
# We are NEOGEN

ANNUAL REPORT | 2018

NEOGEN®
CORPORATION

*Dedicated to food and animal safety*

The mission of

# *Neogen Corporation*

is to be the leading company

in the development and marketing

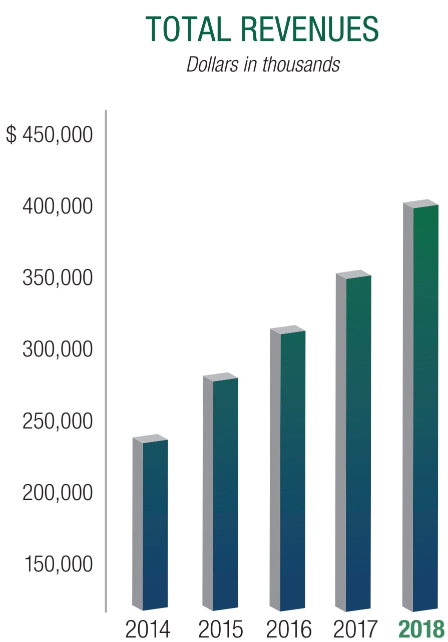
of ***solutions*** for food and animal ***safety***

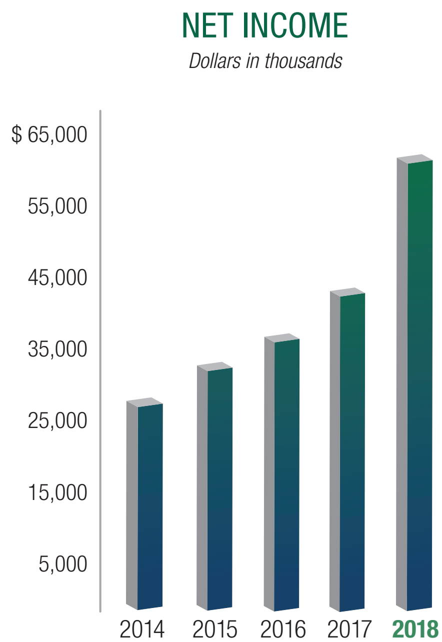
# Financial Highlights

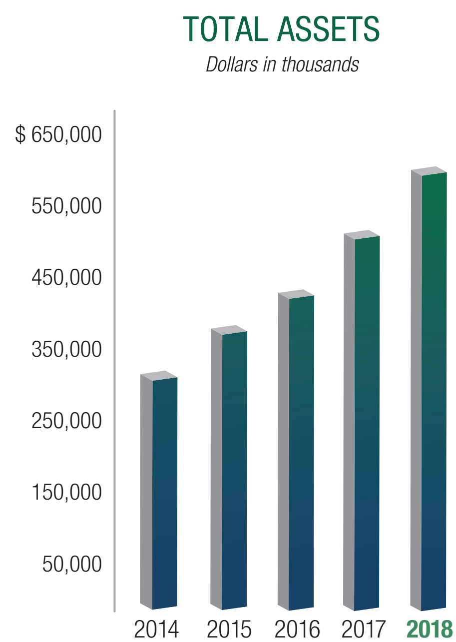
*Amounts in thousands, except per share*

| Year Ended May 31 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Operations: | | | | | |
| Total Revenues | $ 402,252 | $ 361,594 | $ 321,275 | $ 283,074 | $ 247,405 |
| Food Safety Sales | 196,047 | 171,325 | 146,421 | 131,479 | 116,290 |
| Animal Safety Sales | 206,205 | 190,269 | 174,854 | 151,595 | 131,115 |
| Operating Income | 70,194 | 64,945 | 56,386 | 53,118 | 43,391 |
| Net Income Attributable to Neogen | $ 63,145 | $ 43,793 | $ 36,564 | $ 33,526 | $ 28,158 |
| Basic Net Income Per Share* | $ 1.23 | $ 0.87 | $ 0.73 | $ 0.68 | $ 0.58 |
| Diluted Net Income Per Share* | $ 1.21 | $ 0.86 | $ 0.72 | $ 0.67 | $ 0.57 |
| Average Diluted Shares Outstanding* | 52,149 | 51,165 | 50,500 | 49,926 | 49,689 |

*Restated for 2014–2017 due to December 2017 stock split




*In thousands*

| Year Ended May 31 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Financial Strength: | | | | | |
| Cash and Marketable Securities | $ 210,810 | $ 143,635 | $ 107,796 | $ 114,164 | $ 76,496 |
| Working Capital | 337,101 | 256,959 | 219,628 | 205,739 | 163,779 |
| Total Assets | 618,009 | 528,409 | 449,940 | 392,181 | 345,301 |
| Long-Term Debt | – | – | – | – | – |
| Equity | 560,175 | 471,757 | 404,161 | 350,963 | 306,300 |

James L. Herbert
*Executive Chairman*

John E. Adent
*President*
*Chief Executive Officer*

# *a message from* MANAGEMENT

To our stockholders, employees and friends:

**We are Neogen.** As Executive Chairman and Chief Executive, we present our 2018 fiscal year results as representatives for all of Neogen's 1,600 global employees. Together, we are scientists, engineers, veterinarians, and business professionals of all types who share one goal: to develop and market products and services that will keep food and animals safe — wherever in the world that may be.

### Revenues exceed our goal of $400 million

It's with great pride that we report to you that our 2018 fiscal year marked another big milestone in Neogen's continued growth. This year is the fourth time in the past 20 years that we have doubled revenues in a five-year span. Back in 1998 when our revenues were under $20 million, we set the goal of reaching the $40 million mark in five years — and we did it with ease. We then challenged ourselves to double our revenues again, and reach $100 million in the next five years. And, sure enough, we did with a little over $102 million in 2008. Frankly, this self-challenging was becoming more difficult, but we set the goal of reaching $200 million by 2013 — and we did it.

Five years ago this self-challenging had become a pretty serious game, but we believed we could do it again by reaching $400 million in revenues by 2018. We are very pleased to report to you that our revenues for our 2018 fiscal year were slightly over $402 million.

The fourth quarter of our 2018 year marked the 105th of the past 110 quarters that Neogen reported revenue increases as compared to the previous year. That record now spans more than 27 years.

### Net income increases 44% to $63 million, or $1.21 per share

Without some explanation, our net income performance in 2018 may seem a bit unexpected. Net income for the full 2018 fiscal year increased 44% to $63,145,000, compared to the prior year's $43,793,000. Adjusted for a 4-for-3 stock split effective Dec. 29, 2017, earnings per share for the full 2018 fiscal year were $1.21, compared to the prior year's $0.86 per share.

We had a few helpers to reach that net income increase of 44%. In the year, Neogen benefitted from U.S. corporate tax reform enacted in December 2017, changes in the recognition of excess tax benefits from employee stock option exercises, and the successful conclusion of an IRS examination. The end result was an effective tax rate of 14% for the year, as compared to 34% in our 2017 fiscal year.

As you would expect, revenues and income for the 2018 fiscal year established new all-time highs for our 36-year-old company.

### Balance sheet remains strong

Our fiscal 2018 was another excellent year for us in generating cash and further strengthening our balance sheet. We continue to be debt-free, and we added approximately 19% to shareholder equity during the year. These results allow us to continue to make investments in our business, including the acquisitions of complementary businesses and technology, and infrastructure improvements to solidify our foundation to help drive future growth.

### We continue as a market consolidator

Our 2018 fiscal year featured many advancements in existing product lines and those that we have recently brought to the marketplace. Of special note in the year was Neogen's continuing ability to seize great opportunities in the integration of international and domestic businesses that have similar products and similar customer bases.

Perhaps the best example of our benefitting from our role of market consolidator is our worldwide Neogen Genomics program. We began this program with our acquisition of GeneSeek in 2010, which at the time had revenues of $12 million. We then built onto that foundation by adding a similar genomics lab at our Neogen Europe operations in Scotland to cover the European Union countries. In 2016, we acquired the largest animal genomics lab in Brazil, and then in September 2017 we completed our presence in worldwide coverage through the acquisition of an animal genomics laboratory in Australia. Our company operations in Canada, Latin America and China also feed samples into our four genomics labs. In 2018, we had revenues of approximately $62 million from the worldwide genomics business — a 22% increase compared to the prior year.

Another example of Neogen's role as market consolidator is the harmonization of our worldwide culture media business. We entered the culture media business with the acquisition of U.S.-based Acumedia in 2000, and then expanded our product offerings and customer base with our acquisition of England-based Lab M in 2015. Our strategy was to fully combine the two culture media businesses. In June 2018, we announced that our Acumedia and Lab M product lines are being combined and rebranded as Neogen Culture Media, culminating more than a year of work to provide a global brand and media harmonization for worldwide use. The two businesses together were producing over 400 different products when we started; we have pared that down to about 200. When consolidated, the businesses did approximately $27 million in revenue for 2018, compared to $23 million in 2017, a 19% increase.

We also believe that increased integration in our cleaner and disinfectant businesses offers great opportunity as we look ahead. This business currently struggles with raw material costs, but we think consolidation is going to be a big help. We have three manufacturing sites in the U.S., a significant operation near Manchester, England, and our current biosecurity plant in Brazil.

### Our path forward

While we are very pleased to report our 2018 results, as we write this, we are well into our 2019 fiscal year, and looking forward. Both of us are in agreement that the four drivers that have made Neogen successful over the past 36 years continue to be very viable.

The first driver is the growth of our markets — and our share of those markets. A number of regulations continue to drive our markets, for example, the Food Safety Modernization Act from 2011. This Act is still having impact as companies of all sizes work to comply. The market for our animal genomics testing is getting larger, and we think we are taking some market share. The idea of testing a week-old dairy heifer calf to pick the right replacement for the milking herd two years out is now becoming more popular. These are but two examples among many.

The second driver for growth is developing new products. Most of our new products, especially the most profitable ones, are the ones we develop internally, manufacture and market ourselves. These new products are not just high-tech, biotech-type products, but extend all the way to new, more effective disinfectants and better ways to control rodents. On the Food Safety side, there is another group of new products that are just beginning to reach the market this year. Our *Listeria* Right Now test detects that dangerous bacteria in a matter of minutes, rather than conventional methods requiring two or more days. On the genomics side, there are also several exciting new products for the commercial beef and dairy cattle markets.

Our genomics business is a good example of how we have grown using acquisitions — our third driver for the growth strategy. Since 2000 we have completed 37 acquisitions that have all been successful, some spectacularly so. This success has been mostly due to our ability to integrate the acquired business into our existing businesses.

We will continue to use three hard rules to make sure we know what we are going to do with the business the morning after we write the check. Our three cardinal rules are first, we must understand the technology and its application. Secondly, we must be able to manufacture the product ourselves, and third, we must have access to the market.

Our fourth driver for growth continues to be international expansion. Revenues from international sources this last year were 37.6% of total revenue, and were up about 17% compared to the prior year. We both believe about two-thirds of Neogen's growth potential exists outside the U.S. Neogen is truly a global company with sales into 145 countries, and locations in the U.S., Canada, Mexico, Brazil, Scotland, England, India, China, and now Australia.

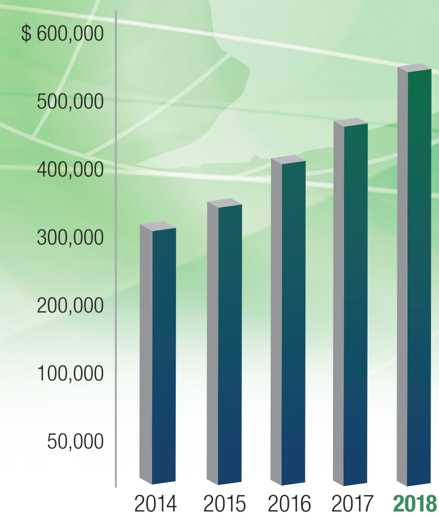
We continue to feel good about Neogen's direction as we move into 2019. We continue to be well positioned in our growing markets with the right people, developing the right products, manufacturing them efficiently, and then marketing them to our customers around the world.

James L. Herbert
Executive Chairman

John E. Adent
President and CEO

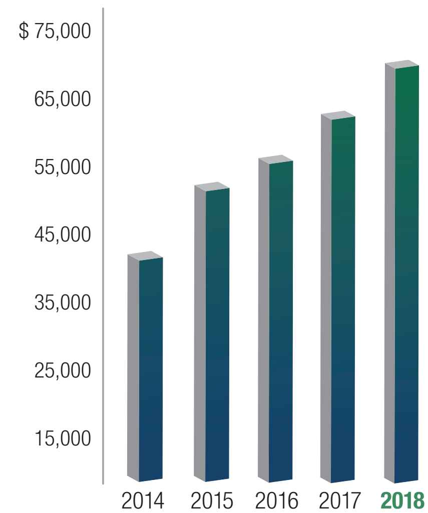
EQUITY

*Dollars in thousands*




OPERATING INCOME

*Dollars in thousands*



# *We are* NEOGEN

A quick summary of Neogen as it exists in 2018 would be something like this: Neogen is a 36-year-old, publicly traded (NASDAQ: NEOG), Michigan-based corporation dedicated to developing and marketing food and animal safety solutions with about 1,600 employees, and annual revenues of $402 million and net income of $63 million.

But, Neogen is so much more than a snapshot of how we exist in any one moment. We are the sum of all the potential that exists in our current employees — and the countless many more that will join us. We are the sum of all the possibilities that exist in our laboratories and manufacturing plants, and opportunities that exist through our numerous partnerships with our customers, business partners, and other food and animal safety professionals in the more than 140 countries that we do business.

