

**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 February 28, 2021.

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-17988

**Neogen Corporation**

(Exact name of registrant as specified in its charter)

**Michigan**  
(State or other jurisdiction of  
incorporation or organization)

**38-2367843**  
(IRS Employer  
Identification Number)

**620 Leshar Place**  
**Lansing, Michigan 48912**  
(Address of principal executive offices, including zip code)

**(517) 372-9200**  
(Registrant's telephone number, including area code)

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

Title of each Class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.16 par value per share	NEOG	NASDAQ Global Select Market

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by a check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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 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 every Interactive Data File required to be submitted 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 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 February 28, 2021 there were 53,511,262 shares of Common Stock outstanding.

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**NEOGEN CORPORATION AND SUBSIDIARIES**  
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**PART I – FINANCIAL INFORMATION**

**Item 1. Interim Consolidated Financial Statements**

**Neogen Corporation and Subsidiaries**  
**Consolidated Balance Sheets**  
*(in thousands, except share and per share amounts)*

	<b>February 28, 2021</b>	<b>May 31, 2020</b>
	<u>Unaudited</u>	<u></u>
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 73,482	\$ 66,269
Marketable securities	279,865	277,404
Accounts receivable, net of allowance of \$1,400 and \$1,350 at February 28, 2021 and May 31, 2020, respectively	87,241	84,681
Inventories	99,267	95,053
Prepaid expenses and other current assets	15,449	13,999
<b>Total Current Assets</b>	<b>555,304</b>	<b>537,406</b>
Net Property and Equipment	97,981	78,671
Other Assets		
Right of use assets	1,269	1,952
Goodwill	133,029	110,340
Other non-amortizable intangible assets	15,441	15,217
Amortizable intangible and other assets, net of accumulated amortization of \$50,998 and \$44,690 at February 28, 2021 and May 31, 2020, respectively	77,192	53,596
<b>Total Assets</b>	<b>\$ 880,216</b>	<b>\$ 797,182</b>
<u>Liabilities and Stockholders' Equity</u>		
Current Liabilities		
Accounts payable	\$ 23,257	\$ 25,650
Accrued compensation	7,928	7,735
Income taxes	—	1,456
Other accruals	14,757	13,648
<b>Total Current Liabilities</b>	<b>45,942</b>	<b>48,489</b>
Deferred Income Taxes	21,276	18,125
Other Non-Current Liabilities	5,315	5,391
<b>Total Liabilities</b>	<b>72,533</b>	<b>72,005</b>
Commitments and Contingencies (note 11)		
<u>Equity</u>		
Preferred stock, \$1.00 par value, 100,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.16 par value, 120,000,000 shares authorized, 53,511,262 and 52,945,841 shares issued and outstanding at February 28, 2021 and May 31, 2020, respectively	8,562	8,471
Additional paid-in capital	290,118	257,693
Accumulated other comprehensive loss	(14,841)	(19,709)
Retained earnings	523,844	478,722
<b>Total Stockholders' Equity</b>	<b>807,683</b>	<b>725,177</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 880,216</b>	<b>\$ 797,182</b>

See notes to interim consolidated financial statements.

**Neogen Corporation and Subsidiaries**  
**Consolidated Statements of Income (unaudited)**  
*(in thousands, except per share amounts)*

	Three Months Ended February 28/29,		Nine Months Ended February 28/29,	
	2021	2020	2021	2020
<b>Revenues</b>				
Product revenues	\$ 92,816	\$ 77,736	\$ 273,288	\$ 247,071
Service revenues	23,893	22,133	67,746	62,025
<b>Total Revenues</b>	<u>116,709</u>	<u>99,869</u>	<u>341,034</u>	<u>309,096</u>
<b>Cost of Revenues</b>				
Cost of product revenues	49,466	41,068	145,336	128,658
Cost of service revenues	13,394	13,471	38,333	35,888
<b>Total Cost of Revenues</b>	<u>62,860</u>	<u>54,539</u>	<u>183,669</u>	<u>164,546</u>
<b>Gross Margin</b>	53,849	45,330	157,365	144,550
<b>Operating Expenses</b>				
Sales and marketing	18,693	17,675	52,938	53,206
General and administrative	15,146	10,789	38,343	32,473
Research and development	4,236	3,823	12,170	11,292
<b>Total Operating Expenses</b>	<u>38,075</u>	<u>32,287</u>	<u>103,451</u>	<u>96,971</u>
<b>Operating Income</b>	15,774	13,043	53,914	47,579
<b>Other Income (Expense)</b>				
Interest income	294	1,600	1,571	4,381
Other expense	(91)	(393)	(363)	(832)
<b>Total Other Income</b>	<u>203</u>	<u>1,207</u>	<u>1,208</u>	<u>3,549</u>
<b>Income Before Taxes</b>	15,977	14,250	55,122	51,128
<b>Provision for Income Taxes</b>	2,600	2,050	10,000	8,000
<b>Net Income</b>	<u>\$ 13,377</u>	<u>\$ 12,200</u>	<u>\$ 45,122</u>	<u>\$ 43,128</u>
<b>Net Income Per Share</b>				
Basic	<u>\$ 0.25</u>	<u>\$ 0.23</u>	<u>\$ 0.85</u>	<u>\$ 0.82</u>
Diluted	<u>\$ 0.25</u>	<u>\$ 0.23</u>	<u>\$ 0.85</u>	<u>\$ 0.82</u>
<b>Weighted Average Shares Outstanding</b>				
Basic	53,413	52,795	53,132	52,463
Diluted	53,695	53,048	53,384	52,783

See notes to interim consolidated financial statements.

**Neogen Corporation and Subsidiaries**  
**Consolidated Statements of Comprehensive Income (unaudited)**  
*(in thousands)*

	Three Months Ended		Nine Months Ended	
	February 28/29,		February 28/29,	
	2021	2020	2021	2020
Net income	\$ 13,377	\$ 12,200	\$ 45,122	\$ 43,128
Other comprehensive income (loss), net of tax: foreign currency translations	360	(1,761)	5,419	(2,452)
Other comprehensive income (loss), net of tax: unrealized gain (loss) on marketable securities	(115)	172	(552)	585
Total comprehensive income	<u>\$ 13,622</u>	<u>\$ 10,611</u>	<u>\$ 49,989</u>	<u>\$ 41,261</u>

See notes to interim consolidated financial statements.

**Neogen Corporation and Subsidiaries**  
**Consolidated Statements of**  
**Equity (unaudited)**  
*(in thousands)*

	Common Stock		Additional	Accumulated	Retained	Total
	Shares	Amount	Paid-in	Other	Earnings	
			Capital	Comprehensive		
				Income (Loss)		
<b>Balance at June 1, 2020</b>	<b>52,946</b>	<b>\$ 8,471</b>	<b>\$ 257,693</b>	<b>\$ (19,709)</b>	<b>\$ 478,722</b>	<b>\$ 725,177</b>
Exercise of options and share-based compensation plan	86	14	5,825	—	—	5,839
Issuance of shares under employee stock purchase plan	9	2	666	—	—	668
Net income for the three months ended August 31, 2020	—	—	—	—	15,860	15,860
Other comprehensive income for the three months ended August 31, 2020	—	—	—	4,002	—	4,002
<b>Balance at August 31, 2020</b>	<b>53,041</b>	<b>\$ 8,487</b>	<b>\$ 264,184</b>	<b>\$ (15,707)</b>	<b>\$ 494,582</b>	<b>\$ 751,546</b>
Exercise of options and share-based compensation plan	203	32	9,311	—	—	9,343
Net income for the three months ended November 30, 2020	—	—	—	—	15,885	15,885
Other comprehensive income for the three months ended November 30, 2020	—	—	—	621	—	621
<b>Balance at November 30, 2020</b>	<b>53,244</b>	<b>\$ 8,519</b>	<b>\$ 273,495</b>	<b>\$ (15,086)</b>	<b>\$ 510,467</b>	<b>\$ 777,395</b>
Exercise of options and share-based compensation plan	193	31	10,999	—	—	11,030
Issuance of shares under employee stock purchase plan	10	2	718	—	—	720
Issuance of shares for Megazyme acquisition	64	10	4,906	—	—	4,916
Net income for the three months ended February 28, 2021	—	—	—	—	13,377	13,377
Other comprehensive income for the three months ended February 28, 2021	—	—	—	245	—	245
<b>Balance at February 28, 2021</b>	<b>53,511</b>	<b>\$ 8,562</b>	<b>\$ 290,118</b>	<b>\$ (14,841)</b>	<b>\$ 523,844</b>	<b>\$ 807,683</b>

	Common Stock		Additional	Accumulated	Retained	Total
	Shares	Amount	Paid-in	Other	Earnings	
			Capital	Comprehensive		
				Income (Loss)		
<b>Balance at June 1, 2019</b>	<b>52,217</b>	<b>\$ 8,355</b>	<b>\$ 221,937</b>	<b>\$ (11,640)</b>	<b>\$ 419,247</b>	<b>\$ 637,899</b>
Exercise of options and share-based compensation plan	196	30	9,683	—	—	9,713
Issuance of shares under employee stock purchase plan	10	2	536	—	—	538
Net income for the three months ended August 31, 2019	—	—	—	—	14,652	14,652
Other comprehensive loss for the three months ended August 31, 2019	—	—	—	(2,496)	—	(2,496)
<b>Balance at August 31, 2019</b>	<b>52,423</b>	<b>\$ 8,387</b>	<b>\$ 232,156</b>	<b>\$ (14,136)</b>	<b>\$ 433,899</b>	<b>\$ 660,306</b>
Exercise of options and share-based compensation plan	288	47	12,070	—	—	12,117
Net income for the three months ended November 30, 2019	—	—	—	—	16,276	16,276
Other comprehensive income for the three months ended November 30, 2019	—	—	—	2,218	—	2,218
<b>Balance at November 30, 2019</b>	<b>52,711</b>	<b>\$ 8,434</b>	<b>\$ 244,226</b>	<b>\$ (11,918)</b>	<b>\$ 450,175</b>	<b>\$ 690,917</b>
Exercise of options and share-based compensation plan	188	31	9,705	—	—	9,736
Issuance of shares under employee stock purchase plan	12	1	606	—	—	607
Net income for the three months ended February 29, 2020	—	—	—	—	12,200	12,200
Other comprehensive loss for the three months ended February 29, 2020	—	—	—	(1,589)	—	(1,589)
<b>Balance at February 29, 2020</b>	<b>52,911</b>	<b>\$ 8,466</b>	<b>\$ 254,537</b>	<b>\$ (13,507)</b>	<b>\$ 462,375</b>	<b>\$ 711,871</b>

See notes to interim consolidated financial statements.

