply chain costs this quarter. As an example, a container shipment from China cost approximately \$4,000 prior to the pandemic. This cost had increased to about \$7,000 by the summer of 2020. And in this quarter, our average container shipment rose – cost \$22,000. Overall, our freighting costs are up 82% over last year.

Delivery times on the shipments have also increased significantly. Our operations teams continue to take actions to mitigate the negative impacts of these supply chain issues and raw material cost increases by increasing order sizes to fill containers and gain price breaks, qualifying alternative suppliers, consolidating outgoing orders and our commercial teams have implemented price increases where appropriate.

As a comparison to the prior year, we also recorded higher labor and employee benefit costs this quarter. We've increased base wages to address labor shortages and are still struggling to fill open positions. Last year, we had taken actions to place some employees temporarily on furlough, or reduce work hours and suspended our company 401(k) match during the first quarter due to the economic uncertainty surrounding COVID.

We also had a significant reduction in health insurance costs in the prior year as doctor visits were restricted and many elective procedures were deferred due to the pandemic. In the second quarter of last year, we reinstated the 401(k) match and most employees returned to their normal work hours. Additionally, our health insurance costs have risen as the loosening of restrictions and resumption of those procedures and doctor visits deferred last year have resulted in significant increases in healthcare expenditures.

Overall, operating expenses increased 22% compared to fiscal 2021, partly as a result of the increased compensation, health insurance and 401(k) expenses that I just discussed. Within sales and marketing, which was up 24%, business travel, trade shows and other customer facing activities have begun to resume. While still below pre-pandemic levels, we recorded a \$780,000 increase in these areas compared to the prior year first quarter, which had minimal travel.

Shipping expenses rose 27% on the higher volume and increased rates. G&A expense increased 22%, primarily due to higher accruals for performance-based incentives, the impact of senior management hires in the prior fiscal year and a \$608,000 increase in amortization expense, primarily resulting from the Megazyme acquisition. And R&D expense increased 11%. This includes \$200,000 of incremental expense at Megazyme.

Operating income for the first quarter was \$21.7 million, up 15% compared to \$18.9 million in last year's first quarter with the increase the results of the higher sales and gross margins, partially offset by higher operating expenses. Expressed as a percent of revenue, operating income was 16.9% compared to 17.3% in last year's first quarter. We only recorded \$203,000 in interest income, despite higher cash balances, as interest rates continued to decline. This compares to \$722,000 in the prior year.

Our effective tax rate for the first quarter was 21.4% compared to 19.9% in last year's first quarter. Last year's effective rate was lower due in large part to \$421,000 in tax benefits, recognized from the exercise of stock options. This year that comparable number was only \$15,000 as fewer options were exercised.

I've mentioned on previous calls that the volume of option exercises and the gain on those exercises can result in significant fluctuations in the effective tax rate for the comparative periods.

Another factor impacting the higher tax rates for this year's first quarter was a \$548,000 one-time charge at our UK operations to revalue their deferred tax liabilities. The UK enacted a tax rate increase from 19% to 25% in our

first fiscal quarter, and we were required to adjust our tax liabilities now, despite that new rate not going into effect until fiscal 2023.

On the balance sheet, our net receivable balances declined by \$4.5 million compared to year end, and our days to collect is currently at 59 compared to 61 in the prior year first quarter and 66 days at May 31. We feel good about these strong collections, particularly in this challenging environment.

Inventory increased by \$1.4 million or 1%. We do continue to run with higher levels in fiscal 2022 to avoid back orders and delays caused by the continued global supply chain issues. We continue to generate cash nicely and produced \$23.2 million in cash from operations during the quarter.

As you can see from yesterday's press release on the CAPInnoVet acquisition, are focused on acquisitions that add to our product portfolio and are good fits with our existing business.

Our teams continue to perform well in today's challenging operating environment, and we're grateful for and proud of their efforts. With a strong first quarter, we've gained momentum across our markets. And as John has indicated, we remain optimistic for the remainder of the year ahead. We appreciate the support of our shareholders and all those listening on the call today.

And at this point, I'll turn it back to John for further comments.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

Thanks, Steve. So I think you can see, we feel this first quarter was an excellent start to our new year. And as Steve has lined out, we remain hopeful in the face of COVID and the Delta variant. While we see the success of the beginning of a rebound, we also recognize that there are still many variables at play that can move things one way or another. We'll talk a little bit in the question-and-answer about supply chain because that's something that we've pointed out.

With addition to that, the Delta variant continues to be a real concern around the world and we're actively monitoring the state of the pandemic as we move forward. Going into our second quarter though, and looking at the rest of the year, I'm optimistic and excited about the things that are going to come from Neogen.