We are the proven management teams, directors, and advisors who have successfully guided Neogen from only a concept to 22 unbroken years of success and profitability. We are the scientists, engineers and researchers who have successfully guided innovation after innovation from the drawing board through development, and into the hands of our global customers. We are the sales, technical service and communication professionals who have successfully guided our countless customers in the best use of our innovative products and services. We are the countless many throughout Neogen's organization who do things right to earn our customers' repeat business.

## We are animal genomics

We are the unquestioned global leader in animal genomics. Our Neogen Genomics operations began when we acquired Lincoln, Neb.-based GeneSeek in 2010, and our business has grown steadily since — to now include additional genomics laboratories in Scotland, Brazil and Australia to better satisfy the rapidly accelerating demand.

We work with farmers, ranchers, and numerous breed associations all around the world as they seek to choose the best animals for their breeding programs, be they beef or dairy cattle, pigs, sheep, goats, chickens, dogs, fish or other animals. In each case, Neogen works to help producers select the animals with superior genetic traits to produce enhanced, healthier breeds.

We are molecular geneticists who sequence the genomes of numerous animal breeds, and the biostatisticians who predict what those sequences mean in real-world animal traits. We work with university and government researchers, and others, to both expand the reach of our genomics capabilities, and enhance the predictive accuracy of our bioinformatics.

In the past year, we developed a new genomics product to help Nellore cattle breeders in Brazil select replacement heifers to go into their herds to produce superior offspring. We also developed a program aimed to help veterinarians provide personalized care for dogs by identifying the genetic component of various canine diseases and conditions.

## We are food safety genomics

We have expanded our genomics capabilities to produce next generation sequencing services for the food industry, which enables food companies to accurately identify all bacteria in a sample with a single genomics test.

We work with food production companies to provide genomics testing services that will provide a new and deeper level of information that was previously not accessible through traditional testing methods. Our NeoSeek™ genomics services utilize a novel application of 16S metagenomics to determine bacteria in a sample, without introducing biases from culture media, and without the need to generate a bacterial isolate for each possible microbe in a sample.

Accurately and definitively determining the bacteria responsible for a food spoilage issue, and where it may be located in a facility, can help the food industry identify and eliminate food quality and safety concerns before they occur.

The addition of 16S metagenomics to NeoSeek built our portfolio of food safety genomics services, which also includes *Salmonella* serotyping, Shiga toxin-producing *E. coli* (STEC) confirmation services, and meat species identification.

## We are food pathogen rapid diagnostics

Since we acquired our first foodborne bacterial pathogen (e.g., *Salmonella*, *Listeria* and *E. coli* O157:H7) testing technology in 1994, we have worked to make our tests for these potentially deadly food contaminants even quicker and easier to use.

Despite advancements in testing technology and food safety initiatives across the global food industry, the impact of foodborne illness remains tragically high. The U.S. Centers for Disease Control and Prevention (CDC) estimates that 50 million Americans are

***Our dedicated team of skilled employees with expertise and experience in a wide range of food and animal safety disciplines has led to our unbroken record of success.***

sickened by the food they eat per year, of which approximately 128,000 require hospitalization and 3,000 die.

We are microbiologists, immunologists, chemists and molecular geneticists who have partnered with other food safety professionals to develop the next generation of rapid tests to detect pathogens well before they can leave food production facilities and reach consumers.

Our new *Listeria* Right Now™ test system can detect all species of *Listeria*, including the pathogenic *L. monocytogenes*, in under 60 minutes through their ribosomal RNA — as compared to the 24 to 48 hours needed by competitive systems. Contamination of *Listeria* in the environment can now be detected, and cleaned as necessary, before food production begins.

The *Listeria* Right Now system's revolutionary technology was recently honored with the 2018 CFIA innovation trophy. The CFIA (Carrefour des Fournisseurs de l'Industrie Agroalimentaire) is an annual agro-food industry supplier fair held in France that showcases the latest developments in food industry technology.

## *We are the broadest range of food safety solutions*

In addition to our tests to detect foodborne pathogens, we offer the widest range of rapid on-site tests to detect potential hazards in food and animal feed, ranging from small local grain elevators to the largest, best-known food and feed processors in the world, and numerous regulatory agencies. No other company offers the comprehensive line of food and feed diagnostics that we do.

We are scientists and food industry experts who are continuously seeking to improve the technology and techniques of food safety, to further minimize the risk of a contaminant reaching a dinner plate. Our full suite of food safety solutions includes tests for:

- **Mycotoxins.** Grain producers and processors of all types and sizes use our rapid tests around the world to accurately detect the presence of mycotoxins, including aflatoxin, deoxynivalenol, fumonisin, ochratoxin, zearalenone and T-2/HT-2 toxin, to help ensure product safety and quality in food and animal feed.

- **Food allergens.** The world's largest producers of cookies, crackers, candy, ice cream and many other processed foods use our rapid testing products for food allergens to help protect their food-allergic customers from the inadvertent contamination of products with food allergens, such as peanut, milk, egg, almond, gluten, soy and tree nut residues.
- **Drug residues.** Dairy processors are the primary users our BetaStar® diagnostic tests to detect the presence of veterinary antibiotics in milk. The presence of these drugs in milk is a public health hazard and an economic risk to processors as it limits the milk's further processing. We also offer tests to detect other drugs in food, such as the steroid ractopamine in pork and antibiotic chloramphenicol in shrimp.
- **Spoilage microorganisms.** Our Soleris® products are used by food processors to identify the presence of spoilage organisms (e.g., yeast and mold) and other microbiological contamination in food. The sensitivity of the systems allows detection in a fraction of the time needed for traditional methods, with less labor and handling time.
- **Sanitation monitoring.** We manufacture and market our AccuPoint® Advanced rapid sanitation test to detect the presence of adenosine triphosphate (ATP), a chemical found in all living cells. Our worldwide customer base for ATP sanitation testing products includes food and beverage processors, the food service and healthcare industries, as well as many other users.
- **Seafood contaminants.** Our specialty products for the seafood market include tests for histamine, a highly allergenic substance that occurs when certain species of fish begin to decay, and shellfish toxins.

## *We are globally harmonized culture media*

We entered the culture media business in 2000 with our acquisition of U.S.-based Acumedia®, and expanded that effort with our acquisition of England-based Lab M® in 2015. Our culture media products are used by leading scientists and researchers around the world in a variety of applications, including food safety and the production of vaccines.

In June 2018, we announced that our Acumedia and Lab M products are being combined and rebranded as Neogen Culture Media to create a global brand of media harmonized for world-wide use. The global harmonization of the products means that our customers will receive the exact same formulation for the same product, wherever in the world they may be.

Instead of manufacturing Acumedia products in the United States and Lab M products in England, we will provide the same products around the world. This will allow us to simplify and shorten the shipping process for our many global customers.

## *We are biosecurity*

We understand that enhancing the quantity and quality of food produced at livestock operations often relies upon raising livestock in environments secure from biological threats — that is, enhancing the animals' biosecurity.

We are biosecurity experts who have produced and market a comprehensive line of agricultural products, including rodenticides that contain a variety of potent formulations to target a range of rodents; insecticides developed to effectively control flying and crawling insects of nearly endless variation; and cleaners and disinfectants with formulations that range from those necessary to clean and disinfect the most challenging of agricultural environments, to those needed to disinfect water supplies.

We are constantly working with our partners to provide products of even more use to the animal safety industry. For example, in the past year we worked with the prestigious Pirbright Institute, an England-based research institution dedicated to the study of infectious diseases in farm animals, to prove the effectiveness of one our products, Synergize®, against the devastating foot-and-mouth disease in cattle, pigs, sheep, and other livestock. The validation adds to the list of bacteria, fungi, and viruses where Synergize has been proven effective.

## *We are a wide range of animal safety solutions*

In addition to our biosecurity products, we offer a wide range of products to maintain and improve the health of animals inside the farm gate and companion animals.

We work directly with veterinarians, clinics and universities, and market through established distributors to reach 35,000 plus veterinarians. To reach the retail market, we work with a large network of animal health distributors including marketing groups, traditional distributors, and large retail chains. Our animal safety solutions include:

- **Veterinary instruments.** We offer a broad line of veterinary instruments and animal health delivery systems, many of which are used to administer animal health products, such as antibiotics and vaccines. Our D3® Needles are stronger than conventional veterinary needles and are uniquely detectable by metal detectors in meat processing facilities. Our Prima® products are highly accurate devices used by farmers, ranchers and veterinarians to inject animals, and provide topical and oral applications.
- **Veterinary healthcare products.** Our veterinary healthcare products include PanaKare™, a digestive aid that serves as a replacement therapy for exocrine pancreatic insufficiency. Our Natural Vitamin E-AD aids in the prevention and treatment of vitamin deficiencies in swine, cattle and sheep; and RenaKare™ supplements potassium deficiency in cats and dogs. We also offer Uniprim®, a leading veterinary antibiotic.
- **Veterinary OTC products.** The products we offer to the retail over-the-counter (OTC) market include veterinary instruments packaged for the retail market. OTC products also include Stress-Dex®, an oral electrolyte replacer for performance horses, and Fura-Zone®, for the prevention and treatment of surface bacterial infections in wounds, burns and cutaneous ulcers. We also offer hoof care, disposables and artificial insemination supplies.
- **Veterinary biologics.** Our BotVax® B vaccine has successfully protected thousands of high-value horses and foals against Type B botulism (a.k.a., Shaker Foal Syndrome). The product is the only USDA-approved vaccine for the prevention of Type B botulism in horses, and is sold world-wide. Our EqStim® immunostimulant is a safe and effective veterinarian-administered adjunct to conventional treatment of equine bacterial and viral respiratory infections.

## *We are everywhere*

We maintain company-owned locations outside of the United States to provide a direct presence in regions of particular importance to us, including Canada, Mexico, Brazil, European Union, Australia, India and China. In areas where we do not have a direct presence, we maintain an extensive network of distributors.

We use our own sales managers in both the Food Safety and Animal Safety segments to work closely with and coordinate the efforts of a network of approximately 150 distributors in more than 100 countries. The distributors provide local training and technical support, perform market research and promote company products within designated countries around the world. Sales to customers outside the United States accounted for over 37% of our total revenues in our 2018 fiscal year.

## *We are Neogen and we are never satisfied*

Our dedicated team of skilled employees with expertise and experience in a wide range of food and animal safety disciplines has led to our unbroken record of success.

We believe that we are now perfectly positioned to continue to advance global food security, and help meet the increasing demand for higher quality food.

# *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's management does not provide forecasts of future financial performance. While we are optimistic about our long-term prospects, historical financial information may not be indicative of our future financial results.

Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements. There are a number of important factors, including competition, recruitment and dependence on key employees, impact of weather on agriculture and food production, identification and integration of acquisitions, research and development risks, patent and trade secret protection, government regulation and other risks detailed in item 1A. RISK FACTORS in this Form 10-K and 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 Form 10-K 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 we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our views change.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based on the consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States. 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 disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates the estimates, including but not limited to, those related to receivable allowances, inventories and intangible assets. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The following critical accounting policies reflect management's more significant judgments and estimates used in the preparation of the consolidated financial statements.

### Revenue Recognition

Revenue from products and services is recognized when the product has been shipped or the service performed, the sales price is fixed and determinable, and collection of any receivable is probable. To the extent that customer payment has been received before all recognition criteria are met, these revenues are initially deferred and later recognized in the period that all recognition criteria have been met. Customer credits for sales returns, pricing and other disputes, and other related matters (including volume rebates offered to certain distributors as marketing support) represent approximately 3% of reported net revenue for each period presented.

### Accounts Receivable Allowance

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

### Inventory

A reserve for obsolete and slow-moving inventory has been established and 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 may be 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 by performing a quantitative assessment. 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 made to operations.

### Long-lived Assets

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

### Equity Compensation Plans

Share options awarded to employees 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 our 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, 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.

To value options, several recognized valuation models exist. None of these models can be singled out as being the best or most correct one. The model applied by us can handle most of the specific features included in the options granted, which is the reason for its use. If a different model 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 Notes 1 and 5 to the consolidated financial statements.

### 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.

Our wholly-owned foreign subsidiaries are comprised of Neogen Europe, Lab M Holdings, Quat-Chem, Neogen do Brasil, Deoxi Biotecnologia Ltda, Rogama Industria e Comercio Ltda, Acumedia do Brasil, Neogen Latinoamérica, Neogen Bio-Scientific Technology Co (Shanghai), Neogen Food and Animal Security (India), Neogen Canada, and Neogen Australasia Pty Limited. Based on historical experience, as well as our future plans, earnings from these subsidiaries are expected to be re-invested indefinitely for future expansion and working capital needs. Furthermore, our domestic operations have historically produced sufficient operating cash flow to mitigate the need to remit foreign earnings. On an annual basis, we evaluate the current business environment and whether any new events or other external changes might require a re-evaluation of the decision to indefinitely re-invest foreign earnings. At May 31, 2018, unremitted earnings of our foreign subsidiaries were $43,784,000.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the Tax Act) was signed into law making significant changes to the Internal Revenue Code. Changes include a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. On December 22, 2017, Staff Accounting Bulletin No. 118 (SAB 118) was issued to address the application of U.S. GAAP to situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. In accordance with SAB 118, we have determined that the $6.0 million of deferred tax benefit recorded in connection with the remeasurement of certain deferred tax assets and liabilities and the $1.2 million of current tax expense recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings was a provisional amount at May 31, 2018. Any subsequent adjustment to these amounts will be recorded to current tax expense in the quarter of 2019 when any further analysis of our deferred tax assets and liabilities and our historical foreign earnings is completed.