**Neogen Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows (unaudited)**  
*(in thousands)*

	Nine Months Ended February 28/29,	
	2021	2020
<b>Cash Flows From Operating Activities</b>		
Net Income	\$ 45,122	\$ 43,128
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	15,107	13,542
Share-based compensation	4,773	4,795
Change in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	1,019	3,841
Inventories	3,328	(2,238)
Prepaid expenses and other current assets	(1,908)	(3,119)
Accounts payable, accruals and other changes	(8,321)	301
<b>Net Cash From Operating Activities</b>	<u>59,120</u>	<u>60,250</u>
<b>Cash Flows For Investing Activities</b>		
Purchases of property, equipment and other non-current intangible assets	(19,393)	(16,322)
Proceeds from the sale of marketable securities	602,233	300,448
Purchases of marketable securities	(604,694)	(351,002)
Business acquisitions, net of cash acquired	(52,000)	(9,701)
<b>Net Cash For Investing Activities</b>	<u>(73,854)</u>	<u>(76,577)</u>
<b>Cash Flows From Financing Activities</b>		
Exercise of stock options and issuance of employee stock purchase plan shares	22,801	27,915
<b>Net Cash From Financing Activities</b>	<u>22,801</u>	<u>27,915</u>
Effect of Foreign Exchange Rates on Cash	(854)	(2,502)
<b>Net Increase In Cash and Cash Equivalents</b>	<u>7,213</u>	<u>9,086</u>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<u>66,269</u>	<u>41,688</u>
<b>Cash and Cash Equivalents, End of Period</b>	<u>\$ 73,482</u>	<u>\$ 50,774</u>

See notes to interim consolidated financial statements.



**NEOGEN CORPORATION AND SUBSIDIARIES**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. ACCOUNTING POLICIES**

**BASIS OF PRESENTATION AND CONSOLIDATION**

The accompanying unaudited consolidated financial statements include the accounts of Neogen Corporation (“Neogen” or the “Company”) and its wholly owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included in the accompanying unaudited consolidated financial statements. All intercompany balances and transactions have been eliminated in consolidation. The results of operations for the three and nine month periods ended February 28, 2021 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2021. For more complete financial information, these consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2020.

Our functional currency is the U.S. dollar. We translate our non-U.S. operations’ assets and liabilities denominated in foreign currencies into U.S. dollars at current rates of exchange as of the balance sheet date and income and expense items at the average exchange rate for the reporting period. Translation adjustments resulting from exchange rate fluctuations are recorded in other comprehensive income (loss). Gains or losses from foreign currency transactions are included in other income (expense) on our consolidated statement of income.

**Recently Adopted Accounting Standards**

*Financial Instruments - Credit Losses*

On June 1, 2020, the Company adopted ASU No. 2016-13—Measurement of Credit Losses on Financial Instruments, which changes how the Company measures credit losses on most financial instruments measured at amortized cost and certain other instruments, such as loans, receivables and held-to-maturity debt securities. Rather than generally recognizing credit losses when it is probable that the loss has been incurred, the revised guidance requires the Company to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the Company expects to collect over the instrument’s contractual life. The adoption of this guidance did not have a material impact on our consolidated financial statements due to the Company’s short-term contractual life of receivables and minimal expected losses.

*Fair Value Measurements*

On June 1, 2020, the Company adopted ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements of fair value measurements. The adoption of this guidance did not have an impact on our consolidated financial statements.

*Cloud Computing Implementation Cost*

On June 1, 2020, the Company adopted ASU 2018-15, Intangible-Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Cost Incurred in a Cloud Computing Arrangement That Is a Service Contract, which clarifies the accounting for implementation costs in cloud computing arrangements. The adoption of this guidance did not have an impact on our consolidated financial statements.

## **Comprehensive Income**

Comprehensive income represents net income and any revenues, expenses, gains and losses that, under U.S. generally accepted accounting principles, are excluded from net income and recognized directly as a component of equity. Accumulated other comprehensive income (loss) consists of foreign currency translation adjustments and unrealized gains or losses on marketable securities.

## **Fair Value of Financial Instruments**

The carrying amounts of the Company's financial instruments other than cash equivalents and marketable securities, which include accounts receivable and accounts payable, approximate fair value based on either their short maturity or current terms for similar instruments.

Fair value measurements are determined based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants exclusive of any transaction costs. The Company utilizes a fair value hierarchy based upon the observability of inputs used in valuation techniques as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

## **ESTIMATES AND ASSUMPTIONS**

The preparation of these financial statements requires that management make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, management evaluates the estimates, including, but not limited to, variable consideration related to revenue recognition, allowances for doubtful accounts, the market value of, and demand for, inventories, stock-based compensation, provision for income taxes and related balance sheet accounts, accruals, goodwill and other intangible assets. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

## **Accounts Receivable Allowance**

Management attempts to minimize credit risk by reviewing customers' credit history before extending credit and by monitoring credit exposure on a regular basis. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific customers, historical trends, current conditions and other information. Collateral or other security is generally not required for accounts receivable. Once a receivable balance has been determined to be uncollectible, generally after all collection efforts have been exhausted, that amount is charged against the allowance for doubtful accounts.

## **Inventory**

The reserve for obsolete and slow-moving inventory is reviewed at least quarterly based on an analysis of the inventory, considering the current condition of the asset as well as other known facts and future plans. The reserve required to record inventory at lower of cost or net realizable value is adjusted as conditions change. Product obsolescence may be caused by shelf-life expiration, discontinuance of a product line, replacement products in the marketplace or other competitive situations.

## **Goodwill and Other Intangible Assets**

Goodwill represents the excess of purchase price over fair value of tangible net assets of acquired businesses after amounts are allocated to other identifiable intangible assets. Other intangible assets include customer relationships, trademarks, licenses, trade names, covenants not-to-compete and patents. Customer-based intangibles are amortized on either an accelerated or straight-line basis, reflecting the pattern in which the economic benefits are consumed, while all other amortizable intangibles are amortized on a straight-line basis; intangibles are generally amortized over 5 to 25 years. We review the carrying amounts of goodwill and other non-amortizable intangible assets annually, or when indications of impairment exist, to determine if such assets may be impaired. If the carrying amounts of these assets are deemed to be less than fair value based upon a discounted cash flow analysis and comparison to comparable EBITDA multiples of peer companies, such assets are reduced to their estimated fair value and a charge is recorded to operations.

## **Long-Lived Assets**

Management reviews the carrying values of its long-lived assets to be held and used, including definite-lived intangible assets, for possible impairment whenever events or changes in business conditions warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated separately identifiable undiscounted cash flows over the remaining useful life of the asset indicate that the carrying amount of the asset may not be recoverable. In such an event, fair value is determined using discounted cash flows and, if lower than the carrying value, impairment is recognized through a charge to operations.

## **Equity Compensation Plans**

Share options awarded to employees, restricted stock units (RSUs) and shares of stock awarded to employees under certain stock purchase plans are recognized as compensation expense based on their fair value at grant date. The fair market value of options granted under the Company stock option plans was estimated on the date of grant using the Black-Scholes option-pricing model with assumptions for inputs such as interest rates, expected dividends, an estimate of award forfeitures, volatility measures and specific employee exercise behavior patterns based on statistical data. Some of the inputs used are not market-observable and have to be estimated or derived from available data. Use of different estimates would produce different option values, which in turn would result in higher or lower compensation expense recognized. For RSUs, we use the intrinsic value method to value the units. To value other equity awards, several recognized valuation models exist; none of these models can be singled out as being the best or most correct. The model applied by us can handle most of the specific features included in the options granted, which are the reason for their use. If different models were used, the option values could differ despite using the same inputs. Accordingly, using different assumptions coupled with using a different valuation model could have a significant impact on the fair value of employee stock options. Fair value could be either higher or lower than the number provided by the model applied and the inputs used. Further information on our equity compensation plans, including inputs used to determine the fair value of options, is disclosed in Note 8.

## **Income Taxes**

We account for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and for tax credit carryforwards and are measured using the enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred income tax expense represents the change in net deferred income tax assets and liabilities during the year.

## **2. CASH AND MARKETABLE SECURITIES**

### **Cash and Cash Equivalents**

Cash and cash equivalents consist of bank demand accounts, savings deposits, certificates of deposit and commercial paper with original maturities of 90 days or less. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has not experienced losses related to these balances and believes it is not exposed to significant credit risk regarding its cash and cash equivalents. Cash and cash equivalents were \$73,482,000 and \$66,269,000 at February 28, 2021 and May 31, 2020, respectively. The carrying value of these assets approximates fair value due to the short maturity of these instruments and is classified as Level 1 in the fair value hierarchy.

