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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended November 30, 2022.

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

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**Neogen Corporation**

(Exact name of registrant as specified in its charter)

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

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

**620 Leshler 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<br>Symbol(s) | Name of each exchange<br>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)

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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   
Non-accelerated filer   
Emerging growth company

Accelerated filer   
Smaller Reporting Company

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

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

As of November 30, 2022 there were 216,154,283 shares of Common Stock outstanding.

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**NEOGEN CORPORATION AND SUBSIDIARIES**  
**TABLE OF CONTENTS**

|  | <u>Page No.</u> |
|--|-----------------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>  |                 |
| Item 1.  | 2               |
| <a href="#">Interim Consolidated Financial Statements (unaudited)</a>  | 2               |
| <a href="#">Consolidated Balance Sheets – November 30, 2022 and May 31, 2022</a>   | 3               |
| <a href="#">Consolidated Statements of Income (Loss) – Three and six months ended November 30, 2022 and 2021</a>               | 4               |
| <a href="#">Consolidated Statements of Comprehensive Income (Loss) – Three and six months ended November 30, 2022 and 2021</a> | 5               |
| <a href="#">Consolidated Statements of Equity – Three and six months ended November 30, 2022 and 2021</a>                      | 6               |
| <a href="#">Consolidated Statements of Cash Flows – Six months ended November 30, 2022 and 2021</a>                            | 7               |
| <a href="#">Notes to Interim Consolidated Financial Statements – November 30, 2022</a>   | 24              |
| Item 2.  | 24              |
| Item 3.  | 36              |
| Item 4.  | 36              |
| <b><u>PART II. OTHER INFORMATION</u></b>   |                 |
| Item 1.  | 37              |
| Item 1A.   | 37              |
| Item 6.  | 38              |
| <b><u>SIGNATURES</u></b>   |                 |
| <b>CEO Certification</b>   | 39              |
| <b>CFO Certification</b>   |                 |
| <b>Section 906 Certification</b>   |                 |

**PART I – FINANCIAL INFORMATION**

**Item 1. Interim Consolidated Financial Statements**

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

|  | <b>November 30,<br/>2022</b> | <b>May 31,<br/>2022</b> |
|--|------------------------------|-------------------------|
| <b>Assets</b>  |                              |                         |
| <b>Current Assets</b>  |                              |                         |
| Cash and cash equivalents  | \$ 100,000                   | \$ 44,473               |
| Marketable securities  | 176,338                      | 336,578                 |
| Accounts receivable, net of allowance of \$1,950 and \$1,650   | 142,711                      | 99,674                  |
| Inventories  | 136,069                      | 122,313                 |
| Prepaid expenses and other current assets  | 88,215                       | 23,760                  |
| <b>Total Current Assets</b>  | <b>643,333</b>               | <b>626,798</b>          |
| <b>Net Property and Equipment</b>  | <b>148,170</b>               | <b>110,584</b>          |
| <b>Other Assets</b>  |                              |                         |
| Right of use assets  | 3,707                        | 3,184                   |
| Goodwill   | 2,122,397                    | 142,704                 |
| Other non-amortizable intangible assets  | 15,216                       | 15,397                  |
| Amortizable intangible and other assets, net of accumulated amortization of \$78,046 and \$55,416  | 1,626,514                    | 92,106                  |
| Other non-current assets   | 3,905                        | 2,156                   |
| <b>Total Assets</b>  | <b>\$ 4,563,242</b>          | <b>\$ 992,929</b>       |
| <b>Liabilities and Stockholders' Equity</b>  |                              |                         |
| <b>Current Liabilities</b>   |                              |                         |
| Accounts payable   | \$ 79,251                    | \$ 34,614               |
| Accrued compensation   | 15,014                       | 11,123                  |
| Income tax payable   | 9,049                        | 2,126                   |
| Accrued interest   | 13,974                       | —                       |
| Deferred revenue   | 5,083                        | 5,460                   |
| Other accruals   | 30,187                       | 24,521                  |
| <b>Total Current Liabilities</b>   | <b>152,558</b>               | <b>77,844</b>           |
| Deferred Income Tax Liability  | 364,252                      | 17,011                  |
| Non-current debt   | 923,962                      | —                       |
| Other non-current liabilities  | 16,207                       | 10,700                  |
| <b>Total Liabilities</b>   | <b>1,456,979</b>             | <b>105,555</b>          |
| <b>Commitments and Contingencies (note 12)</b>   |                              |                         |
| <b>Equity</b>  |                              |                         |
| Preferred stock, \$1.00 par value, 100,000 shares authorized, none issued and outstanding  | —                            | —                       |
| Common stock, \$0.16 par value, 315,000,000 shares authorized, 216,154,283 and 107,801,094 shares issued and outstanding at November 30, 2022 and May 31, 2022, respectively | 34,584                       | 17,248                  |
| Additional paid-in capital   | 2,560,898                    | 309,984                 |
| Accumulated other comprehensive loss   | (40,498)                     | (27,769)                |
| Retained earnings  | 551,279                      | 587,911                 |
| <b>Total Stockholders' Equity</b>  | <b>3,106,263</b>             | <b>887,374</b>          |
| <b>Total Liabilities and Stockholders' Equity</b>  | <b>\$ 4,563,242</b>          | <b>\$ 992,929</b>       |

See notes to interim consolidated financial statements.

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

|  | Three Months Ended<br>November 30, |                  | Six Months Ended<br>November 30, |                  |
|--|------------------------------------|------------------|----------------------------------|------------------|
|  | 2022                               | 2021             | 2022                             | 2021             |
| <b>Revenues</b>                            |                                    |                  |                                  |                  |
| Product revenues                           | \$203,317                          | \$106,111        | \$310,109                        | \$210,124        |
| Service revenues                           | 26,716                             | 24,406           | 52,273                           | 48,698           |
| <b>Total Revenues</b>                      | <b>230,033</b>                     | <b>130,517</b>   | <b>362,382</b>                   | <b>258,822</b>   |
| <b>Cost of Revenues</b>                    |                                    |                  |                                  |                  |
| Cost of product revenues                   | 102,530                            | 56,374           | 157,971                          | 111,100          |
| Cost of service revenues                   | 14,964                             | 13,549           | 29,602                           | 27,120           |
| <b>Total Cost of Revenues</b>              | <b>117,494</b>                     | <b>69,923</b>    | <b>187,573</b>                   | <b>138,220</b>   |
| <b>Gross Margin</b>                        | <b>112,539</b>                     | <b>60,594</b>    | <b>174,809</b>                   | <b>120,602</b>   |
| <b>Operating Expenses</b>                  |                                    |                  |                                  |                  |
| Sales and marketing                        | 36,348                             | 21,188           | 59,731                           | 41,743           |
| General and administrative                 | 77,001                             | 22,605           | 104,945                          | 35,988           |
| Research and development                   | 6,846                              | 4,332            | 11,727                           | 8,657            |
| <b>Total Operating Expenses</b>            | <b>120,195</b>                     | <b>48,125</b>    | <b>176,403</b>                   | <b>86,388</b>    |
| <b>Operating Income (Loss)</b>             | <b>(7,656)</b>                     | <b>12,469</b>    | <b>(1,594)</b>                   | <b>34,214</b>    |
| <b>Other Income (Expense)</b>              |                                    |                  |                                  |                  |
| Interest income                            | 553                                | 246              | 1,523                            | 455              |
| Interest expense                           | (20,545)                           | (22)             | (20,547)                         | (28)             |
| Other income (expense)                     | (6,443)                            | 235              | (6,814)                          | 14               |
| <b>Total Other Income (Expense)</b>        | <b>(26,435)</b>                    | <b>459</b>       | <b>(25,838)</b>                  | <b>441</b>       |
| <b>Income (Loss) Before Taxes</b>          | <b>(34,091)</b>                    | <b>12,928</b>    | <b>(27,432)</b>                  | <b>34,655</b>    |
| Provision for Income Taxes                 | 7,750                              | 2,100            | 9,200                            | 6,750            |
| <b>Net Income (Loss)</b>                   | <b>\$ (41,841)</b>                 | <b>\$ 10,828</b> | <b>\$ (36,632)</b>               | <b>\$ 27,905</b> |
| <b>Net Income (Loss) Per Share</b>         |                                    |                  |                                  |                  |
| Basic                                      | \$ (0.19)                          | \$ 0.10          | \$ (0.23)                        | \$ 0.26          |
| Diluted                                    | \$ (0.19)                          | \$ 0.10          | \$ (0.23)                        | \$ 0.26          |
| <b>Weighted Average Shares Outstanding</b> |                                    |                  |                                  |                  |
| Basic                                      | 216,134                            | 107,641          | 161,690                          | 107,565          |
| Diluted                                    | 216,134                            | 108,122          | 161,690                          | 108,099          |

See notes to interim consolidated financial statements.

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

|   | Three Months Ended       |                        | Six Months Ended         |                         |
|---|--------------------------|------------------------|--------------------------|-------------------------|
|   | November 30,<br>2022     | November 30,<br>2021   | November 30,<br>2022     | November 30,<br>2021    |
| Net income (loss)   | \$(41,841)               | \$ 10,828              | \$(36,632)               | \$ 27,905               |
| Foreign currency translations                               | 1,102                    | (7,649)                | (10,031)                 | (12,272)                |
| Unrealized gain (loss) on marketable securities, net of tax | 154                      | (382)                  | (270)                    | (588)                   |
| Unrealized loss on derivative instruments, net of tax       | (2,428)                  | —                      | (2,428)                  | —                       |
| <b>Total comprehensive income (loss)</b>                    | <b><u>\$(43,013)</u></b> | <b><u>\$ 2,797</u></b> | <b><u>\$(49,361)</u></b> | <b><u>\$ 15,045</u></b> |

See notes to interim consolidated financial statements.

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

|   | Common Stock   |                 | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Loss | Retained<br>Earnings | Total              |
|---|----------------|-----------------|----------------------------------|---|----------------------|--------------------|
|   | Shares         | Amount          |                                  |   |                      |                    |
| <b>Balance, June 1, 2022</b>  | <b>107,801</b> | <b>\$17,248</b> | <b>\$ 309,984</b>                | <b>\$ (27,769)</b>                            | <b>\$587,911</b>     | <b>\$ 887,374</b>  |
| Exercise of options and share-based compensation expense              | 4              | 1               | 1,904                            | —   | —                    | 1,905              |
| Issuance of shares under employee stock purchase plan                 | 33             | 5               | 862                              | —   | —                    | 867                |
| Net income for the three months ended August 31, 2022                 | —              | —               | —                                | —   | 5,209                | 5,209              |
| Other comprehensive loss for the three months ended August 31, 2022   | —              | —               | —                                | (11,557)                                      | —                    | (11,557)           |
| <b>Balance, August 31, 2022</b>                                       | <b>107,838</b> | <b>\$17,254</b> | <b>\$ 312,750</b>                | <b>\$ (39,326)</b>                            | <b>\$593,120</b>     | <b>\$ 883,798</b>  |
| Exercise of options and share-based compensation expense              | 46             | 7               | 2,630                            | —   | —                    | 2,637              |
| Issuance of shares for 3M transaction                                 | 108,270        | 17,323          | 2,245,518                        | —   | —                    | 2,262,841          |
| Net loss for the three months ended November 30, 2022                 | —              | —               | —                                | —   | (41,841)             | (41,841)           |
| Other comprehensive loss for the three months ended November 30, 2022 | —              | —               | —                                | (1,172)                                       | —                    | (1,172)            |
| <b>Balance, November 30, 2022</b>                                     | <b>216,154</b> | <b>\$34,584</b> | <b>\$2,560,898</b>               | <b>\$ (40,498)</b>                            | <b>\$551,279</b>     | <b>\$3,106,263</b> |

|   | Common Stock   |                 | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Loss | Retained<br>Earnings | Total            |
|---|----------------|-----------------|----------------------------------|---|----------------------|------------------|
|   | Shares         | Amount          |                                  |   |                      |                  |
| <b>Balance, June 1, 2021</b>  | <b>107,468</b> | <b>\$17,195</b> | <b>\$294,953</b>                 | <b>\$ (11,375)</b>                            | <b>\$539,604</b>     | <b>\$840,377</b> |
| Exercise of options and share-based compensation expense              | 6              | 1               | 1,838                            | —   | —                    | 1,839            |
| Issuance of shares under employee stock purchase plan                 | 19             | 3               | 896                              | —   | —                    | 899              |
| Net income for the three months ended August 31, 2021                 | —              | —               | —                                | —   | 17,077               | 17,077           |
| Other comprehensive loss for the three months ended August 31, 2021   | —              | —               | —                                | (4,829)                                       | —                    | (4,829)          |
| <b>Balance, August 31, 2021</b>                                       | <b>107,493</b> | <b>\$17,199</b> | <b>\$297,687</b>                 | <b>\$ (16,204)</b>                            | <b>\$556,681</b>     | <b>\$855,363</b> |
| Exercise of options and share-based compensation expense              | 275            | 44              | 7,272                            | —   | —                    | 7,316            |
| Net income for the three months ended November 30, 2021               | —              | —               | —                                | —   | 10,828               | 10,828           |
| Other comprehensive loss for the three months ended November 30, 2021 | —              | —               | —                                | (8,031)                                       | —                    | (8,031)          |
| <b>Balance, November 30, 2021</b>                                     | <b>107,768</b> | <b>\$17,243</b> | <b>\$304,959</b>                 | <b>\$ (24,235)</b>                            | <b>\$567,509</b>     | <b>\$865,476</b> |

See notes to interim consolidated financial statements.