## RESULTS OF OPERATIONS

### Executive Overview

- Consolidated revenues were $402.3 million in fiscal 2018, an increase of 11% compared to $361.6 million in fiscal 2017. Organic sales increased 8%.
- Food Safety segment sales were $196.0 million in fiscal 2018, an increase of 14% compared to $171.3 million in fiscal 2017. Organic sales increased 9%, with the acquisitions of Quat-Chem and Rogama, both in December 2016, contributing the remainder of the growth.
- Animal Safety segment sales were $206.2 million in fiscal 2018, an increase of 8% compared to $190.3 million in fiscal 2017. Organic sales increased 7%, with the September 2017 acquisition of Neogen Australasia contributing the remainder of the growth.
- International sales were 37.6% of total sales in fiscal 2018 compared to 35.8% of total sales in fiscal 2017.
- On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (the Tax Act), which included a reduction in the U.S. federal statutory tax rate from 35% to 21% and a transition to a modified territorial system. As a result of the enactment of the Tax Act, we recorded a gain of $6.0 million related to the revaluation of deferred tax assets and liabilities and a charge of $1.2 million related to a transition tax on unrepatriated earnings at our international operations in fiscal 2018. The net gain of $4.8 million resulted in a $0.09 increase to diluted earnings per share.
- Results for fiscal 2018 also reflect a benefit of $4.8 million to our provision for income taxes for share-based payment awards resulting from the current year adoption of ASU No. 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". This benefit contributed $0.09 to diluted earnings per share in fiscal 2018.
- Net income was $63.1 million, or $1.21 per diluted share, an increase of 44% compared to $43.8 million, or $0.86 per share, in the prior year.
- Cash generated from operating activities in fiscal 2018 was $69.1 million, compared to $60.3 million in fiscal 2017.

# *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Neogen's results reflect a 17% increase in international sales in fiscal 2018 compared to the prior year. We continue to focus on increasing our presence and market share throughout the world, while also integrating our recent international acquisitions into our product portfolio. Sales increases for fiscal 2018 compared to the prior year are as follows for each of our international locations:

| | Revenue % Increase USD | Revenue % Increase Local Currency |
|---|---|---|
| *Neogen Europe (including Lab M & Quat-Chem)* | 23% | 16% |
| *Neogen do Brasil (including Deoxi & Rogama)* | 54% | 56% |
| *Neogen Latinoamérica* | 13% | 9% |
| *Neogen China* | 18% | 14% |
| *Neogen India* | 18% | 14% |

Currency translation had a positive impact of approximately $3.7 million on revenues recorded in foreign currencies during fiscal 2018. At Neogen Europe, a 31% increase in genomics revenues and a 29% increase in sales of culture media manufactured at Lab M offset an 8% decrease in natural toxin test kit sales, as last year's deoxynivalenol (DON) outbreak in corn crops in western Europe did not repeat in the current year. The organic revenue increase in Brazil was primarily due to a large Rogama sale to a government health organization that will not recur in fiscal 2019. Sales of test kits to detect aflatoxin also increased over 200% in Brazil as we gained new business testing for aflatoxin in corn. These increases were partially offset by a 39% decrease in sales of forensic test kits resulting from increased competition and customer losses caused by conversion to different testing methods.

Service revenue was $66.7 million in fiscal 2018, an increase of 21% over prior fiscal year sales of $55.1 million, aided by the September 2017 acquisition of Neogen Australasia. The growth was led by increases in sales to the global beef and dairy cattle and companion animal markets, and increased testing volumes with a large poultry customer.

## REVENUES

| | Year Ended | | | | |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | **May 31, 2018** | **Increase/ (Decrease)** | May 31, 2017 | Increase/ (Decrease) | May 31, 2016 |
| Food Safety: | | | | | |
| Natural Toxins, Allergens & Drug Residues | **$ 72,962** | **3%** | $ 70,926 | 12% | $ 63,269 |
| Bacterial & General Sanitation | **38,155** | **10%** | 34,706 | 2% | 33,899 |
| Culture Media & Other | **45,842** | **13%** | 40,658 | 9% | 37,285 |
| Rodenticides, Insecticides & Disinfectants | **23,821** | **75%** | 13,620 | 223% | 4,213 |
| Genomics Services | **15,267** | **34%** | 11,415 | 47% | 7,755 |
| | **196,047** | **14%** | 171,325 | 17% | 146,421 |
| Animal Safety: | | | | | |
| Life Sciences | **10,411** | **7%** | 9,704 | 24% | 7,815 |
| Veterinary Instruments & Disposables | **47,748** | **15%** | 41,693 | (1)% | 42,028 |
| Animal Care & Other | **32,719** | **11%** | 29,495 | (19)% | 36,494 |
| Rodenticides, Insecticides & Disinfectants | **68,553** | **(2)%** | 69,825 | 31% | 53,490 |
| Genomics Services | **46,774** | **18%** | 39,552 | 13% | 35,027 |
| | **206,205** | **8%** | 190,269 | 9% | 174,854 |
| **Total Revenue** | **$ 402,252** | **11%** | $ 361,594 | 13% | $ 321,275 |

### Year Ended May 31, 2018 Compared to Year Ended May 31, 2017

### FOOD SAFETY:

**Natural Toxins, Allergens & Drug Residues** – Sales in this category increased 3% in fiscal 2018 compared to the prior year. For the allergens and dairy drug residues product lines, test kit sales increased 12% and 13%, respectively, for the year. These increases were partially offset by a 26% decrease in sales of deoxynivalenol (DON) test kits, as prior year outbreaks of DON in corn crops in the U.S., Canada and Europe did not recur in fiscal 2018.

**Bacterial & General Sanitation** – Sales in this category increased 10% in fiscal 2018, led by strong sales of our AccuPoint sanitation monitoring product line which increased 18% on strength in both reader equipment and consumable supplies. Sales of test kits to detect pathogens increased 16%, led by growth in *Listeria* products, including our new *Listeria* Right Now test kit that launched earlier in the fiscal year. Additionally, sales of our product line to detect spoilage organisms in processed foods increased 2%.

**Culture Media & Other** – Sales in this category increased 13% in fiscal 2018 compared to fiscal 2017. Sales of Neogen Culture Media, formerly marketed as the Acumedia and Lab M brands, increased 19%, due to continued strength in products manufactured at Lab M in the U.K. and a large non-recurring order from a U.S. customer. This category also includes sales of forensic test kits sold through our Brazilian subsidiary, which decreased by 39% in fiscal 2018. Demand in the prior year was extremely high, due to a new requirement for drug testing of commercial truck drivers, however, sales of these kits in Brazil have decreased in the current year due to increased competition and customer losses caused by conversion to different testing methods.

**Rodenticides, Insecticides & Disinfectants** – Sales of products in this category sold through our Food Safety operations increased 75% in fiscal 2018; excluding the December 2016 acquisitions of Quat-Chem and Rogama, organic growth was 2%. The increase was primarily due to a large sale at Rogama to a government health organization that will not recur in fiscal 2019. Cleaner and disinfectants sold through Food Safety operations were negatively impacted by termination of a distribution agreement in January 2017, which resulted in a decline in sales for those distributed products of $859,000 in fiscal 2018.

**Genomics Services** – Sales of genomics services sold through our Food Safety operations increased 34% in fiscal 2018 compared to the same period in the prior year, primarily due to market share increases, particularly in the beef and dairy cattle markets, and incremental business with a large poultry producer, in Europe.

**ANIMAL SAFETY:**

**Life Sciences** – Sales in this category increased 7% in fiscal 2018 compared to fiscal 2017, due to increased volumes of forensic test kits sold to commercial labs in the U.S.

**Veterinary Instruments & Disposables** – Revenues in this category increased 15% in fiscal 2018, led by a 20% increase in sales of syringes, as we gained new customers in the retail and custom solutions markets. Sales of our patented detectable needles increased 23%, aided by strong sales to customers in Europe, including Russia.

**Animal Care & Other** – Sales of these products increased 11% in fiscal 2018, due to higher sales of PanaKare, our pancreatic replacement therapy, which benefitted from competitor backorders in fiscal 2018. Additionally, results from fiscal 2017 included sales credits totaling $1.1 million in the first quarter as we removed our canine thyroid product from the market, after the FDA approved a new drug application for a competitive product.

**Rodenticides, Insecticides & Disinfectants** – Sales in this category decreased 2% in fiscal 2018, compared to the same period in the prior year. The January 2017 termination of a distribution agreement with a manufacturer of cleaners and disinfectants resulted in lost sales of those distributed products totaling $4.7 million within this category. Partially offsetting this loss, sales of rodenticides increased 11% due to market share gains in the U.S.

**Genomics Services** – Sales in this category increased 18% in fiscal 2018; excluding the September 2017 acquisition of Neogen Australasia, organic growth was 11%. The growth was led by increases in sales to the global beef and dairy cattle and companion animal markets and higher volumes from a large poultry customer.

### Year Ended May 31, 2017 Compared to Year Ended May 31, 2016

**FOOD SAFETY:**

Overall Food Safety segment revenues in fiscal 2017 were $171.3 million compared to $146.4 million in fiscal 2016, an increase of 17%. Organic growth for the segment was 9%, with the acquisitions of Lab M (August 2015), Deoxi (April 2016), Quat-Chem (December 2016) and Rogama (December 2016) contributing the remainder of the growth. Adverse currency conditions, resulting from strength of the U.S. dollar, reduced overall growth and organic growth within the segment for the comparative period. In a neutral currency environment, overall Food Safety growth for the year was 22% and organic growth was 14%.

**Natural Toxins, Allergens & Drug Residues** – Sales in this category increased 12% to $70.9 million in fiscal 2017. Within this category, sales of natural toxin test kits increased 19%, led by sales of test kits and related equipment to detect deoxynivalenol (DON), due to outbreaks of DON in corn crops in the Midwest U.S., Canada and western Europe. Allergen test kit revenues rose 16% for the year, as increases in product recalls relating to allergenic contamination of food continued to expand the market. The largest increases in this product line were test kits to detect milk, gliadin, tree nuts, hazelnut and peanut contamination. Partially offsetting these increases, sales of test kits to detect drug residues were down 4%, due primarily to market losses in Europe caused by delays in the launch of new products, and, to a lesser extent, currency translations, as this product is sold in euros, which declined 2% against the dollar in fiscal 2017.

**Bacterial & General Sanitation** – Revenues of these products rose 2%, compared to the prior fiscal year, led by a 4% increase in sales of our line of automated equipment and consumable vials to detect spoilage microorganisms (e.g. yeast and mold), and an 11% increase in sales of *Salmonella* test kits for the year as we gained market share with our ANSR product line. These increases were partially offset by lower sales of a distributed product that was discontinued in fiscal 2017. Our line of AccuPoint readers and samplers to monitor environmental sanitation rose 4% for the year, with samplers increasing 7%, while equipment was flat compared to fiscal 2016.

**Culture Media & Other** – Sales in this category increased 9% in fiscal 2017, aided in part by the acquisition of Lab M; organic sales in this category increased 6%. Within this category, there was a significant increase in sales of forensic test kits through our Brazilian subsidiary. Demand for these kits from commercial labs located in Brazil increased dramatically due to a new requirement for drug testing of commercial truck drivers. Partially offsetting this increase was an 11% decrease in sales of our Acumedia line of dehydrated culture media sold into traditional domestic markets; the first half of fiscal 2016 had strong sales resulting from a research project, which did not recur.

**Rodenticides, Insecticides & Disinfectants** – Sales of rodenticides, insecticides and disinfectants into our Food Safety segment increased 223%, almost entirely due to the acquisitions of Rogama (Brazil), which reports through Neogen do Brasil, and Quat-Chem (U.K.), which reports through Neogen Europe; each was purchased in December 2016. Excluding these acquisitions, growth in this category was 3%, primarily from rodenticide and disinfectant sales into Mexico and Central America by our Mexican subsidiary.

**Genomics Services** – Genomics revenues sold through the Food Safety segment increased 47%, primarily due to strong demand of genomics testing in Europe and expanded capabilities at our operation in Ayr, Scotland to better serve the growing European market; the Deoxi acquisition in April 2016 also contributed to the growth.

**ANIMAL SAFETY:**

Revenues for the Company's Animal Safety segment were $190.3 million in fiscal 2017, an increase of 9% compared to prior year revenues of $174.9 million. The revenue growth resulted from the acquisitions of Virbac (December 2015) and Preserve (May 2016). In the first quarter of fiscal 2017, we lost the ability to sell our popular canine thyroid replacement product after the FDA approved a new drug application for a competitor, which gave the competitor exclusive marketing rights to the product. We will be unable to sell this product, which had sales of $6.2 million in fiscal 2016, in the U.S. until similar regulatory approval is granted. Additionally, in January 2017, our agreement with a manufacturer to distribute certain cleaners and disinfectants was canceled, resulting in the loss of $1.3 million of sales in the 4th quarter of fiscal 2017. Excluding these products, this segment had overall organic growth of 5% for the year. Currency translations had minimal effect on revenues in this segment.

**Life Sciences** – Sales in this category increased 24% in fiscal 2017, compared to the prior year. This growth was primarily due to increased volume to U.S. commercial labs to meet new requirements for drug testing of commercial truck drivers in Brazil.

**Veterinary Instruments & Disposables** – Revenues in this category decreased 1%, the result of lower sales of disposable syringes, which had increased sales in the prior year due to a competitor's backorder situation, and marking products. Partially offsetting this were gains in the sales of our proprietary detectable needles and durable speed syringes, with both gains due to strong demand from customers.

**Animal Care & Other** – Sales in this category decreased 19% due to the loss of our ability to sell our popular thyroid replacement product, mentioned above. Partially offsetting this was an increase in revenues for vitamin injectable products due to increased market share and price increases.