### **Marketable Securities**

The Company has marketable securities held by banks or broker-dealers at February 28, 2021. Changes in market value are monitored and recorded on a monthly basis; in the event of a downgrade in credit quality subsequent to purchase, the marketable securities investment is evaluated to determine the appropriate action to take to minimize the overall risk to our marketable securities portfolio. These securities are classified as available for sale. The primary objective of management's short-term investment activity is to preserve capital for the purpose of funding current operations, capital expenditures and business acquisitions; short-term investments are not entered into for trading or speculative purposes. These securities are recorded at fair value based on recent trades or pricing models and therefore meet the Level 2 criteria. Interest income on these investments is recorded within other income on the income statement. Adjustments in the fair value of these assets are recorded in other comprehensive income.

Marketable Securities as of February 28, 2021 and May 31, 2020 are listed below by classification and remaining maturities.

<i>(in thousands)</i>	Maturity	February 28, 2021	May 31, 2020
US Treasuries	0 - 90 days	\$ —	\$ —
	91 - 180 days	—	—
	181 days - 1 year	—	2,532
	1 - 2 years	—	—
Commercial Paper & Corporate Bonds	0 - 90 days	158,183	133,130
	91 - 180 days	81,850	73,824
	181 days - 1 year	30,189	43,231
	1 - 2 years	1,310	7,839
Certificates of Deposit	0 - 90 days	1,253	1,003
	91 - 180 days	3,550	5,184
	181 days -1 year	3,277	6,069
	1 - 2 years	253	4,592
<b>Total Marketable Securities</b>		<b><u>\$ 279,865</u></b>	<b><u>\$ 277,404</u></b>

The components of marketable securities at February 28, 2021 are as follows:

<i>(in thousands)</i>	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
US Treasuries	\$ —	\$ —	\$ —	\$ —
Commercial Paper & Corporate Bonds	271,600	185	(253)	271,532
Certificates of Deposit	8,284	49	—	8,333
<b>Total Marketable Securities</b>	<b><u>\$ 279,884</u></b>	<b><u>\$ 234</u></b>	<b><u>\$ (253)</u></b>	<b><u>\$ 279,865</u></b>

The components of marketable securities at May 31, 2020 are as follows:

<i>(in thousands)</i>	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
US Treasuries	\$ 2,502	\$ 30	\$ —	\$ 2,532
Commercial Paper & Corporate Bonds	257,700	347	(23)	258,024
Certificates of Deposit	16,648	200	—	16,848
<b>Total Marketable Securities</b>	<b><u>\$ 276,850</u></b>	<b><u>\$ 577</u></b>	<b><u>\$ (23)</u></b>	<b><u>\$ 277,404</u></b>

### 3. INVENTORIES

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or net realizable value. The components of inventories follow:

<i>(in thousands)</i>	February 28, 2021	May 31, 2020
Raw materials	\$ 46,423	\$ 45,058
Work-in-process	7,408	6,887
Finished and purchased goods	45,436	43,108
	<b><u>\$ 99,267</u></b>	<b><u>\$ 95,053</u></b>

#### 4. LEASES

We lease various manufacturing, laboratory, warehousing and distribution facilities, administrative and sales offices, equipment and vehicles under operating leases. We evaluate our contracts to determine if an arrangement is a lease at inception and classify it as a finance or operating lease. Currently, all of our leases are classified as operating leases. Leased assets and corresponding liabilities are recognized based on the present value of the lease payments over the lease term. Our lease terms may include options to extend when it is reasonably certain that we will exercise that option.

Topic ASC 842 requires the Company to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. Right-of-use assets are recorded in other assets on our consolidated balance sheets. Current and non-current lease liabilities are recorded in other accruals within current liabilities and other non-current liabilities, respectively, on our consolidated balance sheets. Costs associated with operating leases are recognized on a straight-line basis within operating expenses over the term of the lease.

We have made certain assumptions and judgments when applying ASC 842, the most significant of which are:

- We elected the package of practical expedients available for transition that allow us to not reassess whether expired or existing contracts contain leases under the new definition of a lease, lease classification for expired or existing leases and whether previously capitalized initial direct costs would qualify for capitalization under ASC 842.
- We did not elect to use hindsight when considering judgments and estimates such as assessments of lessee options to extend or terminate a lease or purchase the underlying asset.
- For all asset classes, we elected to not recognize a right-of-use asset and lease liability for short-term leases (i.e. leases with a term of 12 months or less).
- For all asset classes, we elected to not separate non-lease components from lease components to which they relate and have accounted for the combined lease and non-lease components as a single lease component.
- The determination of the discount rate used in a lease is our incremental borrowing rate that is based on what we would normally pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments.

Supplemental balance sheet information related to operating leases was as follows:

<i>(in thousands)</i>	<b>February 28, 2021</b>	<b>May 31, 2020</b>
Right of use - assets	\$ 1,269	\$ 1,952
Lease liabilities - current	131	1,054
Lease liabilities - non-current	1,089	913

The weighted average remaining lease term and weighted average discount rate were as follows:

	<b>February 28, 2021</b>	<b>May 31, 2020</b>
Weighted average remaining lease term	2.4 years	2.5 years
Weighted average discount rate	3.0%	3.2%

Operating lease expenses are classified as cost of revenues or operating expenses on the consolidated statements of income. The components of lease expense were as follows:

<i>(in thousands)</i>	Three Months Ended February 28/29,		Nine Months Ended February 28/29,	
	2021	2020	2021	2020
Operating leases	\$ 372	\$ 316	\$ 1,017	\$ 889
Short term leases	17	25	76	106
Total lease expense	<u>\$ 389</u>	<u>\$ 341</u>	<u>\$ 1,093</u>	<u>\$ 995</u>

Cash paid for amounts included in the measurement of lease liabilities for operating leases included in cash flows from operations on the statement of cash flows were approximately \$946,000 and \$868,000 for the nine months ended February 28, 2021 and February 29, 2020, respectively. There were no non-cash additions to right-of-use assets obtained from new operating lease liabilities for the nine months ended February 28, 2021.

Undiscounted minimum lease payments as of February 28, 2021 were as follows:

	Amount
Years ending May 31, 2021 (1)	\$ 133
2022	601
2023	347
2024	176
2025	47
2026 and thereafter	—
Total lease payments	<u>1,304</u>
Less: imputed interest	<u>84</u>
Total lease liabilities	<u>\$ 1,220</u>

(1) Excluding the nine months ended February 28, 2021.

## 5. REVENUE RECOGNITION

The Company determines the amount of revenue to be recognized through application of the following steps:

- Identification of the contract with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies the performance obligations.

Essentially all of Neogen's revenue is generated through contracts with its customers. A performance obligation is a promise in a contract to transfer a product or service to a customer. We generally recognized revenue at a point in time when all of our performance obligations under the terms of a contract are satisfied. Revenue is recognized upon transfer of control of promised products and services in an amount that reflects the consideration we expect to receive in exchange for those products or services. The collectability of consideration on the contract is reasonably assured before revenue is recognized. To the extent that customer payment has been received before all recognition criteria are met, these revenues are initially deferred in other accruals on the balance sheet and the revenue is recognized in the period that all recognition criteria have been met.

Certain agreements with customers include discounts or rebates on the sale of products and services applied retrospectively, such as volume rebates achieved by purchasing a specified purchase threshold of goods and services. We account for these discounts as variable consideration and estimate the likelihood of a customer meeting the threshold in order to determine the transaction price using the most predictive approach. We typically use the most-likely-amount method, for incentives that are offered to individual customers, and the expected-value method, for programs that are offered to a broad group of customers. Variable consideration reduces the amount of revenue that is recognized. Rebate obligations related to customer incentive programs are recorded in accrued liabilities; the rebate estimates are adjusted at the end of each applicable measurement period based on information currently available.

The performance obligations in Neogen's contracts are generally satisfied well within one year of contract inception. In such cases, management has elected the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component. Management has elected to utilize the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred because the amortization period for the prepaid costs that would otherwise have been deferred and amortized is one year or less. We account for shipping and handling for products as a fulfillment activity when goods are shipped. Shipping and handling costs that are charged to and reimbursed by the customer are recognized as revenues, while the related expenses incurred by Neogen are recorded in sales and marketing expense. Revenue is recognized net of any tax collected from customers; the taxes are subsequently remitted to governmental authorities. Our terms and conditions of sale generally do not provide for returns of product or reperformance of service except in the case of quality or warranty issues. These situations are infrequent; due to immateriality of the amount, warranty claims are recorded in the period incurred.

The Company derives revenue from two primary sources—product revenue and service revenue.

Product revenue consists of shipments of:

- Diagnostic test kits, dehydrated culture media and related products used by food producers and processors to detect harmful natural toxins, foodborne bacteria, allergens and levels of general sanitation;
- Consumable products marketed to veterinarians, retailers, livestock producers and animal health product distributors; and
- Rodenticides, disinfectants and insecticides to assist in the control of rodents, insects and disease in and around agricultural, food production and other facilities.

Revenues for our products are recognized and invoiced when the product is shipped to the customer.

Service revenue consists primarily of:

- Genomic identification and related interpretive bioinformatic services; and
- Other commercial laboratory services.

Revenues for Neogen's genomics and commercial laboratory services are recognized and invoiced when the applicable laboratory service is performed and the results are conveyed to the customer.

Payment terms for products and services are generally 30 to 60 days.