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

|  | <b>Six Months Ended</b> |                  |
|--|-------------------------|------------------|
|  | <b>November 30,</b>     |                  |
|  | <b>2022</b>             | <b>2021</b>      |
| <b>Cash Flows (For) From Operating Activities</b>                                |                         |                  |
| Net Income (Loss)  | \$ (36,632)             | \$ 27,905        |
| Adjustments to reconcile net income to net cash (for) from operating activities: |                         |                  |
| Depreciation and amortization  | 32,467                  | 11,511           |
| Deferred income taxes  | (1,983)                 | (88)             |
| Share-based compensation   | 4,499                   | 3,438            |
| Disposal of property and equipment   | (456)                   | —                |
| Change in operating assets and liabilities, net of business acquisitions:        |                         |                  |
| Accounts receivable  | (44,452)                | (1,500)          |
| Inventories  | 6,478                   | (6,929)          |
| Prepaid expenses and other current assets  | (37,833)                | (3,709)          |
| Accounts payable, accruals and other changes                                     | 30,070                  | 10,429           |
| Financing fee amortization   | 999                     | —                |
| Interest expense accrual   | 13,974                  | —                |
| <b>Net Cash (For) From Operating Activities</b>                                  | <b>(32,869)</b>         | <b>41,057</b>    |
| <b>Cash Flows (For) From Investing Activities</b>                                |                         |                  |
| Purchases of property, equipment and other non-current intangible assets         | (25,102)                | (5,235)          |
| Proceeds from the sale of marketable securities                                  | 172,763                 | 197,941          |
| Purchases of marketable securities   | (12,523)                | (230,586)        |
| Proceeds from the sale of property and equipment                                 | 606                     | —                |
| Business acquisitions, net of working capital adjustments and cash acquired      | 38,896                  | (26,864)         |
| <b>Net Cash (For) From Investing Activities</b>                                  | <b>174,640</b>          | <b>(64,744)</b>  |
| <b>Cash Flows (For) From Financing Activities</b>                                |                         |                  |
| Exercise of stock options and issuance of employee stock purchase plan shares    | 920                     | 6,619            |
| Financing fees paid  | (19,276)                | —                |
| Repayment of debt  | (60,000)                | —                |
| <b>Net Cash (For) From Financing Activities</b>                                  | <b>(78,356)</b>         | <b>6,619</b>     |
| Effect of Foreign Exchange Rates on Cash   | (7,888)                 | (7,415)          |
| <b>Net Increase (Decrease) In Cash and Cash Equivalents</b>                      | <b>55,527</b>           | <b>(24,483)</b>  |
| Cash and Cash Equivalents, Beginning of Period                                   | 44,473                  | 75,602           |
| <b>Cash and Cash Equivalents, End of Period</b>                                  | <b>\$ 100,000</b>       | <b>\$ 51,119</b> |

See notes to interim consolidated financial statements.

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

**1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION**

**DESCRIPTION OF BUSINESS**

Neogen Corporation and subsidiaries develop, manufacture and market a diverse line of products and services dedicated to food and animal safety. Our Food Safety segment consists primarily of diagnostic test kits and complementary products (e.g., culture media) sold to food producers and processors to detect dangerous and/or unintended substances in human food and animal feed, such as foodborne pathogens, spoilage organisms, natural toxins, food allergens, genetic modifications, ruminant by-products, meat speciation, drug residues, pesticide residues and general sanitation concerns. Our diagnostic test kits are generally easier to use and provide greater accuracy and speed than conventional diagnostic methods. The majority of the test kits are disposable, single-use, immunoassay and DNA detection products that rely on proprietary antibodies and RNA and DNA testing methodologies to produce rapid and accurate test results. Our expanding line of food safety products also includes genomics-based diagnostic technology, and advanced software systems that help testers to objectively analyze and store their results and perform analysis on the results from multiple locations over extended periods.

**MERGER WITH THE FOOD SAFETY BUSINESS OF 3M**

On September 1, 2022, the Company completed its merger (the “Merger”) with Garden SpinCo, a newly formed, wholly owned subsidiary of 3M created to carve out 3M’s Food Safety Division (“3M FSD”, “FSD”), in a Reverse Morris Trust transaction. The purchase price consideration was \$3.2 billion, net of customary purchase price adjustments and transaction costs, which consisted of 108.3 million shares of Neogen common stock issued on closing. Immediately following the transaction, Garden SpinCo stockholders owned, in the aggregate, approximately 50.1% of the issued and outstanding shares of Neogen common stock and pre-merger Neogen shareholders owned, in the aggregate, approximately 49.9% of the issued and outstanding shares of Neogen common stock.

Neogen was deemed to be the accounting acquiror of the 3M FSD for accounting purposes under U.S. generally accepted accounting principles.

**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 of the results of the interim period 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 six month periods ended November 30, 2022 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2023. 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, 2022.

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 statements of income (loss).

## ACCOUNTING POLICIES

### Comprehensive Income (Loss)

Comprehensive income (loss) 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 our marketable securities and derivative instruments.

### Fair Value of Financial 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.

The carrying amounts of certain financial instruments, consisting of cash and cash equivalents, accounts receivable, accounts payable, our revolving credit agreement, and long-term debt, approximate their fair value based on either their short maturity or current terms for similar instruments.

### 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 our leases are classified as operating leases. The Company recognizes a lease liability in the statement of financial position to make lease payments 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. The right-of-use assets were \$3,707,000 and \$3,184,000 at November 30, 2022 and May 31, 2022, respectively. The total current and non-current lease liabilities were \$3,630,000 and \$3,228,000 at November 30, 2022 and May 31, 2022, respectively.

### Derivatives

We operate on a global basis and are exposed to the risk that our financial condition, results of operations and cash flows could be adversely affected by changes in foreign currency exchange rates, and changes in interest rates. To reduce the potential effects of foreign currency exchange rate movements on net earnings, we enter into derivative financial instruments in the form of foreign currency exchange forward contracts with major financial institutions and have also entered into interest rate swap contracts as a hedge against changes in interest rates. All derivatives are recognized as assets or liabilities and measured at fair value. For derivatives that are determined to be effective hedges, changes in fair value are recognized on other comprehensive income (loss) until the underlying hedged item is recognized in earnings. Derivatives that are not determined to be effective hedges are adjusted to fair value with a corresponding adjustment to earnings. We do not use financial instruments for trading or speculative purposes.

## 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 and derivatives. 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 and Concentrations of Credit Risk**

Financial instruments which potentially subject Neogen to concentrations of credit risk consist principally of accounts receivable. Management attempts to minimize credit risk by reviewing customers' credit histories before extending credit and by monitoring credit exposure on a regular basis. Collateral or other security is generally not required for accounts receivable. We maintain an allowance for customer accounts that reduces receivables to amounts that are expected to be collected. In estimating the allowance for doubtful accounts, management considers relevant information about past events, current conditions and reasonable and supportable forecasts that affect the collectability of financial assets. 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. No customer accounted for more than 10% of accounts receivable November 30, 2022 or May 31, 2022, respectively.

## **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.

## **Business Combinations**

We utilize the acquisition method of accounting for business combinations. This method requires, among other things, that results of operations of acquired companies are included in Neogen's results of operations beginning on the respective acquisition dates and that assets acquired and liabilities assumed are recognized at fair value as of the acquisition date. Any excess of the fair value of consideration transferred over the fair values of the net assets acquired is recognized as goodwill. Contingent consideration liabilities are recognized at the estimated fair value on the acquisition date; these are recorded in either other accruals within current liabilities (for expected payments in less than a year) or other non-current liabilities (for expected payments in greater than a year), both on our consolidated balance sheets. Subsequent changes to the fair value of contingent consideration liabilities are recognized in other income (expense) in the consolidated statements of income (loss). Contingent consideration payments made soon after the acquisition date are classified as investing activities in the consolidated statements of cash flows. Contingent consideration payments not made soon after the acquisition date that are related to the acquisition date fair value are reported as financing activities in the consolidated statements of cash flows, and amounts paid in excess of the original acquisition date fair value are reported as operating activities in the consolidated statements of cash flows. The fair value of assets acquired and liabilities assumed in certain cases may be subject to revision based on the final determination of fair value during a period of time not to exceed 12 months from the acquisition date. Legal costs, due diligence costs, business valuation costs and all other business acquisition costs are expensed when incurred.

## 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 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 accommodate 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 7.

## 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.

## New Accounting Pronouncements Not Yet Adopted

### *Acquired contract assets and liabilities in a business combination*

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, which amends ASC 805 to require an acquirer to, at the date of acquisition, recognize and measure contract assets and contract liabilities acquired in accordance with ASU 2014-9, Revenue from Contracts with Customers (Topic 606) as if the entity had originated the contracts. The guidance is effective for fiscal years beginning after December 15, 2022. The Company will adopt this guidance in the event of a business combination subsequent to the effective date of the guidance.

## Accounting Pronouncements Recently Adopted

### *Reference Rate Reform*

In March 2020, the FASB issued Update 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. This update provides temporary optional expedients to applying the reference rate reform guidance to contracts that reference LIBOR or another reference rate expected to be discontinued. Under this update, contract modifications resulting in a new reference rate may be accounted for as a continuation of the existing contract. We adopted this standard in the second quarter of fiscal 2023, and now use the Secured Overnight Financing Rate (SOFR). Adoption of this standard did not have a material impact on our consolidated financial statements and related disclosures.

## 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 \$100,000,000 and \$44,473,000 at November 30, 2022 and May 31, 2022, 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 November 30, 2022. 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 November 30, 2022 and May 31, 2022 are listed below by classification and remaining maturities.

| <i>(in thousands)</i>              | <u>Maturity</u>   | <u>November 30,<br/>2022</u> | <u>May 31,<br/>2022</u> |
|------------------------------------|-------------------|------------------------------|-------------------------|
| Commercial Paper & Corporate Bonds | 0 - 90 days       | \$ 61,104                    | \$106,497               |
|                                    | 91 - 180 days     | 34,200                       | 61,373                  |
|                                    | 181 days - 1 year | 57,151                       | 91,706                  |
|                                    | 1 - 2 years       | 23,883                       | 77,002                  |
| <b>Total Marketable Securities</b> |                   | <u>\$ 176,338</u>            | <u>\$336,578</u>        |

The components of marketable securities, consisting of commercial paper and corporate bonds, at November 30, 2022 are as follows:

| <i>(in thousands)</i>              | <u>Amortized<br/>Cost</u> | <u>Unrealized<br/>Gains</u> | <u>Unrealized<br/>Losses</u> | <u>Fair Value</u> |
|------------------------------------|---------------------------|-----------------------------|------------------------------|-------------------|
| Commercial Paper & Corporate Bonds | \$179,650                 | \$ —                        | \$ (3,312)                   | \$176,338         |

The components of marketable securities, consisting of commercial paper and corporate bonds, at May 31, 2022 are as follows:

| <i>(in thousands)</i>              | <u>Amortized<br/>Cost</u> | <u>Unrealized<br/>Gains</u> | <u>Unrealized<br/>Losses</u> | <u>Fair Value</u> |
|------------------------------------|---------------------------|-----------------------------|------------------------------|-------------------|
| Commercial Paper & Corporate Bonds | \$339,540                 | \$ 7                        | \$ (2,969)                   | \$336,578         |

### 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>        | <u>November 30,<br/>2022</u> | <u>May 31,<br/>2022</u> |
|------------------------------|------------------------------|-------------------------|
| Raw materials                | \$ 68,884                    | \$ 58,667               |
| Work-in-process              | 6,013                        | 6,388                   |
| Finished and purchased goods | 61,172                       | 57,258                  |
|                              | <u>\$ 136,069</u>            | <u>\$122,313</u>        |

#### 4. 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 recognize 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 Company has no contract assets; contract liabilities represent deposits made by customers before the satisfaction of performance obligation(s) and recognition of revenue. Upon completion of the performance obligation(s) that the Company has with the customer, the liability for the customer deposit is relieved and revenue is recognized. These customer deposits are listed as Deferred Revenue on the consolidated balance sheets.

On September 1, 2022, Neogen closed on a Reverse Morris Trust transaction to combine with 3M's Food Safety business. Similar to Neogen, 3M's former Food Safety business sells diagnostic test kits, dehydrated culture media, and related products used by food producers and processors to detect foodborne bacteria, allergens and levels of general sanitation. Revenue for these products are recognized and invoiced when the product is shipped to the customer. These products are currently invoiced and distributed by 3M on behalf of Neogen under a number of transition service contracts.

The following table presents disaggregated revenue by major product and service categories for the three and six month periods ended November 30, 2022 and 2021:

| <i>(in thousands)</i>                          | <b>Three Months ended November 30,</b> |                   | <b>Six Months ended November 30,</b> |                   |
|--|--|-------------------|--------------------------------------|-------------------|
|  | <b>2022</b>                            | <b>2021</b>       | <b>2022</b>                          | <b>2021</b>       |
| <b>Food Safety</b>                             |  |                   |                                      |                   |
| Natural Toxins, Allergens & Drug Residues      | \$ 22,251                              | \$ 21,028         | \$ 42,038                            | \$ 41,432         |
| Bacterial & General Sanitation                 | 41,121                                 | 12,252            | 51,849                               | 23,421            |
| Culture Media & Other                          | 82,084                                 | 19,935            | 101,338                              | 37,981            |
| Rodent Control, Insect Control & Disinfectants | 10,377                                 | 8,232             | 19,952                               | 15,882            |
| Genomics Services                              | 5,510                                  | 5,685             | 10,809                               | 11,138            |
|  | <u>161,343</u>                         | <u>67,132</u>     | <u>225,986</u>                       | <u>129,854</u>    |
| <b>Animal Safety</b>                           |  |                   |                                      |                   |
| Life Sciences                                  | 1,427                                  | 1,309             | 3,016                                | 2,672             |
| Veterinary Instruments & Disposables           | 16,433                                 | 15,572            | 31,106                               | 30,909            |
| Animal Care & Other                            | 10,569                                 | 10,849            | 21,095                               | 20,068            |
| Rodent Control, Insect Control & Disinfectants | 20,665                                 | 18,269            | 42,879                               | 40,418            |
| Genomics Services                              | 19,596                                 | 17,386            | 38,300                               | 34,901            |
|  | <u>68,690</u>                          | <u>63,385</u>     | <u>136,396</u>                       | <u>128,968</u>    |
| <b>Total Revenues</b>                          | <u>\$ 230,033</u>                      | <u>\$ 130,517</u> | <u>\$ 362,382</u>                    | <u>\$ 258,822</u> |

## 5. NET INCOME (LOSS) PER SHARE

The calculation of net income (loss) per share follows:

| <i>(in thousands, except per share amounts)</i>                     | <b>Three Months Ended</b> |                  | <b>Six Months Ended</b> |                  |
|---|---------------------------|------------------|-------------------------|------------------|
|   | <b>November 30,</b>       |                  | <b>November 30,</b>     |                  |
|   | <b>2022</b>               | <b>2021</b>      | <b>2022</b>             | <b>2021</b>      |
| <b>Numerator for basic and diluted net income (loss) per share:</b> |                           |                  |                         |                  |
| Net income (loss) attributable to Neogen                            | \$ (41,841)               | \$ 10,828        | \$ (36,632)             | \$ 27,905        |
| <b>Denominator for basic net income (loss) per share:</b>           |                           |                  |                         |                  |
| Weighted average shares   | 216,134                   | 107,641          | 161,690                 | 107,565          |
| Effect of dilutive stock options and RSUs                           | —                         | 481              | —                       | 534              |
| <b>Denominator for diluted net income (loss) per share</b>          | <u>\$216,134</u>          | <u>\$108,122</u> | <u>\$161,690</u>        | <u>\$108,099</u> |
| <b>Net income (loss) per share:</b>                                 |                           |                  |                         |                  |
| Basic   | \$ (0.19)                 | \$ 0.10          | \$ (0.23)               | \$ 0.26          |
| Diluted   | \$ (0.19)                 | \$ 0.10          | \$ (0.23)               | \$ 0.26          |

Note: Due to the net loss for the Three and Six month periods end November 30, 2022, the dilutive stock options and RSUs are anti-dilutive for those periods.