**Rodenticides, Insecticides & Disinfectants** – Sales in this category increased 31% in fiscal 2017, due to the acquisitions of Virbac (December 2015) and Preserve (May 2016); organic sales in this category were flat. The Preserve acquisition added $15.5 million of revenue in fiscal 2017, primarily to the domestic swine, poultry, dairy and food processing markets. Rodenticide sales increased 1% with strong sales in the custom solutions, retail and distribution markets offset by lower sales in the northwest U.S. after the prior year rodent outbreak subsided. Cleaners and disinfectant sales were 8% lower on an organic basis, due to the early termination of a distribution agreement for certain cleaners and disinfectants in the second half of the fiscal year.

**Genomics Services** – Genomics Services revenues reported within the Animal Safety segment increased 13% in fiscal 2017, compared to fiscal 2016. The increase was primarily due to increased market share in the beef and dairy markets from new product offerings and focused sales efforts in these markets; also contributing to the increase was expanded business with a large customer in the poultry market.

## Cost of Revenues

| *(Dollars in thousands)* | **2018** | **Increase** | 2017 | Increase | 2016 |
|---|---|---|---|---|---|
| Cost of Revenues | **$ 212,000** | **12%** | $ 189,626 | 13% | $ 168,211 |

Cost of revenues increased 12% in fiscal 2018 and 13% in fiscal 2017 in comparison with the prior years. This compares with revenue increases of 11% in fiscal 2018 and 13% in fiscal 2017. Expressed as a percentage of sales, cost of revenues was 52.7%, 52.4% and 52.4% in fiscal years 2018, 2017 and 2016, respectively.

**Fiscal 2018** – Improvements in Animal Safety gross margins, resulting from raw material cost reductions and favorable mix were offset by higher product costs in the Food Safety segment resulting from lower sales of our mycotoxin test kits, which have higher gross margins, and a change in mix caused by the Quat-Chem and Rogama acquisitions. These businesses have product lines with gross margins lower than the average gross margins in this segment. Depreciation expense, resulting from the investment of machinery and equipment at several manufacturing locations, increased $872,000 in fiscal 2018.

**Fiscal 2017** – Improvements in Animal Safety gross margins, resulting from lower raw material costs in the genomics business and increased higher margin forensics test kit sales into the commercial laboratory market, and strong growth in sales of higher margin mycotoxin and allergen test kits in the Food Safety segment, overcame the lower gross margins resulting from the Quat-Chem and Rogama acquisitions.

**Food Safety Gross Margins:**

Food Safety gross margins were 52.8%, 55.3% and 56.7% in fiscal years 2018, 2017 and 2016, respectively.

**Fiscal 2018** – Our fiscal 2018 results reflect the full year impact of lower gross margins from revenues contributed by the recent acquisitions of Quat-Chem and Rogama. Excluding these businesses, Food Safety gross margins would have been 330 basis points higher in fiscal 2018. Additionally, the decrease in sales of higher margin forensic test kits through our Brazilian subsidiary, due to increased competition, and lower sales of mycotoxin test kits, due to a DON outbreak in the prior year which did not recur in fiscal 2018, adversely impacted gross margins in this segment.

**Fiscal 2017** – During fiscal 2017, we purchased the Quat-Chem and Rogama businesses, which generated gross margins lower than historical averages for this segment. These acquisitions, and the full year impact of the prior year acquisitions of Lab M and Deoxi resulted in a 140 basis point decline in Food Safety gross margins. In addition, gross margins were also negatively impacted by the strength of the U.S. dollar relative to the international currencies in which we operate, primarily in Europe and Mexico, where the pound and peso declined in value against the U.S. dollar by 14% and 12%, respectively. These international operations report through the Food Safety segment. Partially offsetting these negative impacts to gross margins were favorable shifts in product mix towards higher margin diagnostic test kits for mycotoxins and allergens.

**Animal Safety Gross Margins:**

Animal Safety gross margins were 42.0%, 40.6% and 40.1% in fiscal years 2018, 2017 and 2016, respectively.

**Fiscal 2018** – The improvement in gross margin percentage from fiscal 2017 to fiscal 2018 was primarily due to raw material cost reductions in our genomics business. We also benefitted from increased sales of forensic test kits and other higher margin products and decreased sales of lower margin distributed cleaners and disinfectants resulting from the termination of a distribution agreement in January 2017.

**Fiscal 2017** – Improvements in raw material costs, favorable product mix in the genomics business and strong sales of forensic kits to commercial labs in the U.S. more than offset the loss of high margin revenues from the thyroid replacement product for companion animals, which we were required to stop selling at the end of fiscal 2016.

## Operating Expenses

| *(Dollars in thousands)* | **2018** | **Increase** | 2017 | Increase | 2016 |
|---|---|---|---|---|---|
| Sales and Marketing | **$ 70,909** | **14%** | $ 62,424 | 8% | $ 57,599 |
| General and Administrative | **38,294** | **12%** | 34,214 | 17% | 29,189 |
| Research and Development | **10,855** | **5%** | 10,385 | 5% | 9,890 |
| **Total Operating Expense** | **$ 120,058** | **12%** | $ 107,023 | 11% | 96,678 |

Overall operating expenses increased by 12% in fiscal 2018 and 11% in fiscal 2017, each compared to the prior year. These increases compare to revenue increases of 11% and 13%, respectively, in each comparative period.

### Sales and Marketing:

Sales and marketing expenses increased by 14% in fiscal 2018 and 8% in fiscal 2017, each compared to the prior year. As a percentage of sales, sales and marketing expense was 17.6%, 17.3% and 17.9% in fiscal years 2018, 2017 and 2016, respectively.

**Fiscal 2018** – Salaries and commissions expense rose 9% in fiscal 2018, while travel expense increased 12%. Other significant increases include shipping expense, distributor support and promotion programs, federal and state product registrations and royalty expense. Approximately $1.2 million of the increase in sales and marketing expense resulted from the Quat-Chem, Rogama and Neogen Australasia acquisitions.

**Fiscal 2017** – Salaries and commissions within the sales and marketing function, which is also comprised of technical service, customer service, and product management personnel, rose 10%, due to increased staffing and the increase in revenue, while travel expenses rose 7%. Other significant expense increases were domestic shipping expense, up 11% and in line with the revenue increase, and royalty expense, which rose 35% due to increased sales in fiscal 2017 and a one-time credit in the prior year resulting from a retroactive rate reduction on a royalty agreement. Of the $4.8 million increase in expenses, approximately $2.2 million resulted from our recent acquisitions.

### General and Administrative:

General and administrative expenses rose 12% in fiscal 2018 compared to fiscal 2017 and by 17% in fiscal 2017 compared to fiscal 2016. As a percentage of sales, general and administrative expense was 9.5%, 9.5% and 9.1% in fiscal years 2018, 2017 and 2016, respectively. In both fiscal years, the increase is primarily the result of higher salaries, due to additional headcount as well as compensation increases. Higher legal and professional fees and additional amortization of intangible assets, due to our recent acquisitions, also contributed to the increase in each comparative period.

### Research and Development:

Research and development expenses increased 5% in fiscal 2018 and 5% in fiscal 2017, each compared to the prior year.

Higher salaries expense in each fiscal year, resulting from increased headcount and compensation increases, was partially offset by lower levels of consulting and other outside services. As a percentage of revenue, these expenses were 2.7% in fiscal year 2018, 2.9% in fiscal year 2017 and 3.1% in fiscal year 2016; we expect to spend approximately 3% of total revenue on research and development annually.

## Operating Income

| *(Dollars in thousands)* | **2018** | **Increase** | 2017 | Increase | 2016 |
|---|---|---|---|---|---|
| Operating Income | **$ 70,194** | **8%** | $ 64,945 | 15% | $ 56,386 |

Our operating income increased by 8% in fiscal 2018 compared to fiscal 2017, and by 15% in fiscal 2017 compared to fiscal 2016. Expressed as a percentage of revenues, operating income was 17.5%, 18.0% and 17.6% in fiscal years 2018, 2017 and 2016, respectively.

The 8% increase in operating income for fiscal 2018 was due to the 11% increase in sales, offset by slightly lower gross margins due to product mix shifts, and operating expenses which rose by 12% over fiscal 2017.

The 15% increase in operating income for fiscal 2017 was due to the 13% increase in revenues and operating expense increases which were less than the revenue growth rate, combined with gross margins which, at 47.6% of sales, were the same as the prior year.

## Other Income (Expense)

Other Income (Expense) for the previous three fiscal years consisted of the following:

| *(In thousands)* | **2018** | 2017 | 2016 |
|---|---|---|---|
| Interest income (net of expense) | **$ 2,043** | $ 838 | $ 322 |
| Foreign currency transactions | **274** | (40) | (1,338) |
| Royalty income | **147** | 171 | 217 |
| Settlement of licensing agreement | **–** | 660 | – |
| Quat-Chem contingent consideration | **255** | – | – |
| Deoxi contingent consideration | **(42)** | (14) | – |
| Neogen India contingent consideration | **–** | 32 | – |
| Other | **594** | 81 | (74) |
| **Total Other Income (Expense)** | **$ 3,271** | **$ 1,728** | **$ (873)** |

The increases in interest income in both fiscal years 2018 and 2017 compared to the prior years is the result of higher cash balances and rising interest rates during the two-year period. Other income resulting from foreign currency translations is primarily the result of changes in the value of foreign currencies relative to the dollar in countries in which we operate. Other Income in fiscal 2018 also included the adjustment of Quat-Chem and Deoxi contingent consideration based on the level of achievement of revenue targets for the acquired businesses. In fiscal 2017, we terminated a licensing agreement and recognized a gain of $660,000.

### Provision for Income Taxes

| *(Dollars in thousands)* | **2018** | **Increase** | 2017 | Increase | 2016 |
|---|---|---|---|---|---|
| Provision for Income Taxes | **$ 10,250** | **(55)%** | $ 22,700 | 20% | $ 18,975 |

Income tax expense for fiscal 2018 was $10.3 million, an effective tax rate of 14%, compared to prior year income tax expense of $22.7 million, an effective tax rate of 34%. We recorded favorable tax adjustments totaling $4.8 million during the year as the result of U.S. tax reform passed in December 2017. The tax reform reduced the U.S. statutory income tax rate from 35% to 21%, and also resulted in other adjustments to income tax expense. We computed our income tax for the fiscal year ending May 31, 2018 using a blended Federal Tax Rate of 29.2%. As required by generally accepted accounting principles, we revalued our net deferred tax liabilities during the year to reflect the lower rate, resulting in a credit to income tax expense of $6.0 million. In addition, we have calculated our cumulative unrepatriated foreign earnings and profits and calculated tax owed on those earnings and profits. This tax was estimated at $1.2 million and was recorded as federal income tax expense; payment of this tax is permitted over an eight-year period.

Additionally, during the year we recorded incremental credits of $4.8 million to federal income tax expense for excess tax benefits from the exercise of stock options, due to the adoption of ASU 2016-09; refer to Note 6 of our Consolidated Financial Statements for further information. In the second quarter of fiscal 2018, an IRS examination of our federal income tax returns for fiscal years 2014, 2015 and 2016 was concluded. As a result of the favorable outcome of the audit, we reversed a total of $1.0 million from our reserve for uncertain tax positions, which had been accrued in prior fiscal years, with a corresponding credit to federal income tax expense.

### Net Income and Income Per Share

| *(Dollars in thousands—except per share data)* | **2018** | **Increase** | 2017 | Increase | 2016 |
|---|---|---|---|---|---|
| Net Income Attributable to Neogen | **$ 63,145** | **44%** | $ 43,793 | 20% | $ 36,564 |
| Net Income Per Share—Basic | **1.23** | | 0.87 | | 0.73 |
| Net Income Per Share—Diluted | **1.21** | | 0.86 | | 0.72 |

Net income increased by 44% in fiscal 2018, significantly aided by U.S. tax reform enacted in December 2017 and a change in accounting for stock-based compensation, and increased by 20% in fiscal 2017, each compared to the prior year. As a percentage of revenue, net income was 15.7% in fiscal 2018, 12.1% in fiscal 2017 and 11.4% in fiscal 2016.

### Future Operating Results

Neogen Corporation's future operating results involve a number of risks and uncertainties. Actual events or results may differ materially from those discussed in this report. Factors that could cause or contribute to such differences include, but are not limited to, the factors discussed below as well as those discussed elsewhere in this report. Management's ability to grow the business in the future depends upon our ability to successfully implement various strategies, including:

- developing, manufacturing and marketing new products with new features and capabilities, and having those new products successfully accepted in the marketplace;
- expanding our markets by fostering increased use of our products by customers;
- maintaining or increasing gross and net operating margins in changing cost environments;
- strengthening operations and sales and marketing activities in geographies outside of the U.S.;
- developing and implementing new technology development strategies; and
- identifying and completing acquisitions that enhance existing product categories or create new products or services.

### FINANCIAL CONDITION AND LIQUIDITY

On May 31, 2018, we had $83.1 million in cash and cash equivalents, $127.7 million in marketable securities and working capital of $337.1 million. For the year ended May 31, 2018, cash generated from operating activities was $69.1 million, compared to $60.3 million generated in fiscal 2017; proceeds from stock option exercises provided an additional $22.8 million of cash. For the same period, additions to property and equipment and business acquisitions used cash of $20.9 million and $468,000, respectively. We have a financing agreement with a bank providing for an unsecured revolving line of credit of $15.0 million, which expires on September 30, 2019. There were no advances against this line of credit during fiscal years 2018, 2017 and 2016, and no balance outstanding at May 31, 2018 and 2017.