The following table presents disaggregated revenue by major product and service categories for the three and nine month periods ended February 28, 2021 and February 29, 2020:

<i>(in thousands)</i>	Three Months ended February 28/29,		Nine Months ended February 28/29,	
	2021	2020	2021	2020
<b>Food Safety</b>				
Natural Toxins, Allergens & Drug Residues	\$ 18,255	\$ 17,154	\$ 57,271	\$ 57,950
Bacterial & General Sanitation	10,333	9,413	31,499	31,345
Culture Media & Other	14,888	11,222	39,577	35,259
Rodenticides, Insecticides & Disinfectants	9,644	7,964	27,230	20,859
Genomics Services	5,304	4,745	14,566	12,961
	<u>\$ 58,424</u>	<u>\$ 50,498</u>	<u>\$ 170,143</u>	<u>\$ 158,374</u>
<b>Animal Safety</b>				
Life Sciences	\$ 1,399	\$ 1,376	\$ 4,122	\$ 4,901
Veterinary Instruments & Disposables	12,494	10,799	34,843	32,621
Animal Care & Other	8,873	6,667	25,902	20,859
Rodenticides, Insecticides & Disinfectants	18,085	14,558	56,470	47,462
Genomics Services	17,434	15,971	49,554	44,879
	<u>\$ 58,285</u>	<u>\$ 49,371</u>	<u>\$ 170,891</u>	<u>\$ 150,722</u>
<b>Total Revenues</b>	<u>\$ 116,709</u>	<u>\$ 99,869</u>	<u>\$ 341,034</u>	<u>\$ 309,096</u>

## 6. NET INCOME PER SHARE

The calculation of net income per share follows:

<i>(in thousands, except per share amounts)</i>	Three Months Ended February 28/29,		Nine Months Ended February 28/29,	
	2021	2020	2021	2020
Numerator for basic and diluted net income per share:				
Net income attributable to Neogen	\$ 13,377	\$ 12,200	\$ 45,122	\$ 43,128
Denominator for basic net income per share:				
Weighted average shares	53,413	52,795	53,132	52,463
Effect of dilutive stock options and RSUs	282	253	252	320
Denominator for diluted net income per share	53,695	53,048	53,384	52,783
Net income attributable to Neogen per share:				
Basic	<u>\$ 0.25</u>	<u>\$ 0.23</u>	<u>\$ 0.85</u>	<u>\$ 0.82</u>
Diluted	<u>\$ 0.25</u>	<u>\$ 0.23</u>	<u>\$ 0.85</u>	<u>\$ 0.82</u>



## 7. SEGMENT INFORMATION AND GEOGRAPHIC DATA

We have two reportable segments: Food Safety and Animal Safety. The Food Safety segment is primarily engaged in the development, production and marketing of diagnostic test kits, culture media and related products used by food producers and processors to detect harmful natural toxins, foodborne bacteria, allergens and levels of general sanitation. The Animal Safety segment is primarily engaged in the development, production and marketing of products dedicated to animal safety, including a complete line of consumable products marketed to veterinarians and animal health product distributors; this segment also provides genomic identification and related interpretive bioinformatic services. Additionally, the Animal Safety segment produces and markets rodenticides, disinfectants and insecticides to assist in the control of rodents, insects and disease in and around agricultural, food production and other facilities.

Our international operations in the United Kingdom, Mexico, Brazil, China and India originally focused on the Company's food safety products, and each of these units reports through the Food Safety segment. In recent years, these operations have expanded to offer our complete line of products and services, including those usually associated with the Animal Safety segment such as cleaners, disinfectants, rodenticides, insecticides, veterinary instruments and genomics services. These additional products and services are managed and directed by existing management and are reported through the Food Safety segment.

Neogen's operation in Australia originally focused on providing genomics services and sales of animal safety products and reports through the Animal Safety segment. With the acquisition of Cell BioSciences on February 28, 2020, this operation has expanded to offer our complete line of products and services, including those usually associated with the Food Safety segment. These additional products are managed and directed by existing management at Neogen Australasia and report through the Animal Safety segment.

The accounting policies of each of the segments are the same as those described in Note 1.

Segment information follows:

<i>(in thousands)</i>	Food Safety	Animal Safety	Corporate and Eliminations (1)	Total
<b>As of and for the three months ended February 28, 2021</b>				
Product revenues to external customers	\$ 51,965	\$ 40,851	\$ —	\$ 92,816
Service revenues to external customers	6,459	17,434	—	23,893
Total revenues to external customers	58,424	58,285	—	116,709
Operating income (loss)	7,911	11,657	(3,794)	15,774
Total assets	287,690	239,179	353,347	880,216
<b>As of and for the three months ended February 29, 2020</b>				
Product revenues to external customers	\$ 44,450	\$ 33,286	\$ —	\$ 77,736
Service revenues to external customers	6,048	16,085	—	22,133
Total revenues to external customers	50,498	49,371	—	99,869
Operating income (loss)	5,881	8,492	(1,330)	13,043
Total assets	226,077	219,501	327,923	773,501

- (1) Includes corporate assets, consisting principally of cash and cash equivalents, marketable securities, current and deferred tax accounts and overhead expenses not allocated to specific business segments. Also includes the elimination of intersegment transactions.

<i>(in thousands)</i>	<b>Food Safety</b>	<b>Animal Safety</b>	<b>Corporate and Eliminations (1)</b>	<b>Total</b>
<b>As of and for the nine months ended February 28, 2021</b>				
Product revenues to external customers	\$ 151,951	\$ 121,337	\$ —	\$ 273,288
Service revenues to external customers	18,192	49,554	—	67,746
Total revenues to external customers	170,143	170,891	—	341,034
Operating income (loss)	24,834	36,068	(6,988)	53,914
<b>As of and for the nine months ended February 29, 2020</b>				
Product revenues to external customers	\$ 141,516	\$ 105,555	\$ —	\$ 247,071
Service revenues to external customers	16,858	45,167	—	62,025
Total revenues to external customers	158,374	150,722	—	309,096
Operating income (loss)	24,571	26,521	(3,513)	47,579

(1) Includes elimination of intersegment transactions.

The following table presents the Company's revenue disaggregated by geographic location:

<i>(in thousands)</i>	<b>Three months ended February 28/29,</b>		<b>Nine months ended February 28/29,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Domestic	\$ 70,387	\$ 59,762	\$ 207,544	\$ 186,887
International	46,322	40,107	133,490	122,209
Total revenue	116,709	99,869	341,034	309,096

## 8. EQUITY COMPENSATION PLANS

Incentive and non-qualified options to purchase shares of common stock have been granted to directors, officers and employees of Neogen under the terms of the Company's stock option plans. These options are granted at an exercise price of not less than the fair market value of the stock on the date of grant. Options vest ratably over three and five year periods and the contractual terms are generally five or ten years. A summary of stock option activity during the nine months ended February 28, 2021 follows:

<i>(Options in thousands)</i>	Shares	Weighted-Average Exercise Price
Options outstanding June 1, 2020	2,162	\$ 55.96
Granted	261	68.47
Exercised	(491)	44.91
Forfeited	(179)	57.58
Options outstanding February 28, 2021	1,753	\$ 58.41

The weighted-average fair value per share of stock options granted during the first nine months of fiscal years 2021 and 2020, estimated on the date of grant using the Black-Scholes option pricing model, was \$15.41 and \$15.56, respectively. The fair value of stock options granted was estimated using the following weighted-average assumptions.

	FY2021
Risk-free interest rate	0.2%
Expected dividend yield	0.0%
Expected stock price volatility	31.3%
Expected option life	3.25 years

The Company granted 59,125 restricted stock units (RSUs) to directors, officers and employees under the terms of the 2018 Omnibus Incentive Plan in October 2020, which vest ratably over three and five year periods. RSUs have a weighted average value of \$68.43 per share and will be expensed straight-line over the remaining weighted-average period of 4.49 years. On February 28, 2021 there was \$3,144,000 in unamortized compensation cost related to non-vested RSUs.

During the three and nine month periods ended February 28, 2021 and February 29, 2020, the Company recorded \$1,581,000 and \$1,640,000 and \$4,773,000 and \$4,795,000, respectively, of compensation expense related to its share-based awards.

The Company offers eligible employees the option to purchase common stock at a 5% discount to the lower of the market value of the stock at the beginning or end of each participation period under the terms of the 2011 Employee Stock Purchase Plan; the discount is recorded in general and administrative expense. Total individual purchases in any year are limited to 10% of compensation.

## 9. BUSINESS AND PRODUCT LINE ACQUISITIONS

The Consolidated Statements of Income reflect the results of operations for business acquisitions since the respective dates of purchase. All are accounted for using the acquisition method. Goodwill recognized in the acquisitions discussed below relates primarily to enhancing the Company's strategic platform for the expansion of available product offerings.

On January 1, 2020, the Company acquired all of the stock of Productos Quimicos Magiar, a distributor of Neogen's Food Safety products for the past 20 years, located in Argentina. This acquisition gives Neogen a direct sales presence in Argentina. Consideration for the purchase was \$3,776,000 in net cash, with \$3,237,000 paid at closing and \$540,000 payable to the former owner on January 1, 2022, and up to \$979,000 of contingent consideration, payable in one year, based upon an excess net sales formula. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of \$603,000, inventory of \$446,000, machinery and equipment of \$36,000, other current assets of \$221,000, accounts payable of \$383,000, other current liabilities of \$312,000, contingent consideration accrual of \$640,000, non-current deferred tax liabilities of \$441,000, intangible assets of \$1,471,000 (with an estimated life of 5-10 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. In February 2021, the former owner was paid \$530,000 of contingent consideration based on the achievement of sales targets; the remaining \$110,000 accrued but not earned was recorded as a gain in Other Income in the third quarter of fiscal 2021. This operation continues to operate from its current location in Buenos Aires, Argentina, reporting within the Food Safety segment. It is managed through Neogen's Latin America operation.