## 6. 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. All new products from the merger of the 3M FSD, effective September 1, 2022, are reported through the Food Safety segment. 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 in February 2020, this operation 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>   | <u>Food<br/>Safety</u> | <u>Animal<br/>Safety</u> | <u>Corporate and<br/>Eliminations (1)</u> | <u>Total</u>      |
|---|------------------------|--------------------------|---|-------------------|
| <b>As of and for the three months ended November 30, 2022</b> |                        |                          |   |                   |
| Product revenues to external customers                        | \$ 154,223             | \$ 49,094                | \$ —                                      | \$ 203,317        |
| Service revenues to external customers                        | 7,120                  | 19,596                   | —   | 26,716            |
| Total revenues to external customers                          | <u>\$ 161,343</u>      | <u>\$ 68,690</u>         | <u>\$ —</u>                               | <u>\$ 230,033</u> |
| Operating income (loss)                                       | \$ 21,446              | \$ 12,806                | \$ (41,908)                               | \$ (7,656)        |
| Total assets  | \$3,955,488            | \$329,177                | \$ 278,577                                | \$4,563,242       |
| <b>As of and for the three months ended November 30, 2021</b> |                        |                          |   |                   |
| Product revenues to external customers                        | \$ 60,112              | \$ 45,999                | \$ —                                      | \$ 106,111        |
| Service revenues to external customers                        | 7,020                  | 17,386                   | —   | 24,406            |
| Total revenues to external customers                          | <u>\$ 67,132</u>       | <u>\$ 63,385</u>         | <u>\$ —</u>                               | <u>\$ 130,517</u> |
| Operating income (loss)                                       | \$ 10,894              | \$ 12,701                | \$ (11,126)                               | \$ 12,469         |
| Total assets  | \$ 298,437             | \$278,994                | \$ 390,503                                | \$ 967,934        |

- (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>                                       | <u>Food<br/>Safety</u> | <u>Animal<br/>Safety</u> | <u>Corporate and<br/>Eliminations (1)</u> | <u>Total</u>      |
|---|------------------------|--------------------------|---|-------------------|
| <b>As of and for the six months ended November 30, 2022</b> |                        |                          |   |                   |
| Product revenues to external customers                      | \$ 212,013             | \$ 98,096                | \$ —                                      | \$ 310,109        |
| Service revenues to external customers                      | 13,973                 | 38,300                   | —   | 52,273            |
| Total revenues to external customers                        | <u>\$ 225,986</u>      | <u>\$ 136,396</u>        | <u>\$ —</u>                               | <u>\$ 362,382</u> |
| Operating income (loss)                                     | \$ 30,042              | \$ 24,687                | \$ (56,323)                               | \$ (1,594)        |
| <b>As of and for the six months ended November 30, 2021</b> |                        |                          |   |                   |
| Product revenues to external customers                      | \$ 116,057             | \$ 94,067                | \$ —                                      | \$ 210,124        |
| Service revenues to external customers                      | 13,797                 | 34,901                   | —   | 48,698            |
| Total revenues to external customers                        | <u>\$ 129,854</u>      | <u>\$ 128,968</u>        | <u>\$ —</u>                               | <u>\$ 258,822</u> |
| Operating income (loss)                                     | \$ 21,026              | \$ 25,463                | \$ (12,275)                               | \$ 34,214         |

(1) Includes elimination of intersegment transactions.

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

| <i>(in thousands)</i> | <u>Three months ended<br/>November 30,</u> |                   | <u>Six months ended<br/>November 30,</u> |                |
|-----------------------|--|-------------------|--|----------------|
|                       | <u>2022</u>                                | <u>2021</u>       | <u>2022</u>                              | <u>2021</u>    |
| Domestic              | \$ 114,413                                 | \$ 76,378         | \$ 195,055                               | \$ 154,156     |
| International         | 115,620                                    | 54,139            | 167,327                                  | 104,666        |
| Total revenue         | <u>\$ 230,033</u>                          | <u>\$ 130,517</u> | <u>362,382</u>                           | <u>258,822</u> |

## 7. 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, seven or ten years. A summary of stock option activity during the six months ended November 30, 2022 follows:

| <i>(options in thousands)</i>         | <u>Shares</u> | <u>Weighted-<br/>Average<br/>Exercise Price</u> |
|---------------------------------------|---------------|---|
| Options outstanding June 1, 2022      | 3,244         | \$ 32.13  |
| Granted                               | 1,687         | 14.63   |
| Exercised                             | (4)           | 10.75   |
| Forfeited/Expired                     | (592)         | 29.75   |
| Options outstanding November 30, 2022 | <u>4,335</u>  | <u>\$ 25.66</u>                                 |

During the three and six month periods ended November 30, 2022 and 2021, the Company recorded \$2,632,000 and \$1,748,000, and \$4,499,000 and \$3,438,000, respectively, of expense related to its share-based awards, recorded in general and administrative expense in the consolidated income statement.

The weighted-average fair value per share of stock options granted during the first six months of fiscal years 2023 and 2022, estimated on the date of grant using the Black-Scholes option pricing model, was \$4.59 and \$9.54. The fair value of stock options granted was estimated using the following weighted-average assumptions.

|                                 | <u>FY 2023</u> | <u>FY 2022</u> |
|---------------------------------|----------------|----------------|
| Risk-free interest rate         | 3.3%           | 0.4%           |
| Expected dividend yield         | 0.0%           | 0.0%           |
| Expected stock price volatility | 34.0%          | 32.8%          |
| Expected option life            | 4.61 years     | 3.12 years     |

The company grants restricted stock units (RSUs) to directors, officers and employees under the terms of the 2018 Omnibus Incentive Plan, which vest ratably over three and five year periods. The current units are expensed straight-line over the remaining weighted-average period of 3.2 years. On November 30, 2022 there was \$12,820,000 in unamortized compensation cost related to non-vested RSUs. A summary of RSU activity during the six months ended November 30, 2022 follows:

| <i>(RSUs in thousands)</i>         | <u>Shares</u> | <u>Weighted-Average Fair Value</u> |
|------------------------------------|---------------|------------------------------------|
| RSUs outstanding June 1, 2022      | 257           | \$ 36.14                           |
| Granted                            | 584           | 13.72                              |
| Released                           | (47)          | 37.62                              |
| Forfeited/Cancelled                | (5)           | 37.63                              |
| RSUs outstanding November 30, 2022 | <u>789</u>    | <u>\$ 19.46</u>                    |

Under the terms of an agreement entered into with 3M as part of the combination of the FSD, the Company issued stock options and RSUs to conveying 3M employees to replace their existing unvested 3M awards under an exchange ratio based on the closing prices of Neogen and 3M common stock on August 31, 2022, the day before the transaction. These substitute options and RSUs retained their original vesting and expiration terms (originally three year vesting and ten year lives). There were a total of 131,746 substitute options and 29,770 substitute RSUs issued during the second quarter to the conveying 3M employees as part of the employee matters agreement; the Company recognized \$184,000 in compensation expense (included in the overall compensation expense of \$2,632,000) during the quarter for these 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 2021 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.

## 8. BUSINESS COMBINATIONS

The consolidated statements of income (loss) 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 September 17, 2021, the Company acquired all of the stock of CAPInnoVet, Inc., a companion animal health business that provides pet medications to the veterinary market. This acquisition provides entry into the retail parasiticide market and enhances the Company's presence in companion animal markets. Consideration for the purchase was net cash of \$17.9 million paid at closing, including \$150,000 of cash placed in escrow payable to the former owners in 12 months. There is also the potential for performance milestone payments to the former owners of up to \$6.5 million and the Company could incur up to \$14.5 million in future royalty payments. The final purchase allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of \$308,000, inventory of \$531,000, prepayments of \$296,000, accounts payable of \$120,000, other current liabilities of \$84,000, non-current liabilities of \$6.5 million (contingent consideration accrual calculated using a Monte Carlo simulation utilizing inputs such as probability and timing of milestone achievements, revenue forecasts and volatility, and estimated discount rates relating to established future cash flows of the business), intangible assets of \$19.2 million (with an estimated life of 15-20 years) and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. The \$150,000 placed in escrow was paid to the former owners on September 21, 2022. The business is operated from our location in Lexington, KY, reporting within the Animal Safety segment.

On November 30, 2021, the Company acquired all of the stock of Delf (U.K.) Ltd., a United Kingdom-based manufacturer and supplier of animal hygiene and industrial cleaning products, and Abbott Analytical Ltd., a related service provider. This acquisition will expand the Company's line of dairy hygiene products and will enhance our cleaner and disinfectant product portfolio. Consideration for the purchase was net cash of \$9.5 million paid at closing, including \$722,000 of cash placed in escrow payable to the former owner in one year. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of \$1,059,000, inventory of \$972,000, net property, plant and equipment of \$152,000, prepayments of \$31,000, accounts payable of \$497,000, other current liabilities of \$378,000, non-current deferred tax liabilities of \$780,000, intangible assets of \$3.1 million (with an estimated life of 10-15 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. The companies continue to operate from their current location in Liverpool, England, reporting within the Food Safety segment and are managed through Neogen's Scotland operation.

On December 9, 2021, the Company acquired all of the stock of Genetic Veterinary Sciences, Inc., a companion animal genetic testing business providing genetic information for dogs, cats and birds to animal owners, breeders and veterinarians. This acquisition will further expand the Company's presence in the companion animal market. Consideration for the purchase was \$11.4 million 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 \$38,000, net inventory of \$292,000, net property, plant and equipment of \$399,000, prepayments of \$54,000, accounts payable of \$325,000, unearned revenue of \$1.9 million, other current liabilities of \$321,000, intangible assets of \$5.5 million (with an estimated life of 5-15 years) and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. The business is operated from its current location in Spokane, Washington, reporting within the Animal Safety segment.

On July 1, 2022, Neogen acquired all of the stock of Thai-Neo Biotech Co., Ltd., a longstanding distributor of Neogen's food safety products to Thailand and Southeast Asia. This acquisition gives Neogen a direct sales presence in Thailand. Consideration for the purchase was \$1,581,000 in net cash, with \$1,310,000 paid at closing, \$37,000 paid on November 29, 2022 as a working capital adjustment and \$234,000 payable on October 1, 2023. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of \$177,000, inventory of \$232,000, prepaids of \$3,000, net property, plant and equipment of \$16,000, other non-current assets of \$6,000, accounts payable of \$98,000, other payables of \$6,000, non-current tax liabilities of \$124,000, intangible assets of \$620,000 (with an estimated life of 10 years) and the remainder to goodwill (non-deductible for tax purposes). The business continues to operate in Bangkok, Thailand, reporting within the Food Safety segment.

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

### **3M Food Safety transaction**

On September 1, 2022, Neogen, 3M Company ("3M"), and Garden SpinCo Corporation ("Garden SpinCo"), a newly formed, wholly owned subsidiary of 3M created to carve out 3M's Food Safety Division ("3M FSD", "FSD"), closed on the transaction combining 3M's FSD with Neogen in a Reverse Morris Trust transaction and Garden SpinCo became a wholly owned subsidiary of Neogen ("FSD transaction"). Following the FSD transaction, pre-merger Garden SpinCo stockholders own, in the aggregate, approximately 50.1% of the issued and outstanding shares of Neogen common stock and pre-merger Neogen shareholders own, in the aggregate, approximately 49.9% of the issued and outstanding shares of Neogen common stock. This transaction is a business combination and will be accounted for using the acquisition method.

The acquired business is a leading provider of food safety testing solutions. It offers a broad range of food safety testing products that support multiple industries within food and beverage, helping producers to prevent and protect consumers from foodborne illnesses. The business has a broad global presence with products used in more than 60 countries and a diversified revenue base of more than 100,000 end-user customers. The combination of Neogen and the 3M FSD creates a leading innovator with an enhanced geographic footprint, innovative product offerings, digitization capabilities, and financial flexibility to capitalize on robust growth trends in sustainability, food safety, and supply chain integrity. The acquired Food Safety business continues to primarily operate in facilities in Minnesota and the United Kingdom, and is being managed overall in Michigan, reporting within the Food Safety segment.

The purchase price consideration for the 3M FSD was \$3.2 billion, net of customary purchase price adjustments and transaction costs, which consisted of 108,269,946 shares of Neogen common stock issued on closing with a fair value of \$2.3 billion and cash consideration of \$1 billion, funded by the additional financing secured by the Company. See Note 10 – Long Term Debt for further detail on the debt incurred.