Accounts receivable at May 31, 2018 were $79.1 million, compared to $68.6 million at May 31, 2017, primarily due to the increase in revenues. Days sales outstanding, a measurement of the time it takes to collect receivables, was 60 days at both May 31, 2018 and May 31, 2017. All customer accounts are actively managed and no losses in excess of amounts reserved are currently expected.

Inventory balances were $76.0 million at May 31, 2018, an increase of $2.9 million, or 4.0%, compared to $73.1 million at May 31, 2017. This past year, we were successful in controlling inventory while ensuring adequate safety stocks to minimize backorders. We continue to identify and rationalize redundant product offerings resulting from recent acquisitions.

Neogen has been consistently profitable and has generated strong cash flow from operations during each of the past three fiscal years. However, our cash on hand and current borrowing capacity may not be sufficient to meet our cash requirements to commercialize products currently under development or our potential plans to acquire additional businesses, technology and products that fit within our strategic plan. Accordingly, we may be required, or may choose, to issue equity securities or enter into other financing arrangements for a portion of our future capital needs.

We are subject to certain legal and other proceedings in the normal course of business that have not had, and, in the opinion of management, are not expected to have, a material effect on our results of operations or financial position.

## Contractual Obligations

As of May 31, 2018, we have the following contractual obligations due by period:

| *(In thousands)* | **Total** | Less than one year | 1–3 years | 3–5 years | More than 5 years |
|---|---|---|---|---|---|
| Long-Term Debt | **$ –** | $ – | $ – | $ – | $ – |
| Operating Leases | **906** | 498 | 194 | 214 | – |
| Unconditional Purchase Obligations (1) | **54,339** | 54,061 | 278 | – | – |
| | **$ 55,245** | $ 54,559 | $ 472 | $ 214 | $ – |

(1) Unconditional purchase obligations are primarily purchase orders for future inventory and capital equipment purchases.

## New Accounting Pronouncements

See discussion of any New Accounting Pronouncements in Note 1 to Consolidated Financial Statements.

# *Neogen Corporation and Subsidiaries: Consolidated Balance Sheets*

| ASSETS *(In thousands)* | May 31 2018 | 2017 |
|---|---|---|
| Current Assets | | |
| Cash and cash equivalents | **$ 83,074** | $ 77,567 |
| Marketable securities | **127,736** | 66,068 |
| Accounts receivable, less allowance of $1,550 and $2,000 at May 31, 2018 and 2017, respectively | **79,086** | 68,576 |
| Inventories | **76,005** | 73,144 |
| Prepaid expenses and other current assets | **9,888** | 7,606 |
| Total Current Assets | **375,789** | 292,961 |
| Property and Equipment | | |
| Land and improvements | **4,730** | 3,094 |
| Buildings and improvements | **44,008** | 37,917 |
| Machinery and equipment | **74,911** | 64,867 |
| Furniture and fixtures | **3,568** | 3,333 |
| Construction in progress | **2,654** | 2,290 |
| | **129,871** | 111,501 |
| Less accumulated depreciation | **56,802** | 49,753 |
| Net Property and Equipment | **73,069** | 61,748 |
| Other Assets | | |
| Goodwill | **99,558** | 104,759 |
| Other non-amortizable intangible assets | **14,938** | 14,323 |
| Amortizable customer-based intangible assets, net of accumulated amortization of $24,579 and $20,846 at May 31, 2018 and 2017, respectively | **31,841** | 35,983 |
| Other non-current assets, net of accumulated amortization of $12,470 and $9,931 at May 31, 2018 and 2017, respectively | **22,814** | 18,635 |
| Total Other Assets | **169,151** | 173,700 |
| Total Assets | **$ 618,009** | $ 528,409 |

| LIABILITIES AND EQUITY *(In thousands, except share and per share)* | May 31 2018 | 2017 |
|---|---|---|
| Current Liabilities | | |
| Accounts payable | **$ 20,750** | $ 16,244 |
| Accruals | | |
| Accrued compensation | **6,065** | 5,002 |
| Income taxes | **165** | 936 |
| Other accruals | **11,708** | 13,820 |
| Total Current Liabilities | **38,688** | 36,002 |
| Deferred Income Taxes | **14,103** | 17,048 |
| Other Non-Current Liabilities | **5,043** | 3,602 |
| Total Liabilities | **57,834** | 56,652 |
| Commitments and Contingencies (Note 7) | | |
| Equity | | |
| Preferred stock, $1.00 par value – shares authorized 100,000; none issued and outstanding | **–** | – |
| Common stock, $0.16 par value – shares authorized 60,000,000; 51,735,732 and 50,932,489 shares issued and outstanding at May 31, 2018 and 2017, respectively | **8,278** | 8,149 |
| Additional paid-in capital | **202,572** | 174,742 |
| Accumulated other comprehensive loss | **(9,746)** | (7,203) |
| Retained earnings | **359,071** | 295,926 |
| Total Neogen Corporation and Subsidiaries Stockholders' Equity | **560,175** | 471,614 |
| Non-controlling interest | **–** | 143 |
| Total Equity | **560,175** | 471,757 |
| | **$ 618,009** | $ 528,409 |

See accompanying notes to consolidated financial statements.

# *Neogen Corporation and Subsidiaries: Consolidated Statements of Income*

| *(In thousands, except per share)* | Year ended May 31 2018 | 2017 | 2016 |
|---|---|---|---|
| Revenues | | | |
| Product revenues | **$ 335,554** | $ 306,512 | $ 273,570 |
| Service revenues | **66,698** | 55,082 | 47,705 |
| Total Revenues | **402,252** | 361,594 | 321,275 |
| Cost of Revenues | | | |
| Cost of product revenues | **174,067** | 156,568 | 137,766 |
| Cost of service revenues | **37,933** | 33,058 | 30,445 |
| Total Cost of Revenues | **212,000** | 189,626 | 168,211 |
| Gross Margin | **190,252** | 171,968 | 153,064 |
| Operating Expenses | | | |
| Sales and marketing | **70,909** | 62,424 | 57,599 |
| General and administrative | **38,294** | 34,214 | 29,189 |
| Research and development | **10,855** | 10,385 | 9,890 |
| Total Operating Expenses | **120,058** | 107,023 | 96,678 |
| Operating Income | **70,194** | 64,945 | 56,386 |
| Other Income (Expense) | | | |
| Interest income, net | **2,043** | 838 | 322 |
| Royalty income | **147** | 171 | 217 |
| Other, net | **1,081** | 719 | (1,412) |
| Total Other Income (Expense) | **3,271** | 1,728 | (873) |
| Income Before Income Taxes | **73,465** | 66,673 | 55,513 |
| Provision for Income Taxes | **10,250** | 22,700 | 18,975 |
| Net Income | **63,215** | 43,973 | 36,538 |
| Net (Income) Loss Attributable to Non-controlling Interest | **(70)** | (180) | 26 |
| Net Income Attributable to Neogen | **$ 63,145** | $ 43,793 | $ 36,564 |
| Net Income Attributable to Neogen per Share | | | |
| Basic | **$ 1.23** | $ 0.87 | $ 0.73 |
| Diluted | **$ 1.21** | $ 0.86 | $ 0.72 |

See accompanying notes to consolidated financial statements.

## *Neogen Corporation and Subsidiaries: Consolidated Statements of Comprehensive Income*

| | Year ended May 31 | | |
|---|---|---|---|
| *(In thousands)* | **2018** | 2017 | 2016 |
| Net income | **$ 63,215** | $ 43,973 | $ 36,538 |
| Other comprehensive income (loss), net of tax: currency translations | **(2,543)** | (3,257) | (1,504) |
| Comprehensive income | **60,672** | 40,716 | 35,034 |
| Comprehensive (income) loss attributable to non-controlling interest | **(70)** | (180) | 26 |
| Comprehensive income attributable to Neogen | **$ 60,602** | $ 40,536 | $ 35,060 |

See accompanying notes to consolidated financial statements.

## *Neogen Corporation and Subsidiaries: Consolidated Statements of Equity*

| | Common Stock | | | | | | |
|---|---|---|---|---|---|---|---|
| *(In thousands, except shares)* | Shares | Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Non-controlling Interest | Total Equity |
| Balance, May 31, 2015 | 49,504,359 | $ 7,921 | $ 129,926 | $ (2,442) | $ 215,569 | $ (11) | $ 350,963 |
| Exercise of options, share based compensation and $2,945 income tax benefit | 561,524 | 89 | 17,288 | | | | 17,377 |
| Issuance of shares under employee stock purchase plan | 24,369 | 4 | 782 | | | | 786 |
| Net income (loss) for 2016 | | | | | 36,564 | (26) | 36,538 |
| Other comprehensive income (loss) | | | | (1,504) | | | (1,504) |
| Balance, May 31, 2016 | 50,090,252 | 8,014 | 147,996 | (3,946) | 252,133 | $ (37) | 404,160 |
| Exercise of options, share based compensation and $3,922 income tax benefit | 817,284 | 131 | 26,589 | | | | 26,720 |
| Issuance of shares under employee stock purchase plan | 24,953 | 4 | 921 | | | | 925 |
| Purchase of minority interest | | | (764) | | | | (764) |
| Net income (loss) for 2017 | | | | | 43,793 | 180 | 43,973 |
| Other comprehensive income (loss) | | | | (3,257) | | | (3,257) |
| Balance, May 31, 2017 | 50,932,489 | 8,149 | 174,742 | (7,203) | 295,926 | $ 143 | 471,757 |
| Exercise of options, share based compensation | 781,116 | 125 | 26,992 | | | | 27,117 |
| Issuance of shares under employee stock purchase plan | 22,127 | 4 | 1,048 | | | | 1,052 |
| Purchase of minority interest | | | (210) | | | (213) | (423) |
| Net income (loss) for 2018 | | | | | 63,145 | 70 | 63,215 |
| Other comprehensive income (loss) | | | | (2,543) | | | (2,543) |
| **Balance, May 31, 2018** | **51,735,732** | **$ 8,278** | **$ 202,572** | **$ (9,746)** | **$ 359,071** | **$ –** | **$ 560,175** |

See accompanying notes to consolidated financial statements.

# *Neogen Corporation and Subsidiaries: Consolidated Statements of Cash Flows*

| | Year ended May 31 | | |
|---|---|---|---|
| *(In thousands)* | **2018** | 2017 | 2016 |
| Cash Flows From Operating Activities | | | |
| Net income | **$ 63,215** | $ 43,973 | $ 36,538 |
| Adjustments to reconcile net income to net cash provided from operating activities: | | | |
| Depreciation and amortization | **17,058** | 14,691 | 12,181 |
| Deferred income taxes | **(2,996)** | (292) | 1,906 |
| Share-based compensation | **4,909** | 5,261 | 5,468 |
| Excess income tax benefit from the exercise of stock options | **–** | (3,922) | (2,945) |
| Changes in operating assets and liabilities, net of business acquisitions: | | | |
| Accounts receivable | **(10,233)** | 5,035 | (6,002) |
| Inventories | **(2,647)** | (6,970) | (9,427) |
| Prepaid expenses and other assets | **(2,275)** | 812 | (3,836) |
| Accounts payable | **4,381** | (1,691) | 704 |
| Accruals and other changes | **(2,281)** | 3,377 | 744 |
| Net Cash From Operating Activities | **69,131** | 60,274 | 35,331 |
| Cash Flows Used In Investing Activities | | | |
| Purchases of property, equipment and other non-current intangible assets | **(20,946)** | (14,578) | (14,222) |
| Proceeds from the sale of marketable securities | **299,751** | 149,226 | 147,189 |
| Purchases of marketable securities | **(361,419)** | (162,755) | (151,625) |
| Business acquisitions, net of cash acquired | **(468)** | (34,029) | (42,491) |
| Net Cash Used In Investing Activities | **(83,082)** | (62,136) | (61,149) |
| Cash Flows From Financing Activities | | | |
| Exercise of stock options and other | **23,261** | 21,148 | 12,363 |
| Excess income tax benefit from the exercise of stock options | **–** | 3,922 | 2,945 |
| Purchase of minority interest | **(423)** | – | – |
| Net Cash From Financing Activities | **22,838** | 25,070 | 15,308 |
| Effect of Exchange Rate on Cash | **(3,380)** | (898) | (294) |
| Net Increase (Decrease) In Cash and Cash Equivalents | **5,507** | 22,310 | (10,804) |
| Cash And Cash Equivalents, Beginning of Year | **77,567** | 55,257 | 66,061 |
| Cash And Cash Equivalents, End of Year | **$ 83,074** | $ 77,567 | $ 55,257 |
| Supplementary Cash Flow Information | | | |
| Income taxes paid, net of refunds | **$ 11,800** | $ 13,865 | $ 13,413 |

See accompanying notes to consolidated financial statements.

# Neogen Corporation and Subsidiaries: Notes to Consolidated Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Nature of Operations

Neogen Corporation develops, manufactures and markets a diverse line of products and services dedicated to food and animal safety.

### Basis of Consolidation

The consolidated financial statements include the accounts of Neogen Corporation and its subsidiaries, all of which are wholly-owned as of May 31, 2018. Neogen Latinoamérica was 100% and 90% owned as of May 31, 2018 and 2017. We purchased all shares owned by the minority interest owner on December 31, 2017, which increased our ownership in Neogen Latinoamérica to 100%. For Neogen do Brasil, we purchased the 10% owned by the two minority interest owners on February 28, 2017, which increased our ownership interest to 100%. Non-controlling interest represents the non-controlling owners' proportionate share in the equity of these subsidiaries; the non-controlling owners' proportionate share in the income or losses of the subsidiaries is subtracted from, or added to, our net income to calculate the net income attributable to Neogen Corporation.

All intercompany accounts and transactions have been eliminated in consolidation.