On January 1, 2020, the Company acquired all of the stock of Productos Quimicos Magiar, a distributor of Neogen's Food Safety products for the past 20 years, located in Uruguay. This acquisition gives Neogen a direct sales presence in Uruguay. Consideration for the purchase was \$1,488,000 in net cash, with \$1,278,000 paid at closing and \$210,000 payable to the former owner on January 1, 2022, and up to \$241,000 in contingent consideration, payable in one year, based upon an excess net sales formula. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of \$280,000, inventory of \$174,000, machinery and equipment of \$16,000, other current assets of \$68,000, accounts payable of \$204,000, other current liabilities of \$11,000, contingent consideration accrual of \$159,000, non-current deferred tax liabilities of \$99,000, intangible assets of \$398,000 (with an estimated life of 5-10 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. In February 2021, the former owner was paid \$158,000 of contingent consideration based on the achievement of sales targets; the remaining \$1,000 accrued but not earned was recorded as a gain in Other Income in the third quarter of fiscal 2021. This operation continues to operate from its current location in Montevideo, Uruguay, reporting within the Food Safety segment. It is managed through Neogen's Latin America operation.

On January 9, 2020, the Company acquired all of the stock of Diessechem Srl, a distributor of food and feed diagnostics for the past 27 years, located in Italy. This acquisition gives Neogen a direct sales presence in Italy. Consideration for the purchase was \$3,455,000 in net cash. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of \$780,000, inventory of \$5,000, other current assets of \$160,000, accounts payable of \$140,000, other current liabilities of \$305,000, non-current deferred tax liabilities of \$294,000, intangible assets of \$1,225,000 (with an estimated life of 5-10 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. This operation continues to operate from its current location in Milan, Italy, reporting within the Food Safety segment. It is managed through Neogen's Scotland operation.

On January 31, 2020, the Company acquired all of the stock of Abtek Biologicals Limited, a manufacturer and supplier of culture media supplements and microbiology technologies. This acquisition enhances the Company's culture media product line offering for the worldwide industrial microbiology markets. Consideration for the purchase was \$1,401,000 in net cash, with \$1,282,000 paid at closing and \$119,000 payable to the former owner on January 31, 2021. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of \$135,000, inventory of \$207,000, machinery and equipment of \$105,000, prepayments of \$6,000, accounts payable of \$118,000, other current liabilities of \$34,000, non-current deferred tax liabilities of \$92,000, intangible assets of \$484,000 (with an estimated life of 5-10 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. The final \$119,000 owed was paid to the former owner in January 2021. This manufacturing operation continues to operate from its current location in Liverpool, England, reporting within the Food Safety segment. It is managed through Neogen's Scotland operation.

On February 28, 2020, the Company acquired the assets of Cell BioSciences, an Australian distributor of food safety and industrial microbiology products. This acquisition gives Neogen a direct sales presence across Australasia for its entire product portfolio. Consideration for the purchase was \$3,768,000 in cash, with \$3,596,000 paid at closing and \$172,000 payable in one year. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included inventory of \$420,000, unearned revenue liability of \$13,000, intangible assets of \$1,338,000 (with an estimated life of 3 to 10 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. The final \$172,000 owed was paid to the former owner in March 2021. The business operates in Gatton, Australia, reporting within the Australian operations in the Animal Safety segment.

On March 26, 2020, the Company acquired the assets of Chile-based Magiar Chilena, a distributor of food, animal and plant diagnostics, including Neogen products. This acquisition gives Neogen a direct sales presence in Chile. Consideration for the purchase was \$400,000 in cash, with \$350,000 paid at closing and \$50,000 payable to the former owner on March 26, 2021. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included inventory of \$164,000, machinery and equipment of \$53,000, and intangible assets of \$183,000 (with an estimated life of 5-10 years). The business is operated from its current location in Santiago, Chile, reporting within the Food Safety segment. It is managed through Neogen's Latin America operation.

On July 31, 2020, the Company acquired the U.S. (including territories) rights to Elanco's StandGuard Pour-on for horn fly and lice control in beef cattle, and related assets. This product line fits in well with Neogen's existing agricultural insecticide portfolio and organizational capabilities. Consideration for the purchase was \$2,351,000 in cash, all paid at closing. The preliminary purchase price allocation, based upon the fair value of these assets determined using the income approach, included inventory of \$51,000 and intangible assets of \$2,300,000 (with an estimated life of 15 years). This product line is currently being toll manufactured for the Company but is eventually expected to be manufactured at Neogen's operation in Iowa; the sales are reported within the Animal Safety segment.

On December 30, 2020, the Company acquired all of the stock of Megazyme, Ltd, an Ireland-based company, and its wholly owned U.S. subsidiary, Megazyme, Inc. Megazyme is a manufacturer and supplier of diagnostic assay kits and enzymes to measure dietary fiber, complex carbohydrates and enzymes in food and beverages as well as animal feeds. This acquisition will allow Neogen to expand its commercial relationships across food, feed and beverage companies, and provide additional food quality diagnostic products to commercial labs and food science research institutions. Consideration for the purchase was net cash of \$39.8 million paid at closing, \$8.6 million of cash payable in two installments in two and four years, \$4.9 million of stock issued at closing, and up to \$2.5 million of contingent consideration, payable in two installments over the next year, based upon an excess net sales formula. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of \$1,339,000, inventory of \$5,619,000, net property, plant and equipment of \$12,141,000, prepayments of \$69,000, accounts payable of \$4,000, other current liabilities of \$2,405,000, contingent consideration accrual of \$2,458,000, non-current deferred tax liabilities of \$2,389,000, intangible assets of \$19,461,000 (with an estimated life of 5-10 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. In February 2021, the former owner was paid \$1,229,000 for the first installment of contingent consideration, based upon the achievement of sales targets. The Irish company continues to operate from its current location in Bray, Ireland, reporting within the Food Safety segment and is managed through Neogen's Scotland operation. The U.S. company's business is managed by our Lansing-based Food Safety team.

For each acquisition listed above, the revenues and net income were not considered material and were therefore not disclosed.

## **10. LONG TERM DEBT**

We have a financing agreement with a bank providing for a \$15,000,000 unsecured revolving line of credit, which was amended in the second quarter to extend the expiration to November 30, 2023. There were no advances against the line of credit during fiscal 2020 and there have been none thus far in fiscal 2021; there was no balance outstanding at February 28, 2021. Interest on any borrowings is calculated at LIBOR plus 100 basis points (rate under the terms of the agreement was 1.12% at February 28, 2021). Financial covenants include maintaining specified levels of tangible net worth, debt service coverage, and funded debt to EBITDA, each of which the Company was in compliance with at February 28, 2021.

## **11. COMMITMENTS AND CONTINGENCIES**

The Company is involved in environmental remediation and monitoring activities at its Randolph, Wisconsin manufacturing facility and accrues for related costs when such costs are determined to be probable and estimable. The Company currently utilizes a pump and treat remediation strategy, which includes semi-annual monitoring and reporting, consulting, and maintenance of monitoring wells. Neogen expenses these annual costs of remediation, which have ranged from \$38,000 to \$131,000 per year over the past five years. The Company's estimated liability for these costs was \$916,000 at both February 28, 2021 and May 31, 2020, measured on an undiscounted basis over an estimated period of 15 years; \$100,000 of the liability is recorded within current liabilities and the remainder is recorded within other non-current liabilities on the consolidated balance sheets. In fiscal 2019, the Company performed an updated Corrective Measures Study (CMS) on the site, per a request from the Wisconsin Department of Natural Resources (WDNR), and is in discussion with the WDNR regarding potential alternative remediation strategies going forward. The Company believes that the current pump and treat strategy is appropriate for the site. At this time, the outcome of the review in terms of approach and future costs is unknown, but a change in the current remediation strategy, depending on the alternative selected, could require an increase in the recorded liability, with an offsetting charge to operations in the period recorded.

The Company is subject to certain legal and other proceedings in the normal course of business that, in the opinion of management, should not have a material effect on its future results of operations or financial position.

## **PART I – FINANCIAL INFORMATION**

### **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

The information in this Management’s Discussion and Analysis of Financial Condition and Results of Operations contains both historical financial information and forward-looking statements. Neogen does not provide forecasts of future financial performance. While management is optimistic about the Company’s long-term prospects, historical financial information may not be indicative of future financial results.

#### **Safe Harbor and Forward-Looking Statements**

Forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, are made throughout this Quarterly Report on Form 10-Q. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words “believes,” “anticipates,” “plans,” “expects,” “seeks,” “estimates,” and similar expressions are intended to identify forward-looking statements. There are a number of important factors, including competition, recruitment and dependence on key employees, impact of weather on agriculture and food production, identification and integration of acquisitions, research and development risks, patent and trade secret protection, government regulation, widespread outbreak of an illness, including the COVID-19 pandemic, and other risks detailed from time to time in the Company’s reports on file at the Securities and Exchange Commission, that could cause Neogen Corporation’s results to differ materially from those indicated by such forward-looking statements, including those detailed in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

In addition, any forward-looking statements represent management’s views only as of the day this Quarterly Report on Form 10-Q was first filed with the Securities and Exchange Commission and should not be relied upon as representing management’s views as of any subsequent date. While management may elect to update forward-looking statements at some point in the future, it specifically disclaims any obligation to do so, even if its views change.

#### **COVID-19**

As we closely monitor the COVID-19 pandemic, our top priority remains protecting the health and safety of our employees. While essential operations continue in our locations around the world, the majority of our non-manufacturing employees continue to work remotely and travel remains restricted. Safety guidelines and procedures, including social distancing and enhanced cleaning, have been developed for on-site employees and these policies are regularly monitored and updated by our internal Emergency Response Team.