As of November 30, 2022, the Company has recorded a preliminary allocation of the purchase consideration to assets acquired and liabilities assumed based on initial fair value estimates and is subject to continuing management analysis, with assistance from third party valuation advisors. The excess of the purchase price over the fair value of the net tangible assets and identifiable intangible assets of \$1.96 billion was recorded as goodwill, of which \$1.90 billion is not deductible for tax purposes. Goodwill includes value associated with profits earned from market and expansion capabilities, expected synergies from integration and streamlining operational activities, the expertise and reputation of the assembled workforce and other intangible assets that do not qualify for separate recognition. These values are Level 3 fair value measurements. The preliminary fair values of net tangible assets and intangible assets acquired were based on preliminary valuations, and our estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date). The final determination may result in asset and liability fair values and tax bases that differ from the preliminary estimates and require changes to the preliminary amounts recognized.

The following table summarizes the preliminary fair value of assets acquired and liabilities assumed as of the date of acquisition:

| <i>(in thousands)</i>                                     |                           |
|---|---------------------------|
| Cash and cash equivalents                                 | \$ 319                    |
| Inventories   | 21,402                    |
| Other current assets                                      | 14,855                    |
| Property, plant and equipment                             | 20,010                    |
| Intangible assets   | 1,560,000                 |
| Right of use asset  | 882                       |
| Lease liability   | (885)                     |
| Deferred tax liabilities                                  | (353,760)                 |
| Other liabilities   | (3,584)                   |
| <b>Total identifiable assets and liabilities acquired</b> | <u>1,259,239</u>          |
| Goodwill  | <u>1,963,171</u>          |
| <b>Total purchase consideration</b>                       | <u><u>\$3,222,410</u></u> |

The following table summarizes the intangible assets acquired and the useful life of these assets.

| <i>(in thousands)</i>            | <u>Fair Value</u>         | <u>Useful Life in Years</u> |
|----------------------------------|---------------------------|-----------------------------|
| Trade Names and Trademarks       | \$ 120,000                | 25                          |
| Developed Technology             | 280,000                   | 15                          |
| Customer Relationships           | 1,160,000                 | 20                          |
| Total intangible assets acquired | <u><u>\$1,560,000</u></u> |                             |

For the three and six months ended November 30, 2022, transaction costs of \$39.1 million and \$52.9 million, respectively, were expensed; in the prior year second quarter, acquisition related costs of \$9.3 million were expensed. These costs are included in general and administrative expenses in the Company's consolidated statements of income (loss).

The operating results of the 3M FSD have been included in the Company's consolidated statements of income (loss) since the acquisition date. In the second quarter of fiscal 2023, the 3M FSD's total revenue was \$92.7 million and operating loss was approximately \$29.7 million. The operating loss includes \$39.1 million of transaction costs, \$20.3 million of amortization expense for acquired intangible assets and \$3.9 million of cost of goods sold related to the step up to fair value on acquired inventory.

The following table presents pro forma information as if the merger with the 3M FSD business had occurred on June 1, 2021 and had been combined with the results reported in our consolidated statements of income (loss) for all periods presented:

| <i>in thousands, unaudited</i> | Three Months Ended<br>November 30, |            | Six Months Ended<br>November 30, |           |
|--------------------------------|------------------------------------|------------|----------------------------------|-----------|
|                                | 2022                               | 2021       | 2022                             | 2021      |
| Net sales                      | \$230,033                          | \$225,700  | \$457,300                        | \$448,200 |
| Operating Income (loss)        | \$ (7,700)                         | \$ (1,600) | \$ (21,100)                      | \$ 6,100  |

The unaudited pro forma information is presented for informational purposes only and is not indicative of the results that would have been achieved if the merger had taken place at such time. The unaudited pro forma information presented above includes adjustments primarily for amortization charges for acquired intangible assets and certain acquisition-related expenses for legal and professional fees.

In connection with the acquisition of the 3M FSD, the Company and 3M entered into several transition service agreements, including manufacturing, distribution and certain back-office support, that have been accounted for separately from the acquisition of assets and assumption of liabilities in the business combination. 3M periodically remits amounts charged to customers on our behalf and charges us for the associated cost of goods sold and transitions service fees. As of November 30, 2022, a net receivable from 3M of \$36.5 million was included in Prepaid expenses and other current assets in the Company's consolidated balance sheets.

## 9. GOODWILL AND INTANGIBLE ASSETS

The following table summarizes goodwill by reportable segment:

| <i>(in thousands)</i>                  | <u>Food Safety</u> | <u>Animal Safety</u> | <u>Total</u>       |
|--|--------------------|----------------------|--------------------|
| May 31, 2022                           | \$ 67,558          | \$ 75,146            | \$ 142,704         |
| Acquisitions <sup>(1)</sup>            | 1,957,810          | 6,115                | \$ 1,963,925       |
| Foreign currency translation and other | 16,058             | (290)                | \$ 15,768          |
| November 30, 2022                      | <u>\$2,041,426</u> | <u>\$ 80,971</u>     | <u>\$2,122,397</u> |

(1) Animal Safety acquisitions represents portion of 3M Food Safety transaction recorded at Neogen Australasia.

At November 30, 2022, non-amortizable assets included licenses of \$569,000, trademarks of \$13,423,000 and other intangibles of \$1,224,000. At May 31, 2022, non-amortizable intangible assets included licenses of \$569,000, trademarks of \$13,604,000 and other intangibles of \$1,224,000.

Amortizable intangible assets consisted of the following and are included in customer-based intangibles and other non-current assets within the consolidated balance sheets:

| <i>(in thousands)</i>                         | <u>Gross Carrying Amount</u> | <u>Less Accumulated Amortization</u> | <u>Net Carrying Amount</u> |
|---|------------------------------|--------------------------------------|----------------------------|
| Licenses                                      | \$ 16,979                    | \$ 6,394                             | 10,585                     |
| Covenants not to compete                      | 371                          | 234                                  | 137                        |
| Patents                                       | 8,029                        | 4,565                                | 3,464                      |
| Customer relationships                        | 1,234,202                    | 49,735                               | 1,184,467                  |
| Trade names and trademarks                    | 121,135                      | 1,417                                | 119,718                    |
| Developed technology                          | 296,897                      | 11,000                               | 285,897                    |
| Other product and service-related intangibles | 26,947                       | 4,701                                | 22,245                     |
| November 30, 2022                             | <u>\$1,704,560</u>           | <u>\$ 78,046</u>                     | <u>\$1,626,514</u>         |
| Licenses                                      | \$ 17,109                    | \$ 5,682                             | \$ 11,427                  |
| Covenants not to compete                      | 846                          | 671                                  | 175                        |
| Patents                                       | 8,347                        | 4,583                                | 3,764                      |
| Customer relationships                        | 75,000                       | 33,662                               | 41,338                     |
| Trade names and trademarks                    | 1,180                        | 167                                  | 1,013                      |
| Developed technology                          | 17,741                       | 6,124                                | 11,617                     |
| Other product and service-related intangibles | 27,299                       | 4,527                                | 22,772                     |
| May 31, 2022                                  | <u>\$ 147,522</u>            | <u>\$ 55,416</u>                     | <u>\$ 92,106</u>           |

Amortization expense relating to definite-lived intangible assets was \$22.7 million and \$2.4 million for the three months ended November 30, 2022 and 2021, respectively, and \$25.1 million and \$4.6 million for the six months ended November 30, 2022 and 2021, respectively.

The estimated amortization expense for each of the five succeeding fiscal years is as follows: \$45.6 million remaining in 2023, \$90.8 million in 2024, \$90.3 million in 2025, \$90.2 million in 2026 and \$89.7 million in 2027 and \$1.22 billion thereafter.

The amortizable intangible assets useful lives are 2 to 20 years for licenses, 3 to 10 years for covenants not to compete, 5 to 25 years for patents, 9 to 20 years for customer relationships, 10 to 25 years for trade names and trademarks, 10 to 20 years for developed technology and 5 to 15 years for other product and service-related intangibles. All definite-lived intangibles are amortized on a straight-line basis with the exception of definite-lived customer-based intangibles and product and service-related intangibles, which are amortized on either a straight-line or an accelerated basis.

The weighted average remaining amortization period for intangibles was 18 years at November 30, 2022 and eight years at May 31, 2022.

## 10. LONG TERM DEBT

The Company's long-term debt consists of the following:

| <i>(in thousands)</i>                 | As of<br>November 30, 2022 | As of<br>May 31, 2022 |
|---------------------------------------|----------------------------|-----------------------|
| Term Loan                             | \$ 590,000                 | \$ —                  |
| Senior Notes                          | 350,000                    | —                     |
| Total long-term debt                  | \$ 940,000                 | \$ —                  |
| Less: Unamortized debt issuance costs | (16,038)                   | —                     |
| Total non-current debt, net           | <u>\$ 923,962</u>          | <u>\$ —</u>           |

The Company had a financing agreement with a bank providing for a \$15.0 million unsecured revolving line of credit, which originally expired on November 30, 2023, but was replaced by the five-year senior secured revolving facility as part of the Credit Facilities described below. There were no advances against the line of credit during fiscal 2022 and there were no advances in fiscal 2023 before the line of credit was extinguished. Interest on any borrowings under that agreement was at LIBOR plus 100 basis points. Financial covenants included maintaining specified levels of tangible net worth, debt service coverage, and funded debt to EBITDA, each of which the Company was in compliance with during the period the line of credit was available.

In connection with the acquisition of 3M's Food Safety business as described more fully in Note 8, Neogen incurred financing through Garden SpinCo as follows:

### Credit Facilities

On June 30, 2022, Garden SpinCo entered into a credit agreement consisting of a five-year senior secured term loan facility ("term loan facility") in the amount of \$650 million and a five-year senior secured revolving facility ("revolving facility") in the amount of \$150 million (collectively, the "Credit Facilities") to fund the 3M Food Safety transaction. The term loan facility was drawn on August 31, 2022, to fund the closing of the 3M Food Safety transaction on September 1, 2022 while the revolving facility remained undrawn and continues to be undrawn as of November 30, 2022.

The Credit Facilities bear interest based on the term SOFR plus an applicable margin between a range of 150 to 225 basis points determined for each interest period and paid monthly. For the three and six months ended November 30, 2022, the interest rates ranged from 4.80% to 6.08% per annum. The term loan facility matures on June 30, 2027 and the revolving facility matures at the earlier of June 30, 2027 and the termination of the revolving commitments.

In addition, the term loan facility contains an optional prepayment feature at the discretion of the Company. The Company determined that the prepayment feature did not meet the definition of an embedded derivative and does not require bifurcation from the host liability and, accordingly, has accounted for the entire instrument at amortized cost. In accordance with the prepayment feature, the Company paid \$60 million of the term loan facility's principal in September 2022 prior to the first scheduled quarterly repayment.

The Company can, at its sole discretion, draw any amount under the revolving facility, with the amount to be repaid on the termination date of the revolving commitments. Debt issuance costs of \$2.4 million were incurred related to the revolving facility. These costs are being amortized as interest expense in the consolidated statements of income (loss) over the contractual life of the revolving facility using the straight line method. Amortization of the deferred debt issuance costs for the revolving facility was \$122,000 for the three and six month periods ended November 30, 2022. Debt issuance costs of \$489,000 were recorded in Prepaid expenses and other current assets and \$1.8 million were recorded in Other non-current assets on the consolidated balance sheet at November 30, 2022. The Company must pay an annual commitment fee ranging from 0.20% and 0.35% on the unused portion of the Revolving Credit Facility, paid quarterly. As of November 30, 2022, the commitment fee was 0.35% and \$225,000 was recorded as interest expense in the consolidated statements of income (loss) for the three and six months ended November 30, 2022.

Total accrued interest on the term loan was \$3.0 million as of November 30, 2022 based on the term SOFR interest rate of 6.08% and included in current liabilities on the consolidated balance sheets. The Company incurred \$10.2 million in total debt issuance costs which is recorded as an offset to the term loan facility and amortized over the contractual life of the loan to interest expense using the straight line method. The amortization of deferred debt issuance costs of \$529,000 and interest expense of \$8.5 million was included in the consolidated statements of income (loss) for the three and six months ended November 30, 2022.

Financial covenants include maintaining specified levels of funded debt to EBITDA, and debt service coverage. At November 30, 2022, the Company was in compliance with its covenants.

## Senior Notes

On July 20, 2022, Garden SpinCo closed on an offering of \$350 million aggregate principal amount of 8.625% senior notes due 2030 (the “Notes”) in a private placement at par. The Notes were initially issued by Garden SpinCo to 3M and were transferred and delivered by 3M to the selling securityholder in the offering, in satisfaction of certain of 3M’s existing debt. Upon closing of the 3M Food Safety transaction on September 1, 2022, the Notes became guaranteed on a senior unsecured basis by the Company and certain wholly-owned domestic subsidiaries of the Company.

The Company determined that the redemption features of the Notes did not meet the definition of a derivative and thus does not require bifurcation from the host liability and accordingly has accounted for the entire instrument at amortized cost.

Total accrued interest on the Notes was \$11.0 million as of November 30, 2022 based on the stated interest rate of 8.625% and included in current liabilities on the consolidated balance sheets. The Company incurred total debt issuance costs of \$6.7 million which is recorded as an offset to the Notes and amortized over the contractual life of the Notes to interest expense using the straight line method. For the three and six months ended November 30, 2022, the Company recorded \$11.0 million of interest expense in the consolidated statements of income (loss), of which \$348,000 related to the amortization of deferred debt issuance costs.

The expected maturities associated with the Company’s outstanding debt as of November 30, 2022, were as follows:

| <i>(in thousands)</i> | <u>Amount</u>    |
|-----------------------|------------------|
| <b>Fiscal Year</b>    |                  |
| Remainder of 2023     | \$ —             |
| 2024                  | —                |
| 2025                  | —                |
| 2026                  | 29,375           |
| 2027                  | 44,688           |
| Thereafter            | 865,937          |
| Total                 | <u>\$940,000</u> |

## 11. INCOME TAXES

Income tax expense in the second quarter of fiscal 2023 was \$7.8 million, compared to \$2.1 million in the same period of the prior year; for the year to date, income tax expense was \$9.2 million, compared to \$6.8 million in fiscal 2022. Income tax expense in the second quarter of fiscal 2023 includes approximately \$6.7 million of expense related to non-deductible transaction costs associated with the 3M Food Safety transaction and \$625,000 of expense due to an increase in our state rate for deferred tax liabilities. In each comparative period, there was minimal benefit from the exercise of stock options.