Share and per share amounts reflect the December 29, 2017 4-for-3 stock split as if it took place at the beginning of the period presented.

### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Significant estimates impacting the accompanying consolidated financial statements include the allowance for uncollectible accounts receivable, inventory valuation and intangible assets.

### Comprehensive Income

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

### Accounts Receivable and Concentrations of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of accounts receivable. Management attempts to minimize credit risk by reviewing customers' credit history before extending credit and by monitoring credit exposure on a regular basis. An allowance for doubtful accounts on accounts receivable is established based upon factors surrounding the credit risk of specific customers, historical trends and other information. Collateral or other security is generally not required for accounts receivable. Once a receivable balance has been determined to be uncollectible, that amount is charged against the allowance for doubtful accounts. No customer accounted for more than 10% of accounts receivable at May 31, 2018 or 2017, respectively. The activity in the allowance for doubtful accounts was as follows:

| | Year ended May 31 | | |
|---|---|---|---|
| *(In thousands)* | **2018** | 2017 | 2016 |
| Beginning Balance | **$ 2,000** | $ 1,500 | $ 1,300 |
| Provision | **152** | 645 | 305 |
| Recoveries | **40** | 25 | 90 |
| Write-offs | **(642)** | (170) | (195) |
| Ending Balance | **$ 1,550** | $ 2,000 | $ 1,500 |

### Fair Value of Financial Instruments

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

Fair value measurements are determined based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants exclusive of any transaction costs. We utilize 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.

### 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 were $83,074,000 and $77,567,000 at May 31, 2018 and 2017, respectively. The carrying value of these assets approximates fair value due to the short maturity of these instruments and meets the Level 1 criteria. Cash held by foreign subsidiaries was $7,101,000 and $8,132,000 at May 31, 2018 and 2017, respectively.

## Marketable Securities

We have marketable securities held by banks or broker-dealers at May 31, 2018, consisting of short-term domestic certificates of deposit of $27,400,000 and commercial paper rated at least A-2/P-2 with maturities between 91 days and one year of $100,336,000. Total outstanding marketable securities at May 31, 2018 was $127,736,000; there were $66,068,000 in marketable securities outstanding at May 31, 2017. These securities are classified as available for sale. The primary objective of our short-term investment activity is to preserve capital for the purpose of funding 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 (that approximates cost) 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.

## Inventories

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

| | Year ended May 31 | |
|---|---|---|
| *(In thousands)* | **2018** | 2017 |
| Raw materials | **$ 36,702** | $ 33,190 |
| Work-in-process | **5,993** | 4,831 |
| Finished goods | **33,310** | 35,123 |
| | **$ 76,005** | $ 73,144 |

Our inventories are analyzed for slow moving, expired and obsolete items no less frequently than quarterly and the valuation allowance is adjusted as required. The valuation allowance for inventory was $2,200,000 and $2,000,000 at May 31, 2018 and 2017, respectively.

## Property and Equipment

Property and equipment is stated at cost. Expenditures for major improvements are capitalized while repairs and maintenance are charged to expense. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets, which are generally seven to 39 years for buildings and improvements and three to ten years for furniture, fixtures, machinery and equipment. Depreciation expense was $10,315,000, $8,783,000 and $7,452,000 in fiscal years 2018, 2017 and 2016, respectively.

## 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. Amortizable intangible assets are amortized on either an accelerated or a straight-line basis, generally 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 by performing a quantitative assessment. 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 earnings multiples of peer companies, such assets are reduced to their estimated fair value and a charge is made to operations. The remaining weighted-average amortization period for intangibles was 11 years, at both May 31, 2018 and May 31, 2017, respectively.

## 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 are less than the carrying value of the asset. 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.

## Reclassifications

Certain amounts in the fiscal 2017 and 2016 financial statements have been reclassified to conform with the fiscal 2018 presentation.

## Stock Options

At May 31, 2018, we had stock option plans which are described more fully in Note 5.

The weighted-average fair value per share of stock options granted during fiscal years 2018, 2017 and 2016, estimated on the date of grant using the Black-Scholes option pricing model, was $14.47, $11.89 and $9.83, respectively. The fair value of stock options granted was estimated using the following weighted-average assumptions:

| | | Year ended May 31 | |
|---|---|---|---|
| | **2018** | 2017 | 2016 |
| Risk-free interest rate | **1.6%** | 1.2% | 1.2% |
| Expected dividend yield | **0.0%** | 0.0% | 0.0% |
| Expected stock volatility | **27.7%** | 35.2% | 33.3% |
| Expected option life | **4.0 years** | 4.0 years | 4.0 years |

The risk-free interest rate for periods within the expected life of options granted is based on the United States Treasury yield curve in effect at the time of grant. Expected stock price volatility is based on historical volatility of our stock. The expected option life, representing the period of time that options granted are expected to be outstanding, is based on historical option exercise and employee termination data. Prior to the fiscal 2017 grants, we recognized the fair value of stock options using the accelerated method over their requisite service periods which we have determined to be the vesting periods; for options granted in fiscal years 2017 and 2018, we recognized the fair value of stock options using the straight-line method.

### Revenue Recognition

Revenue from products and services is recognized when the product has been shipped or the service performed, the sales price is fixed and determinable, and collection of any receivable is probable. To the extent that customer payment has been received before all recognition criteria are met, these revenues are initially deferred and later recognized in the period that all recognition criteria have been met. Customer credits for sales returns, pricing and other disputes, and other related matters (including volume rebates offered to certain distributors as marketing support) represent approximately 3% of reported net revenue in fiscal years 2018, 2017 and 2016.

### Shipping and Handling Costs

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; these expenses totaled $12,147,000, $10,185,000 and $9,734,000 in fiscal years 2018, 2017 and 2016, respectively.

### 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.

Our wholly-owned foreign subsidiaries are comprised of Neogen Europe, Lab M Holdings, Quat-Chem, Neogen do Brasil, Deoxi Biotecnologia Ltda, Rogama Industria e Comercio Ltda, Acumedia do Brasil, Neogen Latinoamérica, Neogen Bio-Scientific Technology Co (Shanghai), Neogen Food and Animal Security (India), Neogen Canada, and Neogen Australasia Pty Limited. Based on historical experience, as well as our future plans, earnings from these subsidiaries are expected to be re-invested indefinitely for future expansion and working capital needs. Furthermore, our domestic operations have historically produced sufficient operating cash flow to mitigate the need to remit foreign earnings. On an annual basis, we evaluate the current business environment and whether any new events or other external changes might require a re-evaluation of the decision to indefinitely re-invest foreign earnings. At May 31, 2018, unremitted earnings of our foreign subsidiaries were $43,784,000.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the Tax Act) was signed into law, making significant changes to the Internal Revenue Code. Changes include a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. On December 22, 2017, Staff Accounting Bulletin No. 118 (SAB 118) was issued to address the application of U.S. GAAP to situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. In accordance with SAB 118, we have determined that the $6.0 million of deferred tax benefit recorded in connection with the remeasurement of certain deferred tax assets and liabilities and the $1.2 million of current tax expense recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings was a provisional amount at May 31, 2018. Any subsequent adjustment to these amounts will be recorded to current tax expense in the quarter of 2019 when any further analysis of our deferred tax assets and liabilities and our historical foreign earnings is completed.

### Research and Development Costs

Research and development costs, which consist primarily of compensation costs, administrative expenses and new product development, among other items, are expensed as incurred.

### Advertising Costs

Advertising costs are expensed as incurred and totaled $1,699,000, $1,643,000 and $1,463,000 in fiscal years 2018, 2017 and 2016, respectively.

### Net Income Attributable to Neogen per Share

Basic net income per share is based on the weighted average number of common shares outstanding during each year. Diluted earnings per share is based on the weighted average number of common shares and dilutive potential common shares outstanding. Our dilutive potential common shares outstanding during the years result entirely from dilutive stock options. The following table presents the net income per share calculations:

| | Year ended May 31 | | |
|---|---|---|---|
| *(In thousands, except per share)* | **2018** | 2017 | 2016 |
| Numerator for basic and diluted net income per share – Net income attributable to Neogen | **$ 63,145** | $ 43,793 | $ 36,564 |
| Denominator for basic net income per share – Weighted average shares | **51,358** | 50,544 | 49,869 |
| Effect of dilutive stock options | **791** | 621 | 631 |
| Denominator for diluted net income per share | **52,149** | 51,165 | 50,500 |
| Net income attributable to Neogen per share | | | |
| Basic | **$ 1.23** | $ 0.87 | $ 0.73 |
| Diluted | **$ 1.21** | $ 0.86 | $ 0.72 |

At May 31, 2018, 2017 and 2016, the market price of the common stock exceeded the option exercise price for all outstanding options; therefore, no shares were excluded from the diluted net income per share computation.

### New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 — Revenue from Contracts with Customers (Topic 606). The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is designed to create greater comparability for financial statement users across industries and jurisdictions and also requires enhanced disclosures. In April 2016, the FASB issued Accounting Standards Update No. 2016-10 — Revenue from Contracts with Customers (Topic 606), which amends and adds clarity to certain aspects of the guidance set forth in ASU 2014-09 related to identifying performance obligations and licensing. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The guidance permits two methods of adoption: a full retrospective method to each prior reporting period presented or a modified retrospective approach with the cumulative effect of initially applying the guidance recognized at the date of initial application. Our internal task force identified all revenue streams at each significant subsidiary and reviewed contracts to evaluate the impact of adopting the new standard on our revenue recognition policies, procedures and control framework and ultimately on our consolidated financial statements and related disclosures. In our review of contracts in each revenue stream, we noted no material impact in the implementation of the standard. We have determined the impact of adopting the standard on our control framework and noted minimal, insignificant changes to our system and other controls processes. We adopted this standard on June 1, 2018 using the full retrospective approach. This approach was chosen to provide appropriate comparisons against our prior year financial statements. We are finalizing the impact of this ASU on the disclosures for our financial statement footnotes and expect the disclosures to be enhanced in the first quarter of fiscal 2019.

In February 2016, the FASB issued ASU No. 2016-02 — Leases to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessor have not significantly changed from previous U.S. GAAP. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018; early adoption is permitted. Modified retrospective application is permitted with certain practical expedients. We will adopt this ASU on June 1, 2019 and are currently in the process of evaluating our lessee and lessor arrangements to determine the impact of this amendment on our consolidated financial condition and results of operations. This evaluation includes a review of revenue through leasing arrangements as well as lease expenses, which are primarily through operating lease arrangements at most of our facilities.

In March 2016, the FASB issued ASU No. 2016-09 — Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting to provide guidance that changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid-in capital pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. We adopted this standard effective June 1, 2017. Adoption of this ASU decreased income tax expense by $4,816,000 in fiscal 2018; refer to Note 6 of our Consolidated Financial Statements for further information.

In June 2016, the FASB issued ASU No. 2016-13 — Measurement of Credit Losses on Financial Instruments, which changes how companies measure credit losses on most financial instruments measured at amortized cost and certain other instruments, such as loans, receivables and held-to-maturity debt securities. Rather than generally recognizing credit losses when it is probable that the loss has been incurred, the revised guidance requires companies to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the company expects to collect over the instrument's contractual life. ASU 2016-13 is effective for fiscal periods beginning after December 15, 2019 and must be adopted as a cumulative effect adjustment to retained earnings. Early adoption is permitted. We do not believe adoption of this guidance will have an impact on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15 — Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). The amendments in ASU 2016-15 address eight specific cash flow issues and apply to all entities that are required to present a statement of cash flows under FASB Accounting Standards Codification (FASB ASC) 230, Statement of Cash Flows. The amendments in ASU 2016-15 are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption during an interim period. We will adopt this ASU on June 1, 2019 and are currently evaluating its impact on our consolidated financial statements.

## 2. GOODWILL AND OTHER INTANGIBLE ASSETS

Management has completed the annual impairment analysis of goodwill and intangible assets with indefinite lives using a quantitative assessment as of the first day of the fourth quarter of fiscal years 2018, 2017 and 2016, respectively, and determined that recorded amounts were not considered impaired and that no write-down was necessary.

The following table summarizes goodwill by reportable segment:

| *(In thousands)* | Food Safety | Animal Safety | Total |
|---|---|---|---|
| Balance, May 31, 2016 | $ 26,889 | $ 61,617 | $ 88,506 |
| Goodwill acquired | 19,051 | – | 19,051 |
| Goodwill adjustments and/or currency [(1)] | (20) | (2,778) | (2,798) |
| Balance, May 31, 2017 | $ 45,920 | $ 58,839 | $ 104,759 |
| Goodwill acquired | – | 757 | 757 |
| Goodwill adjustments and/or currency [(1)] | (5,919) | (39) | (5,958) |
| **Balance, May 31, 2018** | **$ 40,001** | **$ 59,557** | **$ 99,558** |

[(1)] Includes final purchase price allocation adjustment.

At May 31, 2018, non-amortizable intangible assets included licenses of $569,000, trademarks of $12,989,000 and other intangibles of $1,224,000. At May 31, 2017, non-amortizable intangible assets included licenses of $569,000, trademarks of $12,530,000 and other intangibles of $1,224,000.