In the third quarter of fiscal 2021, the COVID-19 pandemic continued to impact our business operations and financial results. There has been a positive impact in sales of our biosecurity product lines, as the pandemic has created increased demand for these products, and sales into companion animal markets have benefitted, as remote work and stay at home orders have driven increased pet ownership. A number of our food safety diagnostic product lines have been negatively impacted due to decreased demand in many of our customers’ businesses, particularly those serving restaurants, bars and other institutional food service markets; supply chain difficulties including vendor disruptions, border closures and shipping issues; and restricted travel, which hinders our ability to connect with customers. During the current fiscal year, we have incurred less expense for travel, meals, trade shows and some other customer-facing marketing activities; higher spend on shipping and personal protective equipment has somewhat offset these savings. We expect the COVID-19 pandemic will continue to impact our business operations and financial results through at least the end of our current fiscal year.

## Executive Overview

- Consolidated revenues were \$116.7 million in the third quarter of fiscal 2021, an increase of 17% compared to \$99.9 million in the third quarter of fiscal 2020. Organic sales growth in the third quarter of fiscal 2021 was 13%. For the nine month period, consolidated revenues were \$341.0 million, an increase of 10% compared to \$309.1 million in the same period in the prior fiscal year. On a year to date basis, organic sales rose 8%.
- Food Safety segment sales were \$58.4 million in the third quarter of fiscal 2021, an increase of 16% compared to \$50.5 million in the same period a year ago. Organic sales in this segment increased 11% for the comparative period, with revenues from the acquisitions of Neogen Italia (January 2020), Neogen Argentina (January 2020), Neogen Uruguay (January 2020), Abtek (January 2020), Neogen Chile (March 2020) and Megazyme (December 2020) providing the remainder of the increase in revenues for the segment. For the year to date, Food Safety segment sales were \$170.1 million, an increase of 7% compared to \$158.4 million in the same period of the prior fiscal year; the organic sales increase was 4% for the comparative period, with the acquisitions listed above providing the additional contributions to revenue.
- Animal Safety segment sales were \$58.3 million in the third quarter of fiscal 2021, an increase of 18% compared to \$49.4 million in the third quarter of fiscal 2020. Organic sales in this segment rose 16% in the third quarter, with additional contribution from the August 2020 acquisition of the StandGuard product line. For the nine month period, Animal Safety segment sales were \$170.9 million, an increase of 13% compared to \$150.7 million in the same period a year ago. Year to date organic sales rose 12%, with revenues from the StandGuard acquisition contributing the difference.
- International sales in the third quarter of fiscal 2021 were 40% of total sales compared to 40% of total sales in the third quarter of fiscal 2020. For the year to date, fiscal 2021 international sales were 39% of total sales compared to 40% of total sales in the same period of the prior year.
- Our effective tax rate in the third quarter was 16.3% compared to an effective tax rate of 14.4% in the prior year third quarter; the fiscal 2021 year to date effective tax rate was 18.1% compared to 15.6% for the same period a year ago.
- Net income for the quarter ended February 28, 2021 was \$13.4 million, or \$0.25 per diluted share, compared to \$12.2 million, or \$0.23 per diluted share in the same period in the prior year. For the year to date, net income was \$45.1 million, an increase of 5% compared to prior year to date net income of \$43.1 million. Earnings per fully diluted share for the year to date was \$0.85 compared to \$0.82 per diluted share for the same period in the prior year.
- Cash provided from operating activities in the first nine months of fiscal 2021 was \$57.9 million, compared to \$60.3 million in the same period of fiscal 2020.

International sales were \$46.3 million in the third quarter of fiscal 2021, an increase of 15% compared to the same period a year ago; for the year to date, international sales were \$133.5 million, an increase of 9% compared to the same period in the prior year. For the current quarter, strength in genomics services and biosecurity products in China and genomics services in Australia drove the increase, slightly offset by a net negative currency impact of approximately \$150,000. The rate of growth in our international revenues in the current fiscal year to date has been adversely impacted by currency devaluations in a number of the countries in which we operate and lower sales of our drug residue test kits by our largest European distributor. Revenue changes, denominated in both the U.S. dollar and as reported in the local currency, for the three and nine month periods of fiscal 2021 compared to the same respective periods in the prior year are as follows for each of our international locations:

	Three Months Ended February 28, 2021,		Nine Months Ended February 28, 2021,	
	Revenue % Inc (Dec)	Revenue % Inc (Dec)	Revenue % Inc (Dec)	Revenue % Inc (Dec)
	USD	Local Currency	USD	Local Currency
UK Companies	9%	4%	13%	9%
Brazil Operations	(11)%	12%	(11)%	17%
Neogen Latinoamerica	7%	14%	6%	17%
Neogen China	125%	109%	97%	88%
Neogen India	(6)%	(3)%	2%	7%
Neogen Canada	38%	33%	2%	1%
Neogen Australasia	95%	73%	81%	69%

Currency translations reduced comparative revenues by approximately \$150,000 in the third quarter of fiscal 2021 compared to the same period last year, as continued weakness in the Brazilian real and the Mexican peso relative to the U.S. dollar were almost entirely offset by recovery of the euro and pound. For the year to date, comparative revenues were \$3.4 million lower due to currency translations, due entirely to the devaluation of the Brazilian real and the Mexican peso relative to the U.S. dollar, somewhat offset by the strengthening of the euro and pound, and to a lesser extent, the Chinese yuan and the Australian dollar. Combined revenues at our U.K. operations increased 4% in local currency in the third quarter, as lower economic activity caused by the COVID-19 pandemic resulted in sluggish sales performance across the organization; after adjusting for the increased strength of the euro and pound, revenues rose 9% in U.S. dollars. For the year to date, the 9% revenue increase in local currency was primarily from biosecurity products, the result of a large sale of hand sanitizer to the U.K. government's health organization in the first quarter of this fiscal year; in U.S. dollars, the increase was 13%.

Sales in Brazil increased 12% in local currency in this year's third quarter, the result of 10% growth in food safety diagnostic test kits and genomics revenues, and a 17% increase in insecticides due to delivery on a large tender order. For the nine month period, sales at our Brazilian operations increased 17% compared to the prior year on the strength of a 29% increase in sales of insecticides; after adjusting for the currency devaluation, revenues declined 11% in U.S. dollars. Neogen Latinoamerica sales rose 14% for the third quarter in local currency, primarily due to increases in biosecurity products and food safety diagnostic kit sales; after adjusting for devaluation of the peso, the revenue increase was 7% in U.S. dollars. Neogen China's revenues approximately doubled for both the three and nine month periods, due to increased demand of biosecurity products and genomics services. The Neogen Australasia location benefited in both the comparative quarter and year to date periods from the February 2020 acquisition of a food safety distributor; the organic revenue increase at this location was 64% in the third quarter and 55% for the year to date period as this operation also recorded strong sales growth of genomics services in the bovine, companion animal and sheep markets.

Service revenue was \$23.9 million in the third quarter of fiscal 2021, an increase of 8% over prior year third quarter revenues of \$22.1 million. For the nine month period, service revenue was \$67.7 million, an increase of 9% over prior year revenues of \$62.0 million. The growth in each comparative period was led by increases of genomics revenues in the bovine, companion animal and sheep markets in Australia and strong growth in genomics revenues in the Chinese porcine and bovine markets as the country recovers from the COVID-19 and African swine fever outbreaks. Additionally, for the year to date period, genomics testing in the domestic bovine and companion animal veterinary markets contributed to the growth.



## Revenues

<i>(in thousands)</i>	Three Months Ended February 28/29,		Increase/ (Decrease)	%
	2021	2020		
<b>Food Safety</b>				
Natural Toxins, Allergens & Drug Residues	\$ 18,255	\$17,154	\$ 1,101	6%
Bacterial & General Sanitation	10,333	9,413	920	10%
Culture Media & Other	14,888	11,222	3,666	33%
Rodenticides, Insecticides & Disinfectants	9,644	7,964	1,680	21%
Genomics Services	5,304	4,745	559	12%
	<u>\$ 58,424</u>	<u>\$50,498</u>	<u>\$ 7,926</u>	<u>16%</u>
<b>Animal Safety</b>				
Life Sciences	\$ 1,399	\$ 1,376	\$ 23	2%
Veterinary Instruments & Disposables	12,494	10,799	1,695	16%
Animal Care & Other	8,873	6,667	2,206	33%
Rodenticides, Insecticides & Disinfectants	18,085	14,558	3,527	24%
Genomics Services	17,434	15,971	1,463	9%
	<u>\$ 58,285</u>	<u>\$49,371</u>	<u>\$ 8,914</u>	<u>18%</u>
<b>Total Revenues</b>	<u>\$116,709</u>	<u>\$99,869</u>	<u>\$ 16,840</u>	<u>17%</u>

<i>(in thousands)</i>	Nine Months Ended February 28/29,		Increase/ (Decrease)	%
	2021	2020		
<b>Food Safety</b>				
Natural Toxins, Allergens & Drug Residues	\$ 57,271	\$ 57,950	\$ (679)	(1)%
Bacterial & General Sanitation	31,499	31,345	154	0%
Culture Media & Other	39,577	35,259	4,318	12%
Rodenticides, Insecticides & Disinfectants	27,230	20,859	6,371	31%
Genomics Services	14,566	12,961	1,605	12%
	<u>\$170,143</u>	<u>\$158,374</u>	<u>\$ 11,769</u>	<u>7%</u>
<b>Animal Safety</b>				
Life Sciences	\$ 4,122	\$ 4,901	\$ (779)	(16)%
Veterinary Instruments & Disposables	34,843	32,621	2,222	7%
Animal Care & Other	25,902	20,859	5,043	24%
Rodenticides, Insecticides & Disinfectants	56,470	47,462	9,008	19%
Genomics Services	49,554	44,879	4,675	10%
	<u>\$170,891</u>	<u>\$150,722</u>	<u>\$ 20,169</u>	<u>13%</u>
<b>Total Revenues</b>	<u>\$341,034</u>	<u>\$309,096</u>	<u>\$ 31,938</u>	<u>10%</u>

## **Food Safety**

**Natural Toxins, Allergens & Drug Residues** – Sales in this category increased 6% for the three month period ended February 28, 2021 and decreased 1% for the year to date, each compared to the same periods in the prior year. In the third quarter, sales of natural toxins increased 14% as recent pet food recalls in the U.S. have driven demand for increased testing. The allergens product line increased 3% while drug residues sales decreased 10%, as we work to recover lost business with our in-house sales team, which replaced an exclusive European distributor approximately a year ago. The 1% decline on a year to date basis is due to lower sales of drug residue test kits in the first half of our fiscal year; additionally, natural toxins sales were flat in the first six months of the year due to relatively clean crops during harvest season.