The total amounts of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of November 30, 2022 and May 31, 2022 are \$1.4 million and \$808,000, respectively. The increase in unrecognized tax benefits is primarily associated with the acquired 3M FSD, including positions for transfer pricing and research and development credits.

## **12. 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. We expense 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 remaining liability for these costs was \$916,000 at both November 30, 2022 and May 31, 2022, measured on an undiscounted basis over an estimated period of 15 years. In fiscal 2019, the Company performed an updated Corrective Measures Study on the site, per a request from the Wisconsin Department of Natural Resources (WDNR) and is currently 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. However, the Company has undertaken a pilot study in which chemical reagents are injected into the ground in an attempt to reduce on-site contamination. At this time, the outcome of the pilot study is unknown, but a change in the current remediation strategy, depending on the alternative selected, could result in an increase in future costs and ultimately, an increase in the currently recorded liability, with an offsetting charge to operations in the period recorded. The Company has recorded \$100,000 as a current liability at November 30, 2022, and the remaining \$816,000 is recorded in other non-current liabilities in the consolidated balance sheets.

On March 6, 2020, the Company received an administrative subpoena from the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) regarding activities or transactions involving parties located in Iran. The Company subsequently conducted an internal investigation under the direction of outside legal counsel and disclosed information concerning certain genomic testing services provided to an unrelated U.S.-based party engaged in veterinary activities involving an Iranian party. The Company continues to cooperate with OFAC's investigation and is currently examining whether certain of these activities may be eligible for OFAC General Licenses authorizing agricultural and veterinary activities.

In addition to responding to the administrative subpoena, the Company has implemented additional compliance measures to prevent inadvertent dealings with restricted countries or parties. These measures will further enhance the Company's international trade compliance program, which is designed to assure that the Company does not conduct business directly or indirectly with any countries or parties subject to U.S. economic sanctions and export control laws. Although it is too early to predict what action, if any, that OFAC will take, the Company does not currently have any reason to believe that OFAC's pending investigation will have a material impact on its operations, the results of operations for any future period, or its overall financial condition. In fiscal 2020, the Company took a charge to Other expense and recorded a reserve of \$600,000 to provide for potential fines or penalties on this matter. At this time, the Company believes that it is adequately reserved for this issue.

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.

## **13. DERIVATIVES**

We operate on a global basis and are exposed to the risk that our financial condition, results of operations and cash flows could be adversely affected by changes in foreign currency exchange rates, and changes in interest rates. To reduce the potential effects of foreign currency exchange rate movements on net earnings, we enter into derivative financial instruments in the form of foreign currency exchange forward contracts with major financial institutions and have also entered into interest rate swap contracts as a hedge against changes in interest rates. All derivatives are recognized as assets or liabilities and measured at fair value. Derivatives that are not determined to be effective hedges are adjusted to fair value with a corresponding adjustment to earnings. We do not use financial instruments for trading or speculative purposes.

### Derivatives Not Designated as Hedging Instruments

We forecast our net exposure in various receivables and payables to fluctuations in the value of various currencies, and have entered into a number of foreign currency forward contracts each month to mitigate that exposure. These contracts are recorded net at fair value on our consolidated balance sheets, classified as Level 2 in the fair value hierarchy; gains and losses from these contracts were recognized in other income in our consolidated statements of income (loss). The notional amount of forward contracts in place was \$150.2 million and \$4.4 million as of November 30, 2022 and May 31, 2022, respectively; the increase is the result of a number of intercompany loans entered into by our international operations as a result of the 3M Food Safety business combination.

| <i>(in thousands)</i>  |                               |                          |                     |
|--|-------------------------------|--------------------------|---------------------|
| <b>Fair Value of Derivatives Not Designated as Hedging Instruments</b> | <b>Balance Sheet Location</b> | <b>November 30, 2022</b> | <b>May 31, 2022</b> |
| Foreign currency forward contracts, net                                | Other accruals                | \$ (9,708)               | \$ (78)             |

The location and amount of gains (losses) from derivatives not designated as hedging instruments in our consolidated statements of income (loss) were as follows:

| <i>(in thousands)</i>                                    |  |                           |                          |
|--|--|---------------------------|--------------------------|
| <b>Derivatives Not Designated as Hedging Instruments</b> | <b>Location in statements of income (loss)</b> | <b>Three months ended</b> |                          |
|  |  | <b>November 30, 2022</b>  | <b>November 30, 2021</b> |
| Foreign currency forward contracts                       | Other income (expense)                         | \$ (9,128)                | \$ 492                   |

| <i>(in thousands)</i>                                    |  |                          |                          |
|--|--|--------------------------|--------------------------|
| <b>Derivatives Not Designated as Hedging Instruments</b> | <b>Location in statements of income (loss)</b> | <b>Six months ended</b>  |                          |
|  |  | <b>November 30, 2022</b> | <b>November 30, 2021</b> |
| Foreign currency forward contracts                       | Other income (expense)                         | \$ (8,248)               | \$ 1,011                 |

### Derivatives Designated as Hedging Instruments

In November 2022, we entered into a receive-variable, pay-fixed interest rate swap agreement designated as a cash flow hedge, which has a \$250 million notional value. This agreement fixed a portion of the variable interest due on our term loan facility, with an effective date of December 2, 2022 and a maturity date of June 30, 2027. Under the terms of the agreement, we pay a fixed interest rate of 4.215% and receive a variable rate of interest based on term SOFR from the counterparty which is reset according to the duration of the SOFR term. The fair value of the interest rate swap as of November 30, 2022 was (\$3.2) million.

We record the fair value of our interest rate swaps on a recurring basis using Level 2 observable market inputs for similar assets or liabilities in active markets.

| <i>(in thousands)</i>  |                               |                          |                     |
|--|-------------------------------|--------------------------|---------------------|
| <b>Fair Value of Derivatives Designated as Hedging Instruments</b> | <b>Balance Sheet Location</b> | <b>November 30, 2022</b> | <b>May 31, 2022</b> |
| Interest rate swaps – non-current                                  | Other non-current liabilities | \$ 3,153                 | \$ —                |

The impacts of our derivative instruments on the accompanying Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended November 30, 2022 and November 30, 2021 were as follows:

| <i>(in thousands)</i>                                |  |                           |                          |                          |                          |
|--|--|---------------------------|--------------------------|--------------------------|--------------------------|
| <b>Derivatives Designated as Hedging Instruments</b> | <b>Location in statements of comprehensive income (loss)</b> | <b>Three months ended</b> |                          | <b>Six months ended</b>  |                          |
|  |  | <b>November 30, 2022</b>  | <b>November 30, 2021</b> | <b>November 30, 2022</b> | <b>November 30, 2021</b> |
| Interest rate swaps                                  | Unrealized gain/(loss) on derivative instruments, net of tax | \$ (2,428)                | \$ —                     | \$ (2,428)               | \$ —                     |

## **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, effects of the ongoing COVID-19 pandemic on our business, global business disruption caused by the Russia invasion in Ukraine and related sanctions, identification and integration of acquisitions, research and development risks, patent and trade secret protection, government regulation 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.

#### **TRENDS AND UNCERTAINTIES**

During fiscal 2022 and the first six months of fiscal 2023, we have experienced higher than expected input cost inflation, including higher transportation, supply chain and labor costs, that have negatively impacted operating results. International freight costs, particularly for containers originating in Asia with an ultimate destination in the United States, have eased somewhat in the first half of fiscal 2023, although not to pre-2022 levels. Pricing actions taken during fiscal 2022 and the first six months of fiscal 2023 have mitigated some, but not all, of the inflationary pressures. Ongoing inflation may also have an impact on our customer’s purchasing decisions and order patterns. We estimate inflation will continue to affect us in the remainder of fiscal 2023, although at this time it is impracticable to quantify the impact.

Although we have no operations in or direct exposure to Russia, Belarus and Ukraine, we have experienced intermittent shortages in materials and increased costs for transportation, energy and raw materials due, in part, to the negative impact of the Russia-Ukraine military conflict on the global economy. To date, our European operations and customer base have not been materially impacted by the conflict, however, as the conflict continues or worsens, it may impact our business, financial condition or results of operations during the remainder of fiscal 2023.

As we continue to monitor the ongoing COVID-19 pandemic, our top priority remains protecting the health and safety of our employees, their families, and those in our communities. Safety guidelines and procedures are in place for on-site employees and these policies are regularly monitored and updated by our internal Emergency Response Team.

COVID-19 continues to impact our business operations and financial results. A number of our product lines have been negatively impacted due to decreased demand in our customers’ businesses around the world. Many of our markets have recovered or are recovering, but the pandemic has continued to adversely impact our customers and ultimately, our revenues. We have also experienced supply chain difficulties directly related to COVID, including vendor disruptions, border closures, shipping issues and significantly increased shipping costs; labor shortages and higher labor costs, as we have had to use staffing agencies and increase our base pay in a number of areas of the Company to fill open positions and to cover for COVID-related absences.

Overall, the impact of COVID-19 remains uncertain and ultimately depends on the continued duration and severity of the pandemic, inclusive of the introduction of new strains of the virus; government actions taken in response; vaccination rates and effectiveness; the impact of vaccination requirements; extent of protection provided by prior viral infection; and the macroeconomic environment. We will continue to evaluate the nature and extent to which COVID-19 has impacted our business, including supply chain, labor availability and attrition, consolidated results of operations, financial condition, and liquidity; we expect it to continue to impact us through at least the end of our fiscal year ending May 31, 2023.

## Executive Overview

| <i>(in thousands)</i>      | Three Months ended<br>November 30, |           |       | Six Months ended<br>November 30, |           |       |
|----------------------------|------------------------------------|-----------|-------|----------------------------------|-----------|-------|
|                            | 2022                               | 2021      | %     | 2022                             | 2021      | %     |
| <b>Consolidated</b>        |                                    |           |       |                                  |           |       |
| Revenues                   | \$230,033                          | \$130,517 | 76%   | \$362,382                        | \$258,822 | 40%   |
| <i>Core Sales Growth</i>   |                                    |           | 7%    |                                  |           | 5%    |
| <b>Food Safety</b>         |                                    |           |       |                                  |           |       |
| Revenues                   | \$161,343                          | \$67,132  | 140%  | \$225,986                        | \$129,854 | 74%   |
| <i>Core Sales Growth</i>   |                                    |           | 6%    |                                  |           | 6%    |
| <b>Animal Safety</b>       |                                    |           |       |                                  |           |       |
| Revenues                   | \$68,690                           | \$63,385  | 8%    | \$136,396                        | \$128,968 | 6%    |
| <i>Core Sales Growth</i>   |                                    |           | 7%    |                                  |           | 4%    |
| % of International Sales   | 50%                                | 41%       |       | 46%                              | 40%       |       |
| Effective Tax Rate         | n/a                                | 16.2%     |       | n/a                              | 19.5%     |       |
| Net Income (Loss)          | \$ (41,841)                        | \$ 10,828 | -486% | \$ (36,632)                      | \$ 27,905 | -231% |
| Per Diluted Share          | \$ (0.19)                          | \$ 0.10   |       | \$ (0.23)                        | \$ 0.26   |       |
| EBITDA*                    | \$ 12,639                          | \$ 18,533 | -32%  | \$ 24,059                        | \$ 45,739 | -47%  |
| Adjusted EBITDA*           | \$ 64,051                          | \$ 29,594 | 116%  | \$ 91,070                        | \$ 58,490 | 56%   |
| Adjusted Net Income*       | \$ 31,361                          | \$ 20,513 | 53%   | \$ 48,917                        | \$ 40,623 | 20%   |
| Cash (for) from Operations |                                    |           |       | \$ (32,869)                      | \$ 41,057 |       |

\* Refer to non-GAAP financial measures section in this document.

- Food Safety core sales exclude revenues from the acquisitions of Delf/Abbott Analytical (November 2021) and Thai-Neo Biotech (July 2022) and also excludes the change in currency rates.
- Food Safety revenues include \$92.7 million from the 3M FSD, which we combined with on September 1, 2022. All of the global revenue from this business is reported within the Food Safety segment.
- Animal Safety core sales exclude revenues from the acquisitions of CAPInnoVet (September 2021) and Genetic Veterinary Sciences (December 2021) and also excludes the change in currency rates.
- Our net loss was \$41.8 million, or (\$0.19) per share, in the second quarter of fiscal 2023 compared to net income of \$10.8 million, or \$0.10 per share, in the second quarter of the prior year, adversely impacted by \$39.1 million in legal, consulting and other expenses related to our combination with 3M's Food Safety business. Year to date, our net loss was \$36.6 million compared to income of \$27.9 million in the prior year, adversely impacted by \$52.9 million in legal, consulting and other expenses. Additionally, non-cash amortization and interest expense, both resulting from the 3M transaction, contributed to the net loss in the quarter and year to date periods.

International sales rose 114% in the second quarter of fiscal 2023 and also increased 60% for the year to date, each compared to the same respective periods in the prior year. Revenues from the 3M FSD drove the international sales increase. In the second quarter of fiscal 2023, the FSD revenues were comprised of 66% international sales, compared to Neogen's historical average of 40%.