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

| *(In thousands)* | Gross Carrying Amount | Less Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|
| Licenses | $ 9,491 | $ 2,523 | $ 6,968 |
| Covenants not to compete | 801 | 483 | 318 |
| Patents | 9,693 | 5,013 | 4,680 |
| Customer-based intangibles | 56,420 | 24,579 | 31,841 |
| Other product and service-related intangibles | 15,299 | 4,451 | 10,848 |
| **Balance, May 31, 2018** | **$ 91,704** | **$ 37,049** | **$ 54,655** |
| Licenses | $ 5,989 | $ 2,011 | $ 3,978 |
| Covenants not to compete | 1,208 | 309 | 899 |
| Patents | 9,304 | 4,601 | 4,703 |
| Customer-based intangibles | 56,829 | 20,846 | 35,983 |
| Other product and service-related intangibles | 12,065 | 3,010 | 9,055 |
| Balance, May 31, 2017 | $ 85,395 | $ 30,777 | $ 54,618 |

Amortization expense for intangibles totaled $6,743,000, $5,908,000 and $4,730,000 in fiscal years 2018, 2017, and 2016, respectively. The estimated amortization expense for each of the five succeeding fiscal years is as follows: $6,179,000 in 2019, $5,865,000 in 2020, $5,435,000 in 2021, $5,048,000 in 2022 and $4,702,000 in 2023. The amortizable intangible assets useful lives are 2 to 20 years for licenses, 5 to 13 years for covenants not to compete, 5 to 25 years for patents, 5 to 20 years for customer-based intangibles and 2 to 20 years for other product and service-related intangibles, which primarily consist of product formulations. 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.

## 3. BUSINESS COMBINATIONS

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

### Fiscal 2016

On June 1, 2015, we acquired the assets of Sterling Test House, a commercial food testing laboratory based in India. Consideration for the purchase was $1,118,000 in cash and approximately $102,000 of a contingent consideration liability, due in installments on the first two anniversary dates, based on an excess sales formula. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $43,000, inventory of $14,000, property and equipment of $141,000, contingent consideration accrual of $102,000, intangible assets of $345,000 (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. This business continues to operate in its current location and reports within the Food Safety segment. In July 2016, we paid the former owner $70,000 for contingent consideration based on the achievement of sales targets, and reduced the recorded liability by a corresponding amount. In May 2016, we charged the remaining contingent consideration accrual of $32,000 to Other Income because sales targets for the applicable periods were not achieved.

On August 26, 2015, we acquired all the stock of Lab M Holdings, a developer, manufacturer and supplier of microbiological culture media and diagnostic systems located in the United Kingdom. Consideration for the purchase was $12,436,000 in cash. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included cash of $285,000, accounts receivable of $975,000, inventory of

$1,169,000, property and equipment of $3,337,000, other current assets of $309,000, current liabilities of $948,000, non-current deferred tax liability of $784,000, intangible assets of $3,611,000 (with an estimated life of 5-15 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. This business continues to operate in its current location and reports within the Food Safety segment.

On December 22, 2015, we acquired the rodenticide assets of Virbac Corporation, the North American affiliate of the France-based Virbac group, a global animal health company. The acquired assets include a rodenticide active ingredient that complements Neogen's existing active ingredients, and more than 40 regulatory approvals for a variety of formulations in the United States, Canada and Mexico. The acquired assets also include a large retail and OEM customer base. Consideration for the purchase was $3,525,000 in cash and up to $300,000 of contingent consideration. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included inventory of $317,000, property and equipment of $60,000, current liabilities of $300,000, intangible assets of $1,759,000 (with an estimated life of 5-15 years), non-amortizable trademarks of $200,000 and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. The products are manufactured at our production facility in Randolph, Wisconsin, and report within the Animal Safety segment. In fiscal 2016, we paid the former owner $300,000 of contingent consideration based on the achievement of specific objectives, and reduced the recorded liability by a corresponding amount.

On April 26, 2016, we acquired the stock of Deoxi Biotecnologia Ltda., an animal genomics laboratory located in Aracatuba, Brazil. This acquisition is intended to help accelerate the growth of Neogen's animal genomics services in Brazil. Consideration for the purchase was $1,549,000 in cash and up to $2,552,000 of contingent consideration, due at the end of each of the first two years, based on an excess net sales formula. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $132,000, inventory of $89,000, other current assets of $9,000, property and equipment of $232,000, current liabilities of $266,000, contingent consideration accrual of $453,000, non-current deferred tax liability of $184,000, non-amortizable trademarks of $193,000, intangible assets of $350,000 (with an estimated life of 5-10 years) and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. This business continues to operate in its current location and is managed by Neogen do Brasil, reporting within the Food Safety segment. In June 2017, we paid the former owners $393,000 in contingent consideration based on the achievement of sales targets, and charged $14,000 to Other Expense. In June 2018, we agreed to pay the former owners $122,000 in contingent consideration based on the achievement of sales targets and charged $42,000 to Other Expense; the funds are currently in escrow awaiting settlement of a legal matter.

On May 1, 2016, we acquired the stock of Preserve International and its sister company, Tetradyne LLC, manufacturers and marketers of cleaners, disinfectants and associated products to the swine, poultry, food processing and dairy markets. Preserve and Tetradyne have manufacturing locations in Memphis, Tennessee and Turlock, California. Consideration for the purchase was $24,245,000 in 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 $1,629,000, inventory of $1,964,000, other current assets of $269,000, land, property and equipment of $1,625,000, current liabilities of $987,000, non-current liabilities of $660,000, intangible assets of $11,950,000 (with an estimated life of 5-15 years), non-amortizable trademarks of $2,600,000, and the remainder to goodwill (partially deductible for tax purposes). These values are Level 3 fair value measurements. This business continues to operate in its current locations and reports within the Animal Safety segment.

### Fiscal 2017

On December 1, 2016, we acquired the stock of Quat-Chem Ltd., a chemical company that manufactures biosecurity products, based in Rochdale, England. Consideration for the purchase was $21,606,000 in cash and up to $3,778,000 of contingent consideration, due at the end of each of the first two years, based on an excess net sales formula. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $4,684,000, inventory of $1,243,000, land, property and equipment of $2,526,000, accounts payable of $2,197,000, deferred tax liability of $1,758,000, contingent consideration accrual of $1,058,000, other current liabilities of $604,000, non-amortizable intangible assets of $1,889,000, intangible assets of $6,900,000 (with an estimated life of 5-15 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. In January 2018, we paid the former owners $249,000 in contingent consideration based on the achievement of sales targets in the first year, and recorded a credit of $255,000 to Other Income, reducing the contingent consideration accrual by a corresponding amount; $554,000 remains accrued for contingent consideration payable at the end of the second year. This business continues to operate in its current location and is managed by Neogen Europe, reporting within the Food Safety segment.

On December 27, 2016, we acquired the stock of Rogama Industria e Comercio, Ltda., a company that develops and manufactures rodenticides and insecticides, based near São Paulo, Brazil. Consideration for the purchase was $12,423,000 in cash and up to $2,069,000 of contingent consideration, due at the end of each of the first two years, based on an excess net sales formula. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $1,866,000, other non-current assets of $26,000, inventory of $960,000, land, property and equipment of $4,734,000, current liabilities of $2,562,000, contingent consideration accrual of $213,000, deferred tax liability of $2,034,000, non-amortizable intangible assets of $870,000, intangible assets of $5,112,000 (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. In April 2018, we paid the former owners $130,000 in contingent consideration based on the achievement of sales targets in the first year. The contingent consideration accrual was reduced by the same amount; $83,000 remains accrued for contingent consideration payable at the end of the second year. This business continues to operate in its current location and is managed by Neogen do Brasil, reporting within the Food Safety segment.

### Fiscal 2018

On September 1, 2017, we acquired the assets of The University of Queensland Animal Genetics Laboratory, an animal genomics laboratory located near Brisbane, Australia. This acquisition is intended to accelerate the growth of our animal genomics business in Australia and New Zealand. Consideration for the purchase was $2,063,000; $468,000 has been paid in cash with the remainder due in annual installments over the next five years. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included inventory of $19,000, equipment of $419,000, non-current liabilities of $1,629,000, intangible assets of $902,000 (with an estimated life of 5-15 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. The new business, renamed Neogen Australasia, continues to operate in its current location, reporting within the Animal Safety segment.

## 4. LONG-TERM DEBT

We have a financing agreement with a bank providing for an unsecured revolving line of credit, which was amended on November 30, 2016 to increase the line from $12,000,000 to $15,000,000, and extend the maturity from September 1, 2017 to September 30, 2019. There were no advances against the line of credit during fiscal years 2017 and 2018; there was no balance outstanding at May 31, 2018. Interest on any borrowings is at LIBOR plus 100 basis points (rate under the terms of the agreement was 3.14% at May 31, 2018). Financial covenants include maintaining specified levels of tangible net worth, debt service coverage, and funded debt to EBITDA, each of which we were in compliance with at May 31, 2018.

## 5. EQUITY COMPENSATION PLANS

Qualified and non-qualified options to purchase shares of common stock may be granted to directors, officers and employees of Neogen under the terms of our 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. Remaining shares available for grant under stock option plans were 1,913,000, 2,525,000 and 3,276,000 at May 31, 2018, 2017 and 2016, respectively. Options vest ratably over three and five-year periods and the contractual terms are generally five or ten years.

| *(Options in thousands)* | Options | Weighted-Average Exercise Price | Weighted-Average Grant Date Fair Value |
|---|---|---|---|
| Outstanding at May 31, 2015 (852 exercisable) | 2,651 | $ 23.29 | $ 6.90 |
| Granted | 732 | 35.23 | 9.83 |
| Exercised | (569) | 17.60 | 5.36 |
| Forfeited | (39) | 28.93 | 8.36 |
| Outstanding at May 31, 2016 (875 exercisable) | 2,775 | 27.53 | 7.97 |
| Granted | 828 | 40.68 | 11.89 |
| Exercised | (827) | 22.82 | 6.77 |
| Forfeited | (77) | 32.04 | 9.17 |
| Outstanding at May 31, 2017 (661 exercisable) | 2,699 | 32.88 | 9.51 |
| Granted | 829 | 59.37 | 14.47 |
| Exercised | (821) | 28.18 | 8.20 |
| Forfeited | (208) | 39.57 | 11.12 |
| **Outstanding at May 31, 2018 (508 exercisable)** | **2,499** | **$ 42.63** | **$ 11.44** |

The following is a summary of stock options outstanding at May 31, 2018:

| *(Options in thousands)* | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise price | Number | Average Contractual Life (in years) | Weighted-Average Exercise Price | Number | Weighted Average Exercise Price |
| $ 8.27–30.03 | 515 | 1.5 | $ 27.08 | 226 | $ 24.78 |
| 30.04–37.26 | 522 | 3.2 | 34.84 | 179 | 34.00 |
| 37.27–40.91 | 619 | 3.8 | 40.45 | 90 | 40.44 |
| 40.92–59.78 | 173 | 6.0 | 50.85 | 13 | 42.19 |
| 59.79–68.96 | 670 | 4.5 | 60.55 | – | – |
| | 2,499 | 3.5 | 42.63 | 508 | 31.23 |

The weighted average exercise price of shares that were exercisable at May 31, 2018 and 2017 was $31.23 and $26.49, respectively.

Compensation expense related to share-based awards was $4,909,000, $5,261,000 and $5,468,000 in fiscal years 2018, 2017 and 2016, respectively. Remaining compensation cost to be expensed in future periods for non-vested options was $15,367,000 at May 31, 2018, with a weighted average expense recognition period of 3.5 years.

The aggregate intrinsic value of options outstanding and options exercisable was $82,649,000 and $22,572,000, respectively, at May 31, 2018, $39,388,000 and $13,929,000 respectively, at May 31, 2017 and $26,344,000 and $12,912,000 respectively, at May 31, 2016. The aggregate intrinsic value of options exercised during the year was $25,844,000 in fiscal 2018, $18,067,000 in fiscal 2017 and $12,980,000 in fiscal 2016.

Common stock totaling 332,000 of the 450,000 originally authorized shares are reserved for issuance under the terms of the 2011 Employee Stock Purchase Plan. The plan gives 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; the discount is recorded in general and administrative expense. Total individual purchases in any year are limited to 10% of compensation. Shares purchased by employees were 22,127 in fiscal 2018, 24,953 in fiscal 2017 and 24,369 in fiscal 2016.

## 6. INCOME TAXES

Income before income taxes by source consists of the following amounts:

| | Year ended May 31 | | |
|---|---|---|---|
| *(In thousands)* | **2018** | 2017 | 2016 |
| U.S. | **$ 62,310** | $ 55,171 | $ 50,662 |
| Foreign | **11,155** | 11,502 | 4,851 |
| | **$ 73,465** | $ 66,673 | $ 55,513 |

The provision for income taxes consisted of the following:

| *(In thousands)* | **2018** | 2017 | 2016 |
|---|---|---|---|
| Current: | | | |
| U.S. Taxes | **$ 10,129** | $ 20,259 | $ 14,630 |
| Foreign | **3,066** | 2,514 | 1,756 |
| Deferred | **(2,945)** | (73) | 2,589 |
| | **$ 10,250** | $ 22,700 | $ 18,975 |

The reconciliation of income taxes computed at the U.S. federal statutory tax rate to income tax expense is as follows:

| *(In thousands)* | **2018** | 2017 | 2016 |
|---|---|---|---|
| Tax at U.S. statutory rate | **$ 21,459** | $ 23,336 | $ 19,429 |
| Section 199 domestic production deduction | **(1,167)** | (1,057) | (1,143) |
| Foreign rate differential | **(461)** | (1,247) | (699) |
| Subpart F income | **816** | 996 | 1,049 |
| Excess tax benefits on stock-based compensation | **(4,816)** | – | – |
| Release of FIN 48 reserve from closed tax years | **(1,035)** | – | – |
| Provision for state income taxes, net of federal benefit | **975** | 972 | 779 |
| Remeasurement of deferred taxes | **(6,022)** | – | – |
| Transition tax on foreign earnings and profits | **1,223** | – | – |
| Amended U.S. Federal tax returns FY12, FY13 & FY14 | **–** | – | (777) |
| Tax credits and other | **(722)** | (300) | 337 |
| | **$ 10,250** | $ 22,700 | $ 18,975 |

### Fiscal 2018 and 2017

On June 1, 2017, the Company adopted ASU No. 2016-09, which simplifies the accounting for share-based payments to employees. The guidance requires the recognition of the income effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid-in capital pools. The guidance also allows for a policy election to account for forfeitures as they occur, rather than on an estimated basis, and requires that excess tax benefits be classified as an operating activity on the Statement of Cash Flows. The adoption of this decreased income tax expense by $4.8 million in fiscal 2018.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the Tax Act) was signed into law, making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. On December 22, 2017, Staff Accounting Bulletin No. 118 (SAB 118) was issued to address the application of U.S. GAAP to situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, we have determined that the $6.0 million of deferred tax benefit recorded in connection with the remeasurement of certain deferred tax assets and liabilities and the $1.2 million of current tax expense recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings was a provisional amount at May 31, 2018. Any subsequent adjustment to these amounts will be recorded to current tax expense in the quarter of 2019 when any further analysis of our deferred tax assets and liabilities and our historical foreign earnings is completed.