As Steve mentioned, if you didn't see yesterday, we announced our acquisition of CAPInnoVet. It's a companion animal health company that provides really high quality, high value pet medications to the vet market. I am really excited about this acquisition as it gives us entry into the fast growing \$12 billion retail parasiticide market.

Company is going to be a great fit. It's going to go right with it, right inside our Animal Safety segment. And I'm pleased to announce that John Tatum will be joining Neogen as our VP of Operations and Business Development. Leslie Cash, she's going to be our new VP of Commercial Pet and Healthcare, and CAPInnoVet Co-Founder, Rudy Hauser, is going to work with us as a trusted business consultant.

The integration of Megazyme, the food diagnostic company that we acquired back in December of 2020 with our sales and marketing team, is now complete. Our staff is fully trained, they're really enthusiastic about the new products, and they've already begun to offer these new products and services to our customers across the country. And we've seen a lot of excitement surrounding these diagnostic assay kits and reagents from the market. And with these new products now fully incorporated into our product portfolio, we can offer our customers more solutions to help them meet their Food Safety needs.

We've also seen significant growth in sales of our NEOGEN Analytics, food safety and risk management software as a service in the first quarter. We have a strategy in place to continue this trend over the course of the fiscal year. NEOGEN Analytics offers us a great opportunity. It pairs with our ANSR and AccuPoint Advanced systems and provides increased visibility around the testing that our customers do. Once the customers have fully integrated the NEOGEN Analytics into their environmental monitoring program, we immediately see their consumable products increase as they realize the value of our full product portfolio.

As our customers build, enhance our environmental monitoring programs, they benefit from our ability to provide reliable and trusted products that integrate cohesively and build – and provide results and statistics that improve their existing procedures. Our international businesses continue to thrive. I'm optimistic for our second quarter and the remainder of the fiscal year.

We also have a number of new products and services in our R&D pipeline, and we'll be really excited to share those with you later on in the fiscal year. Over the past year, our Neogen team has really set us up well for success. And I believe that the strength of our first quarter is the – our first quarter results is a [ph] culmination (22:54) of all their hard work and dedication to our mission.

In uncertain times, we've all rallied together to ensure business remains innovative, diverse and growing. I'm very proud of the entire team for their perseverance and motivation as we move into our 2022 fiscal year.

I'll now open up the floor for any questions you may have.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And our first question comes from David Westenberg with Guggenheim Securities. Please go ahead.

David Westenberg

Analyst, Guggenheim Securities LLC

Q

Hi. Thanks for taking the question and great job on the top lines this quarter. So I want to start with CAPInnoVet, kind of what you're doing strategically there. And when I think of Neogen, I think of it more as devices diagnostics in Food Safety and Animal Safety. I don't necessarily think of it as a drug company. So strategically, is this something where you kind of see this as [ph] inability (24:18) to layer on pharmaceutical products and – or is this more just taking the existing products into the markets that you have right now?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Thanks for the question, David. I think it's a little bit of both. So our – we have a lot of products in Animal Safety that you wouldn't technically view as diagnostic, right? Whether it's anything in our animal care line, whether it's our wound care or needle, syringes, there's many, many different things, right? And this is really going to allow us – and ThyroKare is another great example, right, ThyroKare which we just relaunched.

This is really going to allow us to expand our existing portfolio into that segment, into the vet channel, because we're already there today. So we already reach those customers, we already have a relationship with them and it's going to allow us to expand that. And going forward, we're always looking for new and novel, or like product

mix that's going to allow us to continue to grow the business and profitably grow the bottom line to those existing customer bases.

So we think it's a great way to add accretive margin in sales and really fast growing categories. Like parasiticide biological therapeutics, I mean, those are great markets. Having an opportunity to participate in a \$12 billion fast growing parasiticide market is interesting.

David Westenberg

Analyst, Guggenheim Securities LLC

Q

Okay. Thank you very much. And then I guess, moving on to culture media, you had really strong year-over-year growth. Can you call – is there any specific products you want to call out in that particular product line that [ph] might have done that (26:00) in terms of how we should think about this in the forward quarters?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

I'm not sure we had – I mean, last year, we had opportunistic sales to a vaccine manufacturer, but really this is just growth. And I think this is growth across the line, like we talked about, that Steve and I talked about, is we're seeing a bit of normalization in the US and our customers have kind of comeback online, and we're benefiting from that. So I don't see any one particular product that really did better than the other. So it's really a broad growth across the portfolio.

David Westenberg

Analyst, Guggenheim Securities LLC

Q

Got it. And a similar type question on the other side of your business, the private label business that you called out in veterinary instruments. Was there any one-time sales or again is this something that we should see continuing on a forward basis and [indiscernible] (26:50)?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Yeah. No, that was not a one-time sale. That was just products that we had private label for someone that are really starting to take off in the marketplace.