Core growth, which excludes international revenues from FSD, Delf, Genetic Veterinary Sciences and Thai-Neo, and considers a neutral currency impact, was 6% for both the second quarter and year to date periods. The negative impact of currency, primarily from the stronger U.S. dollar against the pound, euro, Chinese yuan and Australian dollar for each comparative period, was \$5 million in the second quarter and \$8.9 million year to date. Revenue changes, expressed in percentages, for the three and six month periods of fiscal 2023 compared to the same period in the prior year are as follows for the legacy business at each of our international locations:

|  | Three Months Ended<br>November 30, 2022 |                        | Six Months Ended<br>November 30, 2022 |                        |
|--|---|------------------------|---------------------------------------|------------------------|
|  | Revenue<br>% Inc (Dec)                  | Revenue<br>% Inc (Dec) | Revenue<br>% Inc (Dec)                | Revenue<br>% Inc (Dec) |
|  | USD                                     | Local Currency         | USD                                   | Local Currency         |
| <i>U.K. Operations (including Neogen Italia)</i> | (8)%                                    | 9%                     | (2)%                                  | 14%                    |
| <i>Megazyme</i>                                  | (7)%                                    | 8%                     | (10)%                                 | 4%                     |
| <i>Brazil Operations</i>                         | 21%                                     | 16%                    | 17%                                   | 15%                    |
| <i>Neogen Latinoamerica</i>                      | 5%                                      | 1%                     | 11%                                   | 10%                    |
| <i>Neogen Argentina</i>                          | 21%                                     | 85%                    | 27%                                   | 82%                    |
| <i>Neogen Uruguay</i>                            | (11)%                                   | (17)%                  | (6)%                                  | (13)%                  |
| <i>Neogen Chile</i>                              | 4%                                      | 20%                    | 0%                                    | 18%                    |
| <i>Neogen China</i>                              | (9)%                                    | 1%                     | (14)%                                 | (7)%                   |
| <i>Neogen India</i>                              | 9%                                      | 20%                    | 17%                                   | 27%                    |
| <i>Neogen Canada</i>                             | 4%                                      | 12%                    | (2)%                                  | 4%                     |
| <i>Neogen Australasia</i>                        | (4)%                                    | 7%                     | (6)%                                  | 3%                     |

In local currency, combined revenues at our U.K. operations increased 9% in the second quarter and 14% year to date, each compared to the same periods in the prior year. Excluding the December 2021 acquisition of Delf (UK), sales at our U.K. operations increased 2% in local currency in the second quarter and 7% for the year to date. Sales of food quality products at Megazyme, located in Ireland, increased 8% in local currency driven by increased volume and a significant research project.

Sales in Brazil increased 16% in local currency in this year's second quarter and 15% year to date, driven by strong sales of the company's mycotoxin test kits, including tests to detect aflatoxin in corn and deoxynivalenol (DON) in wheat, as well as increases in veterinary instruments, insect and rodent controls products, and genomics testing. Neogen Latinoamerica sales rose 1% in local currency for the second quarter and 10% year to date, with increases across the company's diagnostic testing portfolio and culture media partially offset by lower cleaner & disinfectant sales in the second quarter, due to order timing from a large distributor. Sales at Neogen China increased 1% in local currency for the three month period but declined 7% for the year to date. A significant order of cleaners and disinfectants in the second quarter, in advance of Chinese New Year, offset declines in other product lines as the country's COVID-19 related lockdowns continued to negatively impact sales for the respective periods. Revenues at Neogen's Australasia operations increased 7% and 3% for the three and six month periods as bovine genomic service increases were partially offset by a large non-recurring culture media order in the prior year.

Service revenue, which includes genomics testing and other laboratory services, was \$26.7 million in the second quarter of fiscal 2023, an increase of 9% over the prior year second quarter revenues of \$24.4 million. Excluding the contribution from the December 2021 acquisition of Genetic Veterinary Sciences and negative currency impact, global genomics service revenue increased 8% in the second quarter. For the six month period, service revenue was \$52.3 million, an increase of 7% over prior year revenues of \$48.7 million. Strong sales of our Neogen Analytics software as a service (SaaS) product and growth in the beef markets in the U.S. and Brazil for genomics testing was partially offset by COVID-related shutdowns in China, lower genomics sales to the porcine market, as a significant customer shifted to a lower-cost competitor, and a difficult comparison due to a large domestic research project recorded in the prior year which did not repeat.

## Revenues

| <i>(in thousands)</i>                          | Three Months Ended<br>November 30, |                  | Increase/<br>(Decrease) | %           |
|--|------------------------------------|------------------|-------------------------|-------------|
|  | 2022                               | 2021             |                         |             |
| <b>Food Safety</b>                             |                                    |                  |                         |             |
| Natural Toxins, Allergens & Drug Residues      | \$ 22,251                          | \$ 21,028        | \$ 1,223                | 6%          |
| Bacterial & General Sanitation                 | 41,121                             | 12,252           | 28,869                  | 236%        |
| Culture Media & Other                          | 82,084                             | 19,935           | 62,149                  | 312%        |
| Rodent Control, Insect Control & Disinfectants | 10,377                             | 8,232            | 2,145                   | 26%         |
| Genomics Services                              | 5,510                              | 5,685            | (175)                   | (3)%        |
|  | <u>161,343</u>                     | <u>67,132</u>    | <u>94,211</u>           | <u>140%</u> |
| <b>Animal Safety</b>                           |                                    |                  |                         |             |
| Life Sciences                                  | \$ 1,427                           | \$ 1,309         | \$ 118                  | 9%          |
| Veterinary Instruments & Disposables           | 16,433                             | 15,572           | 861                     | 6%          |
| Animal Care & Other                            | 10,569                             | 10,849           | (280)                   | (3)%        |
| Rodent Control, Insect Control & Disinfectants | 20,665                             | 18,269           | 2,396                   | 13%         |
| Genomics Services                              | 19,596                             | 17,386           | 2,210                   | 13%         |
|  | <u>68,690</u>                      | <u>63,385</u>    | <u>5,305</u>            | <u>8%</u>   |
| <b>Total Revenues</b>                          | <u>\$230,033</u>                   | <u>\$130,517</u> | <u>\$ 99,516</u>        | <u>76%</u>  |

| <i>(in thousands)</i>                          | Six Months Ended<br>November 30, |                  | Increase/<br>(Decrease) | %          |
|--|----------------------------------|------------------|-------------------------|------------|
|  | 2022                             | 2021             |                         |            |
| <b>Food Safety</b>                             |                                  |                  |                         |            |
| Natural Toxins, Allergens & Drug Residues      | \$ 42,038                        | \$ 41,432        | \$ 606                  | 1%         |
| Bacterial & General Sanitation                 | 51,849                           | 23,421           | 28,428                  | 121%       |
| Culture Media & Other                          | 101,338                          | 37,981           | 63,357                  | 167%       |
| Rodent Control, Insect Control & Disinfectants | 19,952                           | 15,882           | 4,070                   | 26%        |
| Genomics Services                              | 10,809                           | 11,138           | (329)                   | (3)%       |
|  | <u>225,986</u>                   | <u>129,854</u>   | <u>96,132</u>           | <u>74%</u> |
| <b>Animal Safety</b>                           |                                  |                  |                         |            |
| Life Sciences                                  | \$ 3,016                         | \$ 2,672         | \$ 344                  | 13%        |
| Veterinary Instruments & Disposables           | 31,106                           | 30,909           | 197                     | 1%         |
| Animal Care & Other                            | 21,095                           | 20,068           | 1,027                   | 5%         |
| Rodent Control, Insect Control & Disinfectants | 42,879                           | 40,418           | 2,461                   | 6%         |
| Genomics Services                              | 38,300                           | 34,901           | 3,399                   | 10%        |
|  | <u>136,396</u>                   | <u>128,968</u>   | <u>7,428</u>            | <u>6%</u>  |
| <b>Total Revenues</b>                          | <u>\$362,382</u>                 | <u>\$258,822</u> | <u>\$103,560</u>        | <u>40%</u> |

## **Food Safety**

3M's former Food Safety business ("FSD"), which combined with Neogen on September 1, 2022, consists of five major product lines: indicator organisms (Petrifilm), general sanitation, sample handling, pathogen detection test kits and allergen test kits. All of the global FSD business is currently being reported in Neogen's Food Safety segment.

**Natural Toxins, Allergens & Drug Residues** – Sales in this category increased 6% and 1% for the three and six month periods ended November 30, 2022, compared to the same period in the prior year. Excluding sales of the acquired allergen product line from 3M, sales in this category decreased 2% in the second quarter and 3% for the year to date, primarily due to a significant decline in sales of drug residue test kits to international dairy markets. Natural toxin detection kits rose 5% for the quarter and were up 4% for the year to date. The increases for both periods were due to strength in aflatoxin test kits resulting from outbreaks in domestic and international grain harvests, and increases in histamine test kits. Sales of our legacy allergen test kits were flat in the second quarter and decreased 5% for the six month period. This decline across the company's allergen testing portfolio was caused by softening market conditions and supply disruptions for certain products.

**Bacterial & General Sanitation** – Revenues in this category increased 236% and 121% for the second quarter and for the year to date, each compared to the same periods in the prior year. Excluding the contribution of the Biotrace line of general sanitation products and the pathogen test kit product line, both acquired from 3M, organic sales in this category were flat in the second quarter and declined 2% for the six months, each compared to the same period in the prior year. In the second quarter, an increase in sales of filters and ampoule media to beverage manufacturers and a 5% increase in sales of our AccuPoint line of general sanitation products were offset by lower sales of Soleris® equipment and consumables as worsening global economic conditions caused customers to delay capital purchases and reduce sampling volumes.

**Culture Media & Other** – Sales in this category increased 312% in the quarter ended November 30, 2022 compared to the second quarter in the prior year; for the six month period, sales increased 167%. Excluding sales of the Petrifilm indicator organism and sampling handling product lines acquired from 3M, sales were flat in the second quarter and increased 3% for the year to date. Within this category, sales of our Neogen Analytics software as a service platform increased significantly, with approximately 175 sites now on contract. Additionally, an 11% increase in sales of culture media products in the second quarter, primarily due to a large sale to a vaccine manufacturer, was offset by a decline in food quality test kits, which was negatively impacted by currency.

**Rodent Control, Insect Control & Disinfectants** – Revenues in this category increased 26% for both the three and six month periods; excluding the revenue contribution from the Delf acquisition in this category, the overall increase was 11% in the second quarter and 10% for the year to date. The increase in the second quarter was due to a large insect control order to a government agency in Brazil and a significant order of cleaners and disinfectants to China in advance of Chinese New Year.

**Genomics Services** – Sales of genomics services sold through our international Food Safety operations decreased 3% for both the three and six month periods ended November 30, 2022. For each comparative period, unfavorable currency comparisons in the U.K. and COVID-related lab closures in China offset increased beef business in Brazil.

## **Animal Safety**

**Life Sciences** – Sales in this category increased 9% in the second quarter compared to the same period in the prior year; for the year to date, the increase in this product line was 13%. The increase for both comparative periods was due to higher demand from customers purchasing substrates and reagents used in clinical diagnostic test kits, and increased demand from forensic toxicology lab customers due to their higher testing volumes.

**Veterinary Instruments & Disposables** – Revenues in this category increased 6% and 1% for the three and six month periods ended November 30, 2022, respectively. For the second quarter, disposable product sales increased significantly, as new products were added by a large retail customer. Additionally, sales of veterinary instruments increased 4% off a strong prior year comparison; sales of these products were 35% higher than sales in the second quarter of fiscal 2021. For the year to date period, veterinary instrument sales were up 1%, again due to a difficult prior year comparison.

**Animal Care & Other** – Sales of these products decreased 3% in the second quarter; year to date sales increased 5%. Excluding the contribution of parasiticides from the September 2021 acquisition of CAPInnoVet, revenues increased 2% for the six month period. Within this category, sales of animal care products were flat in the second quarter, as increases in parasiticides and our Botulism B vaccine for horses were offset by declines in vitamin injectables and wound care products.

**Rodent Control, Insect Control & Disinfectants** – Revenues increased 13% and 6% for the three and six month periods ended November 30, 2022, each compared to the same period in the prior year. In the second quarter, sales of cleaners and disinfectants increased 26%, with new business earned in the animal protein market and strong sales of dairy hygiene products. Insect control products rose 13% in the quarter and rodenticide sales increased 6%. For the year to date, increases in cleaners and disinfectants and insect control product lines were partially offset by a decline in sales of rodent control products in the first quarter of fiscal 2023.

**Genomics Services** – Sales in this category increased 13% and 10% in the second quarter and the year to date periods, each compared to the prior year; excluding the contribution from Genetic Veterinary Sciences, revenues increased 4% in the second quarter and 1% for the year to date. For both periods, domestic increases in the beef market were partially offset by unfavorable currency comparisons in Australia, lower sample volumes from a large customer in the porcine market and a difficult prior year comparison due to a large research project which did not recur.

### **Gross Margin**

Gross margin, expressed as a percentage of sales, was 48.9% in the second quarter of fiscal 2023 compared to 46.4% in the same quarter a year ago. The increase was primarily due to the incremental revenues from the FSD merger, which generated gross margin higher than the legacy company average margin. The legacy Neogen Food Safety business recorded a gross margin improvement of 280 basis points compared to the same quarter a year ago, while Animal Safety gross margins increased 140 basis points, each due primarily to pricing actions taken within the past 12 months. Within each segment, increased raw material costs continued to pressure gross margins in certain product lines; however, freight in costs dropped significantly during the comparative period, although they remained higher than pre-pandemic levels. For the year to date, gross margin was 48.2% compared to 46.6% in the prior year, primarily the result of the higher gross margins from the FSD product lines, and pricing actions taken in the legacy Neogen Food and Animal Safety product lines.

### **Operating Expenses**

Operating expenses were \$120.2 million in the second quarter of fiscal 2023, compared to \$48.1 million in the same quarter of the prior year. Legal, consulting and other professional fees and expenses totaling \$39.1 million were incurred in the second quarter of the current fiscal year related to our combination with the 3M FSD, which closed on September 1, 2022. In the prior fiscal year second quarter, \$9.3 million in deal costs relating to this transaction were incurred. In addition to the deal costs incurred in the current quarter, the Company recorded \$20.3 million in amortization expenses relating to the intangible assets acquired in the merger, and \$16.8 million in compensation and related expenses for the conveyed employees. Excluding costs related to the transaction and the absorbed business, run rate operating expenses for the legacy business for the second quarter were \$44.4 million, an increase of \$5.6 million compared to \$38.8 million in the prior year. Operating expenses for businesses acquired in the past year, excluding the FSD business, totaled \$1.5 million and represented 27% of the increase in operating expenses for the second quarter of fiscal 2023.

For the six month period ended November 30, 2022, operating expenses of \$176.4 million included \$52.9 million in deal costs relating to the combination with the 3M FSD, \$20.3 million in amortization of intangible assets acquired in the FSD merger, and \$16.3 million in compensation and related operating expenses for the conveyed FSD employees. Run rate operating expenses for the legacy operating business were \$86.9 million, an increase of \$9.8 million, or 13% over the same period in the prior year, after adjusting for \$9.3 million in deal costs incurred. Operating expenses for businesses acquired in the past year, excluding the FSD business, totaled \$3.6 million and represented 37% of the increase in operating expenses for the first half of fiscal 2023.