**Bacterial & General Sanitation** – Revenues in this category increased 10% in the third quarter and were flat for the year to date, both compared to the same periods in the prior year. In the third quarter, sales of products to detect spoilage organisms in processed foods increased 19%, resulting from sales of our new instrument (Soleris NG), which launched in the first quarter, and increased consumables sales from new instrument placements. Sales of our AccuPoint sanitation monitoring product line increased 5%; we plan to launch a next generation of reader for this product line in the fourth quarter at which time there will be significant sales and marketing focus on these products. Sales of products to detect pathogens increased 8%, as we continue to gain new business with sales of our *Listeria* Right Now test kit. For the year to date, strong sales of our Soleris NG instrument and the associated consumables were offset by a small decline in sales of our AccuPoint product line and a 7% decrease in pathogen sales, primarily due to high equipment sales in the second quarter of the prior fiscal year.

**Culture Media & Other** – Sales in this category increased 33% in the quarter ended February 28, 2021 compared to the third quarter in the prior year; for the nine month period, sales increased 12%. Excluding sales from the December acquisition of Megazyme, sales in this category increased 16% and 7% for the three and nine month periods, respectively. This category includes sales of personal protective equipment, primarily gloves, as well as hand sanitizers and sanitizing wipes; these products experienced short-term increased demand in new markets due to shortages caused by the COVID-19 pandemic which is not expected to recur. This category also includes sales of acquired inventory of non-Neogen manufactured products from our new businesses in Italy and the South American southern cone countries; these sales are not expected to continue long-term. Sales of Neogen Culture Media increased 11% in the third quarter as we gained new business from a COVID-19 vaccine manufacturer; for the year to date period, culture media sales were flat.

**Rodenticides, Insecticides & Disinfectants** – Revenues in this category increased 21% in the third quarter of fiscal 2021 compared to the same period a year ago, due primarily to continued strength in cleaners and disinfectant sales in China resulting from increased demand due to the African swine fever outbreak in that country and the COVID-19 pandemic. For the year to date, sales in this category increased 31%, as the first quarter also included strong sales of hand and skin sanitizing products at our U.K. based Quat-Chem operation.

**Genomics Services** – Sales of genomics services sold through our international Food Safety operations increased 12% for both the three and nine month periods ended February 28, 2021. The increase for both periods was primarily from sales increases in China, due to increased testing in the pork industry, gains in beef and dairy cattle testing and project work in aquaculture.

## **Animal Safety**

**Life Sciences** – Sales in this category increased 2% in the third quarter, compared to the same period in the prior year, but was down 16% for the year to date. The increase for the third quarter is due to increased sales of reagents and substrates; for the year to date, sales of forensic kits to commercial laboratories declined as the labs processed fewer samples due to slowdowns resulting from the COVID-19 pandemic.

**Veterinary Instruments & Disposables** – Revenues in this category increased 16% and 7% for the three and nine month periods ended February 28, 2021, respectively, led by large increases in detectable needles and syringes, as we gained new customers and benefitted from increased demand resulting from higher numbers of production animals in existing markets. In the third quarter, sales of disposable gloves increased significantly, as these products had previously been on backorder.

**Animal Care & Other** – Sales of these products increased 33% in the third quarter and 24% for the year to date, respectively. For both periods, sales of our small animal supplements, vitamin injectables, and joint pain products benefitted from growth in veterinary markets, as the COVID-19 pandemic has led to an increase in pet ownership, particularly dogs and cats. Additionally, sales rose for our equine supplements and antibiotics, due to strong demand in these markets. Partially offsetting these gains were declines in sales of dairy supplies of 64% and 49% for the quarter and year to date periods, respectively, due to the June 2020 termination of an agreement in which we distributed these types of products for a large manufacturer of dairy equipment.

**Rodenticides, Insecticides & Disinfectants** – Revenues in this category increased 24% and 19% for the three and nine month periods ended February 28, 2021, respectively. The growth in the quarter was led by a 79% increase in rodenticide sales as rodent pressure in certain areas of the U.S. increased significantly; year to date, rodenticide sales have increased 45%. Insecticide sales rose 14% in the quarter, due in large part to our acquisition of the StandGuard product line for fly control on July 31, 2020. For the year to date, the increase was 10%. Cleaners and disinfectants sales decreased 9% resulting from lower sales of water treatment products and the transfer of a product line to our U.K. operation. Sales of these products for the year to date period were flat compared to a year ago, with increased sales of hand sanitizer products in the first half of our fiscal year offsetting the decline in water treatment products.

**Genomics Services** – Sales in this category increased 9% in the third quarter and 10% for the year to date periods, each compared to the prior year. The growth in the three month period was led by gains in beef and companion animal testing in Australia, and commercial beef and beef associations in the U.S. and Canada. For the year to date, we also benefitted from strong increases in sales to the U.S. companion animal veterinary market, driven by increased pet adoptions and higher consumer spending on pets during the COVID-19 pandemic, as well as the recent launch of a new high density chip for whiteleg shrimp.

### **Gross Margin**

Gross margin was 46.1% in the third quarter of fiscal 2021 compared to 45.4% in the same quarter a year ago. The improvement in gross margin is primarily the result of increased rodenticide sales within the Animal Safety segment; these products have higher gross margins within this segment. Gross margins for the Food Safety segment were flat for the third quarter compared to last year's third quarter. For the year to date, gross margin was also 46.1% compared to 46.8% in the same period of the prior year. The lower gross margin percentage for the year to date is the result of a shift in the proportion of overall sales to the Animal Safety segment, which have lower average gross margins than the Food Safety segment; additionally, sales increases within the Food Safety segment were from product lines, such as genomics and biosecurity products, which have lower gross margins than the diagnostic test kits sold in that segment.

### **Operating Expenses**

Operating expenses were \$38.1 million in the third quarter, compared to \$32.3 million in the same quarter of the prior year, an increase of \$5.8 million, or 18%. For the nine month period ended February 28, 2021, operating expenses were \$103.5 million, an increase of \$6.5 million, or 7%, compared to the prior year. Sales and marketing expenses increased \$1.0 million, or 6%, in the third quarter, primarily due to increased compensation and higher shipping costs, offset somewhat by continued lower spending on travel, meetings, trade shows and other customer facing activities as a result of the COVID-19 pandemic. For the year to date, sales and marketing expenses were \$270,000 lower than the same period last year, also due to COVID-19 pandemic restrictions.

General and administrative expense was \$15.1 million, an increase of \$4.4 million, or 40%, in the third quarter, resulting primarily from \$2.1 million in spending on strategic consulting, legal and other professional fees related to acquisition activity for businesses which we were ultimately not successful in acquiring. Other increases in the quarter were for incremental amortization expenses (non-cash) primarily for recent acquisitions, non-deal related legal fees for a number of corporate matters, and reduced economic incentives recognized from state and local governments. Year to date, general and administrative expenses were \$38.3 million, an increase of 18% compared to the same period last year, with \$3.1 million incurred in unsuccessful acquisition activities the largest component of the increase. Other year-over-year increases were higher performance-based compensation expenses due to higher revenue and improved operating results compared to the prior year, amortization expense primarily related to recent acquisitions and non-deal legal expenses.

Research and development expense was \$4.2 million in the third quarter, an increase of \$413,000, or 11%, compared to the same period in the prior year. The increase is primarily the result of spending on outside services for the continued development of several new products, which have either been recently launched or are expected to be launched in the fourth quarter of fiscal 2021. For the year to date, research and development expenses increased 8% over the same period last year, for the same reasons.

## Operating Income

Operating income was \$15.8 million in the third quarter of fiscal 2021, compared to \$13.0 million in the same period of the prior year; year to date operating income was \$53.9 million compared to \$47.6 million in the prior year. Expressed as a percentage of sales, operating income was 13.5% for the third quarter and 15.8% for the year to date, compared to 13.1% and 15.4%, respectively, for the same periods in the prior year. The improvement in margin percentage for the current fiscal year third quarter was due primarily to the increased revenues and 70 basis point improvement in gross margin percentage, offset somewhat by increased operating expenses, caused in part by the \$2.1 million in acquisition related expenses.