David Westenberg

Analyst, Guggenheim Securities LLC

Q

Thank you very much. I'll hop back in queue.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Thanks David.

Operator: [Operator Instructions] The next question comes from John Kreger with William Blair. Please go ahead.

John Kreger

Analyst, William Blair & Co. LLC

Q

Hey. Thanks very much. John, just another follow up on CAPInnoVet. Can you tell us any more details on the financials if you're willing to share, revenues, margins and maybe what you paid for it?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Yeah, it's a – I won't tell you what we paid. It's a small business. It's really a – it's a pipeline business. So they've got relatively small products today – or revenues today, because they just launched last year a permethrin and a fipronil product for dogs and cats, which is just starting out, but that's a big market. So if you think about permethrin, that's really a like-for-life with K9 Advantix. And the fipronil is really a like-for-life with FRONTLINE Plus.

So we're excited to get a hold of that. This group didn't have much of a sales team, was more of a developmental shop. So we're excited about that. And we've got products in the pipeline that get us pretty excited. So – and you know what those margins look like, John. You're always comparing me to pharmaceutical companies anyway. So you know that market pretty well.

John Kreger

Analyst, William Blair & Co. LLC

Q

All right. Thanks. That's helpful. And John, do you expect to put R&D dollars to work there to bring new products out after those two or not necessarily?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Yeah, I think so. I mean that's why I'm excited about the – it's not only the line, but the team we have coming over. Those guys – John and Leslie have been in that market for a long, long time. Rudy started that business. So having their experience to help us navigate and look at those opportunities is a big benefit for us.

And on our management team, we added Doug Jones. Doug has got a lot of experience in this marketplace. We've really strengthened the team top to bottom kind of in our companion animal segment, which makes us very comfortable getting into this market and growing it.

John Kreger

Analyst, William Blair & Co. LLC

Q

Great. Thanks. And then one last one. Can you talk a little bit about your outlook for the Food Safety business, in particular the institutional side? Are things kind of getting back to normal there? Are we still on a fairly steep ramp in terms of back to school and restaurants reopening and the like?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

I think we're getting back and again, I prefaced it in the US, right? Because we do business in so many different places that it's hard to say that we're coming out of it because it really depends by region. But in the US, we are starting to see a return to normal.

Now we can debate whether or not we should be, right, but I think we are. And you've seen it kind of in the last three quarters. We've had really strong growth in the last three quarters across the businesses and in the Food Safety segment. So I think, like I said, I'm optimistic about the rest of this fiscal year, and we're really pushing hard and the team's doing a good job.

John Kreger

Analyst, William Blair & Co. LLC

Q

And you make a good point about geography. Should we assume your non-US Food Safety businesses perhaps lag in the coming year? Or do you expect strong growth there too?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

I expect strong growth there. It's just – it's – they're not out of the woods around COVID, John. I mean, we've got – Australia continues to do lockdowns off and on. China is continuing to do lockdown. India is doing that. Europe moves back and forth depending on which country we're in. But during that environment last year, we also grew. Our expectation is to grow. So I'm just – it's not going to be easy.

John Kreger

Analyst, William Blair & Co. LLC

Q

Great. Thank you.

Operator: The next question is a follow-up from David Westenberg from Guggenheim Securities. Please go ahead.

David Westenberg

Analyst, Guggenheim Securities LLC

Q

Hi. Thank you for taking the follow-ups. So can you talk a little bit about [ph] more than (31:31) the labor headwinds that you said continue to persist? Is this a global issue? Or is there anything specific to maybe Lansing or Lexington or any other specific stuff you might need to call out with?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

No, this is a – David, this is a global – no, not global, but it's definitely US problem. I saw something the other day that talked about participation in the labor force between – men between 18 and 64 and how over the last 30 years, it's dropped 26%. And the question was, how do these people survive, right. And so there was a lot of consternation around that, but we're seeing a couple of things.

Steve talked about supply chain, and you guys cover a lot of businesses. The supply chain disruptions are real, and it's a challenge, and it's an everyday challenge. And it's not just freight costs. It's getting stuff in. And when hurricane – you think about on the Animal Safety side, when Hurricane Ida came and shut down the ports down in New Orleans and in the South, you instantly saw the grain prices drop.

You couple that kind of with getting ships and getting containers as well we're seeing. I mean the rise in the container cost is crazy. I mean, if you're moving low volume products or low value products, you could have freight be more than what the product is worth. That's nuts. So those are things that are real, then we did address it.

So we are raising wages, but we're also doing that in a way where we're trying to be – using technology to be more efficient. So where we may have had 10 people at \$50,000, we're going to do eight people at \$65,000 where you're going to see that your total costs don't change that much. But there are some cases on the hourlyies, where we've just got to get competitive to get people in the door and get product out the door.