Sales and marketing expenses were \$36.3 million in the second quarter of fiscal 2023, compared to \$21.2 million in last year's second quarter. The increase in expense was due primarily to \$12.9 million in compensation and related expenses for the conveying FSD sales and marketing team, effective September 1, 2022. Included in those expenses were amounts for transition services provided by 3M for invoicing and distribution. These costs will be provided under contract for a period of up to 18 months. The remainder of the increase for the quarter was due primarily to higher personnel related spending in the legacy business, the result of headcount additions and compensation increases. In addition, travel, trade shows and other customer facing activities have continued to increase with the easing of COVID-19 restrictions. For the year to date, sales and marketing expenses were \$59.7 million, an increase of \$18.0 million over the same period last year; the increase was driven by \$12.9 million in absorbed expenses from personnel conveying in the FSD transaction, and increased travel, trade shows and other customer facing activities. Sales and marketing expenses from other acquired businesses were \$600,000 and \$1.5 million for the three and six month periods, respectively.

General and administrative expenses were \$77.0 million in the second quarter of fiscal 2023, and included \$39.1 million in legal, consulting and other professional fees and expenses and \$20.3 million in amortization for intangible assets acquired in our combination with the 3M FSD, which closed on September 1, 2022. After adjusting for these deal-related expenses, and an additional \$1.4 million in incremental expenses incurred in absorbing the business into Neogen, second quarter run rate general and administrative expenses were \$16.2 million, an increase of \$2.9 million, or 22%, compared to the same period a year ago. The increase was primarily the result of additional personnel hired to accommodate the increased size and complexity of the organization, compensation increases across the organization, including at the senior leadership level, the issuance of share based compensation grants, license fees and other information technology infrastructure investments and \$800,000 in incremental operating expenses from our other recent acquisitions, including amortization of intangible assets acquired. For the year to date, after adjusting for the \$52.9 million in deal costs resulting from the combination with the 3M FSD and \$20.3 million in amortization of intangibles acquired in the FSD merger, run rate general and administrative expenses were \$31.7 million, an increase of \$5.0 million compared to the same period a year ago. General and administrative expenses from recent acquisitions, excluding the 3M FSD combination, were \$1.3 million of the increase.

Research and development expense was \$6.8 million in the second quarter of fiscal 2023, an increase of \$2.5 million, or 58%, compared to the same period in the prior year. The increase was primarily the result of \$2.0 million of cost associated with the conveying FSD employees, and outside testing and validation costs for new commercial products under development in the Animal Safety segment. For the year to date, research and development expenses were \$11.7 million compared to \$8.7 million in the same period last year, with the increase due primarily to the \$2.0 million in conveying FSD personnel and testing and validation for new commercial products in the Animal Safety segment.

### Operating Income (Loss)

The operating loss was \$7.7 million in the second quarter of fiscal 2023, compared to operating income of \$12.5 million in the same period of the prior year. For the year to date period, the operating loss was \$1.6 million compared to operating income of \$34.2 million in the prior year. Expressed as a percentage of sales, the operating loss was 3.3% for the second quarter and 0.4% for the year to date, compared to income of 9.6% and 13.2%, respectively, for the same periods in the prior year. Adjusting for the \$39.1 million in transaction costs resulting from the 3M transaction in the second quarter, and \$52.9 million of these costs for the year to date period, operating income was \$31.4 million, or 13.7% in the second quarter and \$51.3 million, or 14.2% for the year to date. After adjusting out \$9.3 million in deal costs incurred in both the second quarter and year to date periods in fiscal 2022, prior year operating income for those periods was \$21.8 million, or 16.7%, and \$43.5 million, or 16.8%. The primary reason for the lower operating income percentage in each comparative period was the amortization of the intangible assets acquired in conjunction with the FSD merger.

### Other Income

| <i>(dollars in thousands)</i> | Three Months Ended<br>November 30, |               | Six Months Ended<br>November 30, |               |
|-------------------------------|------------------------------------|---------------|----------------------------------|---------------|
|                               | 2022                               | 2021          | 2022                             | 2021          |
| Interest income               | \$ 553                             | \$ 246        | \$ 1,523                         | \$ 455        |
| Interest expense              | (20,545)                           | (22)          | (20,547)                         | (28)          |
| Foreign currency transactions | (6,108)                            | 167           | (6,530)                          | 15            |
| LGS contingent consideration  | —                                  | (135)         | —                                | (135)         |
| Other                         | (335)                              | 203           | (284)                            | 134           |
| <b>Total Other Income</b>     | <u>\$ (26,435)</u>                 | <u>\$ 459</u> | <u>\$ (25,838)</u>               | <u>\$ 441</u> |

The net interest expense incurred for the three and six month periods ended November 30, 2022 was the result of the \$1 billion in debt incurred to fund the 3M FSD combination. In fiscal 2022, the Company had no debt outstanding, and interest income relates to earnings on our marketable securities portfolio. Other income or expense resulting from foreign currency transactions was the result of changes in the value of foreign currencies relative to the U.S. dollar in countries in which we operate; the increase in expense for the second quarter and year to date periods in fiscal 2023 was due to U.S. dollar denominated loans incurred in our international subsidiaries as the result of the FSD transaction on September 1, 2022.

## Income Tax Expense

Income tax expense in the second quarter of fiscal 2023 was \$7.8 million, compared to \$2.1 million in the same period of the prior year; for the year to date, income tax expense was \$9.2 million, compared to \$6.8 million in fiscal 2022. Income tax expense in the second quarter of fiscal 2023 includes approximately \$6.7 million of expense related to non-deductible transaction costs associated with the 3M FSD transaction and \$625,000 of expense due to an increase in our deferred tax liability rate. In each comparative period, there was minimal benefit from the exercise of stock options.

The total amounts of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of November 30, 2022 and May 31, 2022 are \$1.4 million and \$808,000, respectively. The increase in unrecognized tax benefits is primarily associated with the combined 3M FSD, including positions for transfer pricing and research and development credits.

## Net Income

The Company incurred a net loss of \$41.8 million in the second quarter of fiscal 2023, compared to net income of \$10.8 million in the same period in the prior year. The decline in earnings for the quarter was primarily the result of \$39.1 million in legal, consulting, professional fees and other expenses from the 3M FSD transaction, \$20.0 million interest expense from the \$1 billion in debt incurred in the merger, and \$20.3 million in incremental amortization expenses associated with the intangible assets acquired in the merger. For the year to date, the Company incurred a net loss of \$36.6 million, compared to net earnings of \$27.9 million in the prior year. Three and six month net income in fiscal 2023 was also negatively impacted by a higher effective tax rate.

## Non-GAAP Financial Measures

This report includes certain financial information for the Company that differs from what is reported in accordance with GAAP. These non-GAAP financial measures consist of core revenue growth, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted Net Income and Adjusted Earnings per Share. These non-GAAP financial measures are included in this report because management believes that they provide investors with additional useful information to measure the performance of the Company, and because these non-GAAP financial measures are frequently used by securities analysts, investors and other interested parties as common performance measures to compare results or estimate valuations across companies in industries the Company operates in.

### *Core revenue growth*

We define core revenue growth as net sales for the period excluding the impacts of foreign currency translation rates and the first year impacts of acquisitions and disposals, where applicable. We present core revenue growth because it allows for a meaningful comparison of results across periods without the volatility caused by foreign currency gains or losses, or the incomparability that would be caused by the impact of an acquisition or disposal.

### *EBITDA*

We define EBITDA as net income before interest, income taxes, and depreciation and amortization. We present EBITDA as a performance measure because it may allow for a comparison of results across periods and results across companies in the industries in which Neogen operates on a consistent basis, by removing the effects on operating performance of (a) capital structure (such as the varying levels of interest expense and interest income), (b) asset base and capital investment cycle (such as depreciation and amortization) and (c) items largely outside the control of management (such as income taxes). EBITDA also forms the basis for the measurement of Adjusted EBITDA (discussed below).

### *Adjusted EBITDA*

We define Adjusted EBITDA as EBITDA, adjusted for share-based compensation and certain transaction fees and expenses. We present EBITDA because it provides an understanding of underlying business performance by excluding the following:

- *Share-based compensation.* We believe it is useful to exclude share-based compensation to better understand the long-term performance of our core business and to facilitate comparison with the results of peer companies.
- *Other income/(expense).* We exclude items in other income/(expense), which consists of primarily foreign currency transactions and, to a lesser extent, one-time amounts unrelated to our core business, to better understand the long-term performance of our core business.
- *Certain transaction fees and expenses.* We exclude fees and expenses related to certain transactions because they are outside of Neogen's underlying core performance. These fees and expenses include deal related professional and legal fees and foreign currency transactions.
- *Other one-time adjustments.* We exclude one-time adjustments recorded within operating income to better understand the long-term performance of our core business.

#### *Adjusted EBITDA margin*

We define Adjusted EBITDA margin as Adjusted EBITDA as a percentage of total revenues. We present Adjusted EBITDA margin as a performance measure to analyze the level of Adjusted EBITDA generated from total revenue.

#### *Adjusted Net Income*

We define Adjusted Net Income as Net Income, adjusted for share-based compensation, other income/(expense), certain transaction fees and expenses, and other one-time adjustments, all of which are tax effected.

#### *Adjusted Earnings per Share*

We define Adjusted Earnings per Share as Adjusted Net Income divided by diluted average shares outstanding.

These non-GAAP financial measures are presented for informational purposes only. EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted Net Income and Adjusted Earnings per Share are not recognized terms under GAAP and should not be considered in isolation or as a substitute for, or superior to, net income (loss), operating income, cash flow from operating activities or other measures of financial performance. This information does not purport to represent the results Neogen would have achieved had any of the transactions for which an adjustment is made occurred at the beginning of the periods presented or as of the dates indicated. This information is inherently subject to risks and uncertainties. It may not give an accurate or complete picture of Neogen's financial condition or results of operations for the periods presented and should not be relied upon when making an investment decision.

The use of the terms EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted Net Income and Adjusted Earnings per Share may not be comparable to similarly titled measures used by other companies or persons due to potential differences in the method of calculation.

These non-GAAP financial measures have limitations as analytical tools. For example, for EBITDA-based metrics:

- they do not reflect changes in, or cash requirements for, Neogen's working capital needs;
- they do not reflect Neogen's tax expense or the cash requirements to pay taxes;
- they do not reflect the historical cash expenditures or future requirements for capital expenditures or contractual commitments;
- they do not reflect any cash requirements for future replacements of assets that are being depreciated and amortized; and
- they may be calculated differently from other companies in Neogen's industries limiting their usefulness as comparative measures.

You should compensate for these limitations by relying primarily on the financial statements of Neogen and using these non-GAAP financial measures only as a supplement to evaluate Neogen's performance.

For each of these non-GAAP financial measures below, we are providing a reconciliation of the differences between the non-GAAP measure and the most directly comparable GAAP measure.

Reconciliation between net income and EBITDA and Adjusted EBITDA and between net income margin % and Adjusted EBITDA margin % are as follows:

| <i>(dollars in thousands)</i>                          | Three Months Ended November 30 |                  | Six Months Ended November 30 |                  |
|--|--------------------------------|------------------|------------------------------|------------------|
|  | 2022                           | 2021             | 2022                         | 2021             |
| Net Income (Loss)                                      | \$ (41,841)                    | \$ 10,828        | \$ (36,632)                  | \$ 27,905        |
| <i>Net income margin %</i>                             | <i>-18.2%</i>                  | <i>8.3%</i>      | <i>-10.1%</i>                | <i>10.8%</i>     |
| Provision for income taxes                             | 7,750                          | 2,100            | 9,200                        | 6,750            |
| Depreciation and amortization                          | 26,738                         | 5,829            | 32,467                       | 11,511           |
| Interest income, net                                   | 19,992                         | (224)            | 19,024                       | (427)            |
| <b>EBITDA</b>  | <b>\$ 12,639</b>               | <b>\$ 18,533</b> | <b>\$ 24,059</b>             | <b>\$ 45,739</b> |
| Share-based compensation                               | 2,632                          | 1,748            | 4,499                        | 3,438            |
| FX transaction loss on loan revaluation <sup>(1)</sup> | 5,789                          | —                | 5,789                        | —                |
| Certain transaction fees and expenses                  | 39,132                         | 9,313            | 52,864                       | 9,313            |
| Inventory step-up charge                               | 3,859                          | —                | 3,859                        | —                |
| <b>Adjusted EBITDA</b>                                 | <b>\$ 64,051</b>               | <b>\$ 29,594</b> | <b>\$ 91,070</b>             | <b>\$ 58,490</b> |
| <i>Adjusted EBITDA margin %</i>                        | <i>27.8%</i>                   | <i>22.7%</i>     | <i>25.1%</i>                 | <i>22.6%</i>     |

- (1) Net foreign currency transaction loss associated with the revaluation of non-functional currency intercompany loans established in connection with 3M Food Safety transaction.

Adjusted EBITDA increased \$35.3 million and \$33.6 million for the three and six month periods, respectively, due to earnings generated from the 3M FSD business, which merged with Neogen on September 1, 2022. Expressed as a percentage of revenue, adjusted EBITDA was 28.1% for the second quarter of fiscal 2023 compared to 23.1% for the same period last year, and was 25.4% for the six month period. The 3M FSD business was not part of the Company in the prior six month period; thus, the adjusted EBITDA amount for that period is not directly comparable.