## Other Income

<i>(in thousands)</i>	Three Months Ended		Nine Months Ended	
	February 28/29, 2021	February 28/29, 2020	February 28/29, 2021	February 28/29, 2020
Interest income (net of expense)	\$ 294	\$ 1,600	\$ 1,571	\$ 4,381
Foreign currency transactions	(118)	(420)	(374)	(889)
Insurance settlement	—	—	309	1
Legal settlement	—	—	(300)	—
Contingent consideration	111	—	111	—
Other	(84)	27	(109)	56
<b>Total Other Income</b>	<b>\$ 203</b>	<b>\$ 1,207</b>	<b>\$ 1,208</b>	<b>\$ 3,549</b>

The decrease in interest income in both the three and nine month periods of fiscal 2021 compared to the same periods a year ago was the result of a significant reduction in rates earned on marketable securities balances. Other expense resulting from foreign currency transactions was primarily the result of changes in the value of foreign currencies relative to the U.S. dollar in countries in which we operate.

## Income Tax Expense

Income tax expense in the third quarter of fiscal 2021 was \$2.6 million, an effective tax rate of 16.3%, compared to \$2.1 million, an effective tax rate of 14.4%, in the same period of the prior year. For the year to date, income tax expense was \$10.0 million, an effective rate of 18.1%, in fiscal 2021 and \$8.0 million, an effective rate of 15.6%, in fiscal 2020. For each period, the primary difference between the U.S. statutory rate of 21% and the effective rates recorded is the benefit resulting from the exercise of stock options; this benefit was \$1,083,000 in the third quarter of fiscal 2021 compared to \$781,000 in the third quarter of the prior year. For the year to date, the benefit was \$2,564,000 in fiscal 2021 compared to \$2,754,000 in fiscal 2020. The increase in the effective tax rate for both the third quarter and year to date periods, each compared to the same period in the prior year, is the result of increased taxes at international operations, higher state tax provisions and a lower projected U.S. deduction in fiscal 2021 relating to foreign derived income.

## Net Income

Net income was \$13.4 million in the third quarter of fiscal 2021, compared to \$12.2 million in the same period in the prior year, an increase of 10%. For the year to date, net income of \$45.1 million was an increase of 5% from \$43.1 million earned in the same period a year ago.

## Financial Condition and Liquidity

The overall cash, cash equivalents and marketable securities position of Neogen was \$353.3 million at February 28, 2021, compared to \$343.7 million at May 31, 2020. Approximately \$59.1 million was generated from operations during the first nine months of fiscal 2021. Net cash proceeds of \$22.8 million were realized from the exercise of stock options and issuance of shares under our Employee Stock Purchase Plan during the first nine months of fiscal 2021. We spent \$19.4 million for property, equipment and other non-current assets in the first nine months of fiscal 2021, and a total of \$52.0 million on acquisitions.

Net accounts receivable balances were \$87.2 million at February 28, 2021, an increase of \$2.6 million, compared to \$84.7 million at May 31, 2020. Days sales outstanding, a measurement of the time it takes to collect receivables, were 65 days at February 28, 2021, compared to 68 days at May 31, 2020 and 66 days at February 29, 2020. We have been carefully monitoring our customer receivables as the COVID-19 pandemic has spread across our global markets; to date, we have not experienced an appreciable increase in bad debt write offs. We did provide an additional \$100,000 at May 31, 2020 in our allowance for bad debts to account for potential write offs related to COVID-19; we will continue to actively manage our customer accounts and adjust the allowance account as circumstances change.

Net inventory was \$99.3 million at February 28, 2021, an increase of \$4.2 million, compared to a May 31, 2020 balance of \$95.1 million; excluding the amount recorded from the December 2020 acquisition of Megazyme, inventory is down \$1.4 million. We increased inventory levels in fiscal 2020 to ensure we had adequate supplies of critical raw and finished products in the event our supply chain was adversely impacted by the COVID-19 pandemic and Brexit, however we have now put programs in place to lower inventory levels, while not adversely impacting customers.

Inflation and changing prices are not expected to have a material effect on operations, as management believes it will continue to be successful in offsetting increased input costs with price increases and/or cost efficiencies.

Management believes that our existing cash and marketable securities balances at February 28, 2021, along with available borrowings under our credit facility and cash expected to be generated from future operations, will be sufficient to fund activities for the foreseeable future. However, existing cash and borrowing capacity may not be sufficient to meet our cash requirements to commercialize products that are currently under development or plans to acquire other organizations, technologies or products that fit within our mission statement. Accordingly, we may choose to enter into other financing arrangements or issue equity securities for all, or a portion, of our future financing needs.

## **PART I – FINANCIAL INFORMATION**

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We have interest rate and foreign exchange rate risk exposure but no long-term fixed rate investments or borrowings. Our primary interest rate risk is due to potential fluctuations of interest rates for short-term investments.

Foreign exchange risk exposure arises because we market and sell our products throughout the world. Revenues in certain foreign countries as well as certain expenses related to those revenues are transacted in currencies other than the U.S. dollar. Our operating results are exposed to changes in exchange rates between the U.S. dollar and the British pound sterling, euro, Mexican peso, Brazilian real, Chinese yuan, Australian dollar, and to a lesser extent, the Indian rupee, Canadian dollar, Argentine peso, Uruguayan peso and Chilean peso; there is also exposure to a change in exchange rate between the British pound sterling and the euro. When the U.S. dollar weakens against foreign currencies, the dollar value of revenues denominated in foreign currencies increases. When the U.S. dollar strengthens, the opposite situation occurs. Additionally, previously invoiced amounts can be positively or negatively affected by changes in exchange rates in the course of collection.

Neogen has assets, liabilities and operations outside of the U.S., located in Scotland, England, Ireland, Italy, Brazil, Mexico, Argentina, Uruguay, Chile, China, India, Canada, and Australia where the functional currency is the British pound sterling, euro, Brazilian real, Mexican peso, Argentine peso, Uruguayan peso, Chilean peso, Chinese yuan, Indian rupee, Canadian dollar and the Australian dollar respectively. Our investments in foreign subsidiaries are considered to be long-term. As discussed in ITEM 1A. RISK FACTORS of the Form 10-K annual filing, our financial condition and results of operations could be adversely affected by currency fluctuations.

## **PART I – FINANCIAL INFORMATION**

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of February 28, 2021 was carried out under the supervision and with the participation of the Company's management, including the President & Chief Executive Officer and the Vice President & Chief Financial Officer ("the Certifying Officers"). Based on the evaluation, the Certifying Officers concluded that the Company's disclosure controls and procedures are effective.

#### **Changes in Internal Controls over Financial Reporting**

No changes in our control over financial reporting were identified as having occurred during the quarter ended February 28, 2021 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

The Company is subject to legal and other proceedings in the normal course of business. In the opinion of management, the outcomes of these matters are not expected to have a material effect on the Company's future results of operations or financial position.

### Item 6. Exhibits

#### (a) Exhibit Index

3	<a href="#"><u>Articles of Incorporation, as restated (incorporated by reference to Exhibit 3 to the Registrant's Form 10-Q filed on December 28, 2018)</u></a>
10.1	<a href="#"><u>Amended and Restated Credit Agreement dated as of November 30, 2016 between Registrant and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.A of the Registrant's Form 8-K filed on December 7, 2016)</u></a>
10.2	<a href="#"><u>First Amendment to Amended and Restated Credit Agreement dated as of November 30, 2018 between Registrant and JP Morgan Chase N.A. (incorporated by reference to Exhibit 10.A of the Registrant's Form 8-K filed on December 6, 2018)</u></a>
10.3	<a href="#"><u>Second Amendment to Amended and Restated Credit Agreement dated as of November 30, 2020 between Registrant and JP Morgan Chase N.A. (incorporated by reference to Exhibit 10.A of the Registrant's Form 8-K filed on December 17, 2020)</u></a>
31.1	<a href="#"><u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a).</u></a>
31.2	<a href="#"><u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a).</u></a>
32	<a href="#"><u>Certification pursuant to 18 U.S.C. section 1350</u></a>
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
EX-104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

**Items 1A, 2, 3, 4, and 5 are not applicable or removed or reserved and have been omitted.**

**SIGNATURES**

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

NEOGEN CORPORATION  
*(Registrant)*

Dated: March 31, 2021

/s/ John E. Adent  
John E. Adent  
President & Chief Executive Officer  
(Principal Executive Officer)

Dated: March 31, 2021

/s/ Steven J. Quinlan  
Steven J. Quinlan  
Vice President & Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)



**EXHIBIT 31.1**  
**13a. – CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**  
**NEOGEN CORPORATION AND SUBSIDIARIES**

**CEO CERTIFICATION**

I, John E. Adent, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended February 28, 2021 of Neogen Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the audit committee of registrant's board of directors:
  - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 31, 2021

/s/ John E. Adent

John E. Adent  
President & Chief Executive Officer  
(Principal Executive Officer)

**EXHIBIT 31.2**  
**13a. – CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**  
**NEOGEN CORPORATION AND SUBSIDIARIES**

**CFO CERTIFICATION**

I, Steven J. Quinlan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended February 28, 2021 of Neogen Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the audit committee of registrant's board of directors:
  - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 31, 2021

/s/ Steven J. Quinlan

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Steven J. Quinlan  
Vice President & Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

**EXHIBIT 32**  
**18 U.S.C. SECTION 1350 CERTIFICATION**  
**NEOGEN CORPORATION**

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Quarterly Report on Form 10-Q of Neogen Corporation (the "Company") for the period ended February 28, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John E. Adent, as Chief Executive Officer of the Company and I, Steven J. Quinlan, as Chief Financial Officer, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) This Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) Information contained in this Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: March 31, 2021

/s/ John E. Adent

John E. Adent  
President & Chief Executive Officer  
(Principal Executive Officer)

/s/ Steven J. Quinlan

Steven J. Quinlan  
Vice President & Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.