David Westenberg

Analyst, Guggenheim Securities LLC

Q

Got it. Thank you. And then maybe if I can do one last one on trends in China. I know it's been a long – China and India have been a long-term focus already for you. Do you have any – can you give us maybe any color in terms of percent of revenue, profitability in that area and growth? And then as we look at China in the future, are there any regulatory, geopolitical or any kind of procurement grist on that could present itself from – that could stop from getting your aspirational goals in that specific market? And I'll stop after that question, because I realized that one was pretty intense.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Yeah, I'll let Steve do the first part. But on the second, David, yeah, of course. I mean, I think if you watch what Xi Jinping is doing over in China, and kind of the relation between the US and China, it's going to be interesting. And I can't forecast what is going to happen there. But what we're going to do is we're going to make sure that we are able to adapt and move quickly around those existing markets.

I mean I think yesterday stock market dropped because of the real estate business in China shows everything is connected, right? So it's an important market for us. They're still having challenges with African swine fever. You're still saying hog prices severely depressed. It's just a very challenging time for them right now, but our business has been good. And I'll let Steve give me you numbers.

Steven James Quinlan

Chief Financial Officer, Neogen Corp.

A

Yeah. And David, I think your question first was what percent they are of our overall sales, and it's been growing very nicely for us. But our growth across the world has been nice as well. So China is still less than 5% of our overall revenues. As that growth has occurred in China, profitability has also grown very nicely. We're very happy with the profit performance of China relative to our other businesses.

David Westenberg

Analyst, Guggenheim Securities LLC

Q

Yeah. Thank you for taking the questions.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Sure.

Operator: This concludes our question-and-answer session. My apologies. We have one more question, a follow-up from John Kreger with William Blair. Please go ahead.

John Kreger

Analyst, William Blair & Co. LLC

Q

Hey. Thanks. Thank you. I just had a few follow-ups...

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

[ph] Just slide in there, John. Just slide in there (36:03).

John Kreger

Analyst, William Blair & Co. LLC

Q

[ph] I know. I snuck it in. Snuck it in (36:05).

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Nice.

John Kreger

Analyst, William Blair & Co. LLC

Q

I think these are both, Steve, for you. Can you just clarify that – I think the total revenue growth in the quarter of 17%. Can you just sort of break down what that would have been on a constant currency basis and then constant currency organic, just to make sure there's no confusion there?

Steven James Quinlan

Chief Financial Officer, Neogen Corp.

A

Sure. So on constant currency, John, our revenue would have been 15%. In organic, that number is 12%.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Hey, that's still good.

Steven James Quinlan

Chief Financial Officer, Neogen Corp.

A

Really impressive.

John Kreger

Analyst, William Blair & Co. LLC

Q

That's impressive. Yeah, yeah, yeah. Thank you. And then, one last one, John. I think Brazil was pretty weak. And if I'm remembering correctly, last quarter was quite good. And typically, I think they've been very strong on the animal experts psyche. Can you just talk a little bit about why it was weakened and what you expect in the coming year?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Yeah. So one of it was, as Steve mentioned that non-recurring insecticide bid in Nicaragua. But the other big part of it was we had really nice sales of aflatoxin test kits last year. And I don't know if you've seen, but John the first corn harvest in Brazil is a wreck. I mean, they had such a drought that it's down 30%, 40%. And so Brazil is actually – the South has always imported corn, but the North, the bigger regions have not, but now they are starting to import corn.

So it really was a function of the size of the corn harvest, because there just wasn't that much corn to test. Now, again, this is because of the way that countries spread over the Northern, Southern Hemisphere, this is their first corn harvest. The second corn harvest is bigger, and they're going start planting now. But this first corn harvest

was pretty rough on them. Now we think that's an opportunity, right? Because now if they're going to be importing, we've got with our acquisition in Argentina and Uruguay and Chile, they're going to be pulling from the Southern corn. We think that's an opportunity to get the business on that side from those countries. So that's what we're focused on.

John Kreger

Analyst, William Blair & Co. LLC

Q

Okay. So it sounds like your outlook for Brazil is better for the rest of the year than what you saw in Q1?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

I mean, they've got their challenges because of that, but I don't know if it's going to be – it's not going to be a big hockey stick bounce back, John. I mean, that corn harvest goes through a couple of quarters. So it's going to have a bit of a drag, but the total international business, like you saw for this quarter, we're optimistic they're going to do really well the whole business for next quarter.

John Kreger

Analyst, William Blair & Co. LLC

Q

Okay. Thanks much.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

You bet. Thank you.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to John Adent for any closing remarks.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

Thanks, Betsy. Well, thank you everyone for joining the call and being big supporters of Neogen. Just a reminder, if you haven't already, please get your proxy votes in for our annual shareholders meeting, which is going to be on Thursday, October 7. And we'll talk to you all again in December. Thank you.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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