Reconciliation between net income and Adjusted Net Income and earnings per share and Adjusted Earnings per Share are as follows:

| <i>(in thousands, except for percentages)</i>            | Three months ended November 30 |                  | Six Months Ended November 30 |                  |
|--|--------------------------------|------------------|------------------------------|------------------|
|  | 2022                           | 2021             | 2022                         | 2021             |
| Net Income (Loss)  | \$ (41,841)                    | \$ 10,828        | \$ (36,632)                  | \$ 27,905        |
| Earnings per share                                       | \$ (0.19)                      | \$ 0.10          | \$ (0.23)                    | \$ 0.26          |
| Amortization of acquisition-related intangibles          | 22,116                         | 1,770            | 23,957                       | 3,455            |
| Share-based compensation                                 | 2,632                          | 1,748            | 4,499                        | 3,438            |
| FX transaction loss on loan revaluation <sup>(1)</sup>   | 5,789                          | —                | 5,789                        | —                |
| Certain transaction fees and expenses                    | 39,132                         | 9,313            | 52,864                       | 9,313            |
| Inventory step-up charge                                 | 3,859                          | —                | 3,859                        | —                |
| Other adjustments <sup>(2)</sup>                         | 4,350                          | —                | 4,350                        | —                |
| Estimated tax effect of above adjustments <sup>(3)</sup> | (4,676)                        | (3,146)          | (9,769)                      | (3,488)          |
| <b>Adjusted Net Income</b>                               | <b>\$ 31,361</b>               | <b>\$ 20,513</b> | <b>\$ 48,917</b>             | <b>\$ 40,623</b> |
| Adjusted Earnings per Share                              | \$ 0.15                        | \$ 0.19          | \$ 0.30                      | \$ 0.38          |

- (1) Net foreign currency transaction loss associated with the revaluation of non-functional currency intercompany loans established in connection with the 3M FSD transaction.
- (2) Income tax expense associated with non-deductible transaction costs that were recognized as expense in prior periods.
- (3) Tax effect of adjustments is calculated using projected effective tax rates for each applicable item.

Adjusted Net Income increased \$10.8 million and \$8.3 million for the three and six month periods, respectively, due to the higher Adjusted EBITDA partially offset by interest expense.

### Financial Condition and Liquidity

The overall cash, cash equivalents and marketable securities position of Neogen was \$276.3 million at November 30, 2022, compared to \$381.1 million at May 31, 2022. Cash flow from operating activities was negative \$32.9 million during the first six months of fiscal 2023, the result of 3M FSD deal-related expenses, and inventory increases. Net cash proceeds of \$920,000 were realized from the exercise of stock options and issuance of shares under our Employee Stock Purchase Plan during the first six months of fiscal 2023. The Company paid down \$60 million in principal on the term loan during the second quarter. We spent \$25.1 million for property, equipment and other non-current assets in the first six months of the fiscal year, with spending of \$3.4 million on our ERP implementation of SAP, \$2.4 million on construction of our Lansing manufacturing facility, and approximately \$400,000 in IT for laptops and software for the conveying employees related to the FSD business.

Net accounts receivable balances were \$142.7 million at November 30, 2022 compared to \$99.7 million at May 31, 2022. Days' sales outstanding, a measurement of the time it takes to collect receivables, were 54 days for the legacy Neogen business at November 30, 2022, compared to 62 days at May 31, 2022 and 63 days at November 30, 2021. As part of transition services agreements between the Company and 3M, related to the merger of the Food Safety business, 3M is invoicing our customers for products that 3M is manufacturing and shipping on our behalf. At November 30, 2022, there are \$46.3 million in customer receivables billed by 3M on our behalf. The Company is working collaboratively with 3M on managing the credit risk associated with the former FSD customers during the period when 3M is providing transition invoicing and distribution services to the Company. To date, we have not experienced an appreciable increase in bad debt write offs related to the ongoing COVID-19 pandemic.

Net inventory was \$136.1 million at November 30, 2022, an increase of \$13.8 million, compared to a May 31, 2022 balance of \$122.3 million. The higher inventory levels are primarily the result of continued inflationary pressures on raw materials at our legacy businesses and raw material inventories purchased to support the combined 3M FSD. Supply chain issues moderated somewhat during the second quarter of fiscal 2023; we continue to monitor our key raw materials to ensure adequate stock on hand.

### Debt and Liquidity

On September 1, 2022, Neogen, 3M, and Garden SpinCo, a newly formed subsidiary of 3M created to carve out 3M's Food Safety business, closed on the transaction which had previously been announced in December 2021, combining 3M's Food Safety business with Neogen in a Reverse Morris Trust transaction.

On June 30, 2022, Garden SpinCo entered into a credit agreement consisting of a five-year senior secured term loan facility in the amount of \$650 million and a five-year senior secured revolving facility in the amount of \$150 million (collectively, the “Credit Facilities”), which became available in connection with the merger and related transactions. The loan facility was funded to Garden SpinCo on August 31, 2022, and upon the effectiveness of the merger on September 1, 2022, became Neogen’s obligation. Financial covenants include maintaining specified levels of funded debt to EBITDA, and debt service coverage. Pricing for the term loan is term SOFR plus 235 basis points. The Credit Facilities, together with the Notes below, represent the financing incurred in connection with the merger of the 3M FSD with Neogen. On September 30, 2022, the Company paid down \$60 million in principal on the term loan.

In July 2022 Garden SpinCo closed on an offering of \$350 million aggregate principal amount of 8.625% senior notes due 2030 (the “Notes”) in a private placement at par. The Notes were initially issued by Garden SpinCo to 3M and were transferred and delivered by 3M to the selling securityholder in the offering, in satisfaction of certain of 3M’s existing debt. Garden SpinCo did not receive any proceeds from the sale of the Notes by the selling securityholder. Prior to the distribution of the shares of Garden SpinCo’s common stock to 3M stockholders, the Notes were guaranteed on a senior unsecured basis by 3M. Upon consummation of such distribution, 3M was released from all obligations under its guarantee. Upon the effectiveness of the merger on September 1, 2022, the Notes became guaranteed on a senior unsecured basis by Neogen and certain wholly-owned domestic subsidiaries of Neogen.

In addition to the 3M transaction described above, our future cash generation and borrowing capacity may not be sufficient to meet cash requirements to fund the operating business, repay debt obligations, construct new manufacturing facilities, commercialize products currently under development or execute our future plans to acquire additional businesses, technology and products that fit within our strategic plan. Accordingly, we may be required, or may choose, to issue additional equity securities or enter into other financing arrangements for a portion of our future capital needs; there is no guarantee that we will be successful in issuing additional equity securities or entering into other financing arrangements.

## 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 Thai baht, Japanese yen, South Korean won, Indian rupee, Canadian dollar, Guatemalan quetzal, 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. We use derivative financial instruments to help manage the economic impact of fluctuations in certain currency exchange rates. These contracts are adjusted to fair value through earnings.

Neogen has assets, liabilities and operations outside of the U.S., located in Scotland, England, Ireland, Italy, Switzerland, Poland, Brazil, Mexico, Guatemala, Argentina, Uruguay, Chile, China, Thailand, Japan, Korea, India, Canada and Australia where the functional currency is the British pound sterling, euro, Brazilian real, Mexican peso, Guatemalan quetzal, Argentine peso, Uruguayan peso, Chilean peso, Chinese yuan, Thai baht, Japanese yen, South Korean won, Indian rupee, Canadian dollar and Australian dollar, respectively. Our investments in foreign subsidiaries are considered long-term. As discussed in ITEM 1A. RISK FACTORS of our Annual Report on Form 10-K for the year ended May 31, 2022, our financial condition and results of operations could be adversely affected by currency fluctuations.

The following table sets forth the potential loss in future earnings or fair values, resulting from hypothetical changes in relevant market rates or prices:

| <u>Risk Category</u><br><i>(dollars in thousands)</i> | <u>Hypothetical Change</u>     | <u>November 30, 2022</u> | <u>Impact</u> |
|---|--------------------------------|--------------------------|---------------|
| Foreign Currency—Revenue                              | 10% Decrease in exchange rates | \$ 46,248                | Earnings      |
| Foreign Currency—Hedges                               | 10% Decrease in exchange rates | 15,021                   | Fair Value    |
| Interest Income                                       | 10% Decrease in interest rates | 127                      | Earnings      |
| Interest Expense                                      | 10% Increase in interest rates | 2,068                    | Earnings      |

## 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 November 30, 2022 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 November 30, 2022 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings**

For a description of our material pending legal proceedings, see Note 12 “Commitments and Contingencies” of the Notes to interim consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated by reference.

### **Item 1A. Risk Factors**

This Form 10-Q should be read in conjunction with Part I Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended May 31, 2022. There have been no material changes in the risk factors described in our Annual Report on Form 10-K for the year ended May 31, 2022.

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

## Item 6. Exhibits

### (a) Exhibit Index

- 2.1 [Agreement and Plan of Merger, dated as of December 13, 2021, by and among 3M Company, Garden SpinCo Corporation, Neogen Corporation and Nova RMT Sub, Inc. \(incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by Neogen Corporation on December 15, 2021\).](#)
- 2.2 [Separation and Distribution Agreement, dated as of December 13, 2021, by and among 3M Company, Garden SpinCo Corporation and Neogen Corporation \(incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K filed by Neogen Corporation on December 15, 2021\).](#)
- 2.3 [Amendment No. 1 to the Separation and Distribution Agreement, dated as of August 31, 2022, by and among 3M Company, Garden SpinCo Corporation and Neogen Corporation \(incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K filed by Neogen Corporation on September 1, 2022\).](#)
- 2.4 [Asset Purchase Agreement, dated as of December 13, 2021, by and between 3M Company and Neogen Corporation \(incorporated by reference to Exhibit 2.3 to the Current Report on Form 8-K filed by Neogen Corporation on December 15, 2021\).](#)
- 3.1 [Certificate of Amendment to Articles of Incorporation filed on October 11, 2010 \(incorporated by reference to Exhibit 3.2 filed with the Registrant's Annual Report on Form 10-K filed on July 30, 2020\).](#)
- 3.2 [Restated Articles of Incorporation, as amended on November 23, 2011 \(incorporated by reference to Exhibit 3.1 filed with the Registrant's Quarterly Report on Form 10-Q filed December 30, 2011\).](#)
- 3.3 [Certificate of Amendment to Articles of Incorporation filed on November 20, 2018 \(incorporated by reference to Exhibit 3 filed with the Registrant's Quarterly Report on Form 10-Q filed December 28, 2018\).](#)
- 3.4 [Certificate of Amendment to Articles of Incorporation of Neogen Corporation filed on March 14, 2022 \(incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by Neogen Corporation on March 17, 2022\).](#)
- 3.5 [Certificate of Amendment to Articles of Incorporation of Neogen Corporation filed on September 1, 2022 \(incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by Neogen Corporation on September 1, 2022\).](#)
- 3.6 [By-Laws, as amended \(incorporated by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q filed April 14, 2000\).](#)
- 3.7 [Amendment to the By-Laws, as amended \(incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed by Neogen Corporation on September 1, 2022\).](#)
- 4.1 [Senior Notes Indenture for 8.625% Senior Notes due 2030, dated as of July 20, 2022, among Garden SpinCo Corporation, as issuer, the guarantors party thereto from time to time, and U.S. Bank Trust Company, National Association, as trustee \(incorporated by reference to Exhibit 10.10 to Neogen's Registration Statement on Form S-4 \(Registration No. 333-263667\), filed with the SEC on July 27, 2022\).](#)
- 4.2 [Supplemental Indenture, dated as of September 1, 2022, among Neogen Food Safety Corporation \(f/k/a Garden SpinCo Corporation\), as issuer, U.S. Bank Trust Company, National Association, as trustee, Neogen Corporation and certain of its subsidiaries \(incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed by Neogen Corporation on September 1, 2022\).](#)
- 10.1 [Tax Matters Agreement, dated as of September 1, 2022, by and among 3M Company, Garden SpinCo Corporation and Neogen Corporation \(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Neogen Corporation on September 1, 2022\).](#)
- 10.2 [Intellectual Property Cross-License Agreement, dated as of September 1, 2022, by and between 3M Company and Garden SpinCo Corporation \(incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by Neogen Corporation on September 1, 2022\).](#)
- 10.3 [Trademark Transitional License Agreement, dated as of September 1, 2022, by and among 3M Company, 3M Innovative Properties Company, Neogen Corporation and Garden SpinCo Corporation \(incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed by Neogen Corporation on September 1, 2022\).](#)
- 10.4 [Transition Services Agreement, dated as of September 1, 2022, by and among 3M Company, Garden SpinCo Corporation and Neogen Corporation \(incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed by Neogen Corporation on September 1, 2022\).](#)
- 10.5 [Transition Distribution Services Agreement, dated as of September 1, 2022, by and among 3M Company, Garden SpinCo Corporation and Neogen Corporation \(incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed by Neogen Corporation on September 1, 2022\).](#)
- 10.6 [Transition Contract Manufacturing Agreement, dated as of September 1, 2022, by and among 3M Company, Garden SpinCo Corporation and Neogen Corporation \(incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed by Neogen Corporation on September 1, 2022\).](#)

|         |   |
|---------|---|
| 10.7    | <a href="#"><u>Clean-Trace(TM) Distribution Agreement, dated as of September 1, 2022, by and between 3M Company and Garden SpinCo Corporation (incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K filed by Neogen Corporation on September 1, 2022).</u></a>   |
| 10.8    | <a href="#"><u>Real Estate License Agreement, dated as of September 1, 2022, by and among certain subsidiaries of Neogen Corporation, 3M Company and certain of its subsidiaries (incorporated by reference to Exhibit 10.8 to the Current Report on Form 8-K filed by Neogen Corporation on September 1, 2022).</u></a>  |
| 10.9    | <a href="#"><u>Credit Agreement, dated as of June 30, 2022, among Garden SpinCo Corporation, as borrower, the lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as administrative agent, and joined thereto as of September 1, 2022 by Neogen Corporation, as a borrower (incorporated by reference to Exhibit 10.9 to Neogen’s Registration Statement on Form S-4 (Registration No. 333-263667), filed with the SEC on July 27, 2022).</u></a> |
| 31.1    | <a href="#"><u>Certification of Principal Executive Officer</u></a>   |
| 31.2    | <a href="#"><u>Certification of Principal Financial Officer</u></a>   |
| 32      | <a href="#"><u>Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>   |
| 101.INS | Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File as its XBRL tags are embedded within the Inline XBRL 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   |
| 104     | Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)  |

## 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: January 9, 2023

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

Dated: January 9, 2023

/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 November 30, 2022 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: January 9, 2023

/s/ John E. Adent

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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 November 30, 2022 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: January 9, 2023

/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 November 30, 2022 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: January 9, 2023

/s/ John E. Adent

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

/s/ Steven J. Quinlan

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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.