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred income tax liabilities and assets are as follows:

| | Year ended May 31 | |
|---|---|---|
| *(In thousands)* | **2018** | 2017 |
| Deferred income tax liabilities | | |
| Indefinite and long-lived assets | **$ (17,503)** | $ (23,177) |
| Prepaid expenses | **(573)** | (640) |
| | **(18,076)** | (23,817) |
| Deferred income tax assets | | |
| Stock options | **1,489** | 2,604 |
| Inventories and accounts receivable | **1,593** | 2,603 |
| Tax loss carryforwards | **134** | 436 |
| Accrued expenses and other | **757** | 1,126 |
| | **3,973** | 6,769 |
| Net deferred income tax liabilities | **$ (14,103)** | $ (17,048) |

We had no accrual for unrecognized tax benefits at both May 31, 2018 and 2017. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, such accruals will be reflected within income tax accounts.

## 7. COMMITMENTS AND CONTINGENCIES

We are involved in environmental remediation and monitoring activities at our Randolph, Wisconsin manufacturing facility and accrue for related costs when such costs are determined to be probable and estimable. We expense annual costs of remediation which have ranged from $38,000 to $74,000 per year over the past five years. Our estimated liability for these costs is $916,000 at both May 31, 2018 and 2017, measured on an undiscounted basis over an estimated period of 15 years; $100,000 of the liability is recorded within current liabilities and includes $45,000 to perform an updated Corrective Measures Study, per a request received in 2017 from the Wisconsin Department of Natural Resources and the remainder is recorded within other non-current liabilities in the consolidated balance sheet.

We have agreements with unrelated third parties that provide for the payment of license fees and royalties on the sale of certain products. Royalty expense, recorded in sales and marketing, under the terms of these agreements was $2,876,000, $2,659,000 and $1,969,000 for fiscal years 2018, 2017 and 2016, respectively. Some of these agreements provide for guaranteed minimum royalty payments to be paid each fiscal year by the Company for certain technologies. Future minimum royalty payments are as follows: 2019—$634,000, 2020—$641,000, 2021—$649,000, 2022—$572,000 and 2023—$568,000.

We lease office and manufacturing facilities under non-cancelable operating leases. Rent expense for fiscal years 2018, 2017 and 2016 was $799,000, $729,000 and $662,000, respectively. Future fiscal year minimum rental payments for these leases over their remaining terms are as follows: 2019—$498,000, 2020—$86,000, 2021—$108,000, 2022—$141,000, and 2023 and later—$73,000.

We are 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 our future results of operations or financial position.

## 8. DEFINED CONTRIBUTION BENEFIT PLAN

We maintain a defined contribution 401(k) benefit plan covering substantially all domestic employees. Employees are permitted to defer compensation up to IRS limits, with Neogen matching 100% of the first 3% of deferred compensation and 50% of the next 2% deferred. Our expense under this plan was $1,325,000, $1,259,000, and $1,188,000 in fiscal years 2018, 2017 and 2016, respectively.

## 9. SEGMENT INFORMATION

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

Neogen's international operations in the United Kingdom, Mexico, Brazil, China and India originally focused on the sales and marketing of our 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.

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

Segment information is as follows:

| *(In thousands)* | Food Safety | Animal Safety | Corporate and Eliminations (1) | Total |
|---|---|---|---|---|
| **Fiscal 2018** | | | | |
| **Product revenues to external customers** | **$ 176,123** | **$ 159,431** | **$ –** | **$ 335,554** |
| **Service revenues to external customers** | **19,924** | **46,774** | **–** | **66,698** |
| **Total revenues to external customers** | **196,047** | **206,205** | **–** | **402,252** |
| **Operating income (loss)** | **34,561** | **39,529** | **(3,896)** | **70,194** |
| **Depreciation and amortization** | **9,083** | **7,975** | **–** | **17,058** |
| **Total assets** | **186,570** | **220,629** | **210,810** | **618,009** |
| **Expenditures for long-lived assets** | **10,538** | **10,408** | **–** | **20,946** |
| Fiscal 2017 | | | | |
| Product revenues to external customers | $ 155,795 | $ 150,717 | $ – | $ 306,512 |
| Service revenues to external customers | 15,530 | 39,552 | – | 55,082 |

| (In thousands) | Food Safety | Animal Safety | Corporate and Eliminations (1) | Total |
|---|---|---|---|---|
| Total revenues to external customers | 171,325 | 190,269 | – | 361,594 |
| Operating income (loss) | 33,971 | 34,841 | (3,867) | 64,945 |
| Depreciation and amortization | 7,088 | 7,603 | – | 14,691 |
| Total assets | 190,895 | 210,927 | 126,587 | 528,409 |
| Expenditures for long-lived assets | 10,332 | 4,246 | – | 14,578 |
| Fiscal 2016 | | | | |
| Product revenues to external customers | $ 133,743 | $ 139,827 | $ – | $ 273,570 |
| Service revenues to external customers | 12,678 | 35,027 | – | 47,705 |
| Total revenues to external customers | 146,421 | 174,854 | – | 321,275 |
| Operating income (loss) | 28,984 | 30,978 | (3,576) | 56,386 |
| Depreciation and amortization | 5,609 | 6,572 | – | 12,181 |
| Total assets | 143,303 | 215,374 | 91,263 | 449,940 |
| Expenditures for long-lived assets | 9,192 | 5,030 | – | 14,222 |

(1) Includes corporate assets, including 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 and non-controlling interests.

Revenues to customers located outside the United States amounted to $151,262,000 or 37.6% of consolidated revenues in fiscal 2018, $129,322,000 or 35.8% in fiscal 2017 and $107,680,000 or 33.5% in fiscal 2016 and were derived primarily in various countries throughout Europe, Canada, South and Central America and Asia. No customer represented revenues in excess of 10% of consolidated net sales in any of the three years. The U.S. based operations represent 75% of the Company's long-lived assets as of May 31, 2018 and 76% as May 31, 2017.

## 10. STOCK REPURCHASE

In December 2008, our Board of Directors authorized a program to purchase, subject to market conditions, up to 1,500,000 shares of our common stock. As of May 31, 2018, 149,368 cumulative shares have been purchased in negotiated and open market transactions for a total price, including commissions, of approximately $923,000. There were no purchases in fiscal years 2018, 2017 or 2016. Shares purchased under the program were retired.

## 11. SUMMARY OF QUARTERLY DATA (UNAUDITED)

| | Quarter Ended | | | |
|---|---|---|---|---|
| (In thousands, except per share) | August 2017 | November 2017 | February 2018 | May 2018 |
| Total revenues | $ 95,256 | $ 101,817 | $ 95,892 | $ 109,287 |
| Gross margin | 45,871 | 49,271 | 45,521 | 49,589 |
| Net income | 11,936 | 17,153 | 16,581 | 17,545 |
| Net income attributable to Neogen | 11,914 | 17,100 | 16,586 | 17,545 |
| Basic net income per share | 0.23 | 0.33 | 0.32 | 0.34 |
| Diluted net income per share | 0.23 | 0.33 | 0.32 | 0.33 |

| | Quarter Ended | | | |
|---|---|---|---|---|
| (In thousands, except per share) | August 2016 | November 2016 | February 2017 | May 2017 |
| Total revenues | $ 83,645 | $ 90,717 | $ 88,385 | $ 98,847 |
| Gross margin | 40,479 | 43,591 | 40,880 | 47,018 |
| Net income | 9,934 | 11,171 | 10,377 | 12,491 |
| Net income attributable to Neogen | 9,881 | 11,151 | 10,287 | 12,474 |
| Basic net income per share | 0.20 | 0.22 | 0.20 | 0.25 |
| Diluted net income per share | 0.20 | 0.22 | 0.20 | 0.24 |

Quarterly net income per share is based on weighted-average shares outstanding and potentially dilutive stock options for the specific period, and as a result, will not necessarily aggregate to total net income per share as computed for the year as disclosed in the consolidated statements of income.

# *Report of Independent Registered Public Accounting Firm*

Board of Directors and Stockholders
Neogen Corporation
Lansing, Michigan

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Neogen Corporation (the "Company") and subsidiaries as of May 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended May 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at May 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of May 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated July 27, 2018 expressed an unqualified opinion thereon.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2014.

BDO USA, LLP

BDO USA, LLP
Grand Rapids, Michigan
July 27, 2018

# *Management's Report on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13-a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including the Executive Chairman of the Board and Chief Financial Officer, an evaluation was conducted as to the effectiveness of internal control over financial reporting as of May 31, 2018, based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, management concluded that internal control over financial reporting was effective as of May 31, 2018. The effectiveness of internal control over financial reporting as of May 31, 2018, has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in its attestation report, which is included on the following page and is incorporated into this Item 9A by reference.

### Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting were identified as having occurred during the year ended May 31, 2018 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

**James L. Herbert**, Executive Chairman

**Steven J. Quinlan**, Vice President and CFO

# *Report of Independent Registered Public Accounting Firm*

Board of Directors and Stockholders
Neogen Corporation
Lansing, Michigan

### Opinion on Internal Control over Financial Reporting

We have audited Neogen Corporation's (the "Company's") internal control over financial reporting as of May 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company and subsidiaries as of May 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended May 31, 2018, and the related notes and our report dated July 27, 2018 expressed an unqualified opinion thereon.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

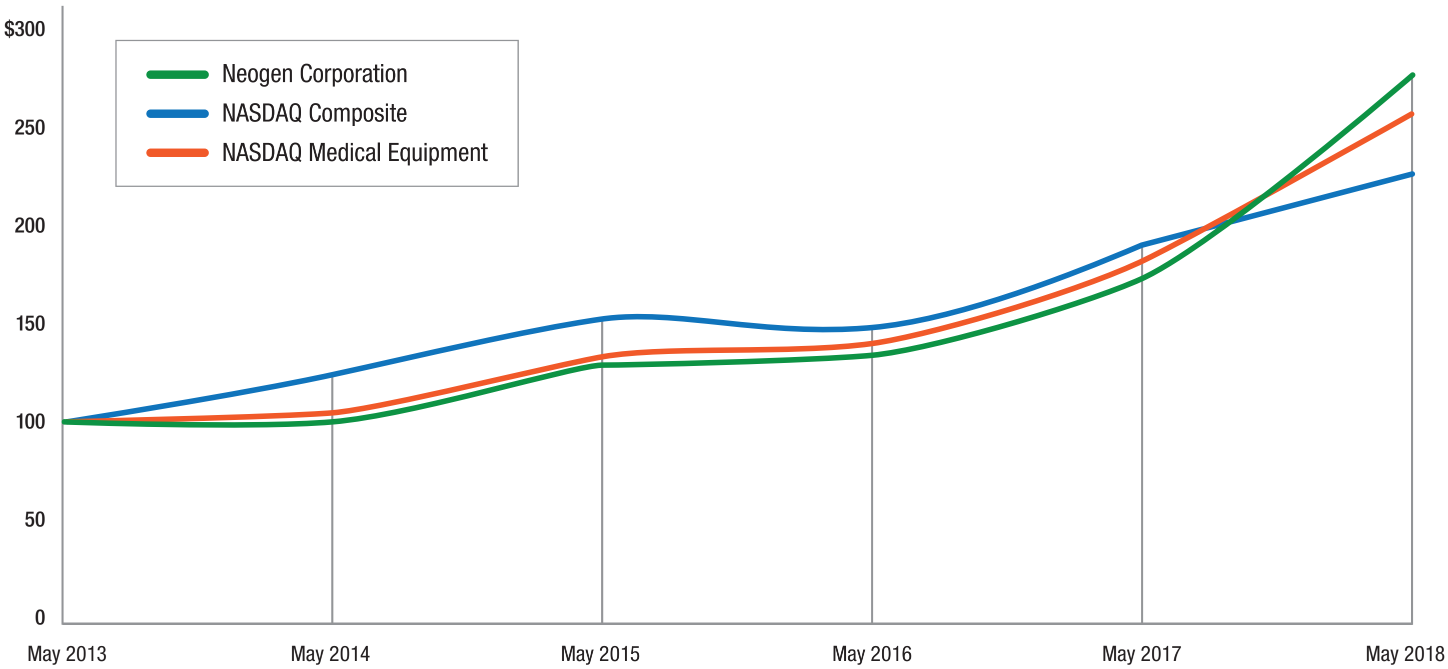
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

BDO USA, LLP

BDO USA, LLP
Grand Rapids, Michigan
July 27, 2018

# *Neogen Corporation and Subsidiaries: Comparison of Five Year Cumulative Total Return and Stock Profile Activity*

The graph below matches Neogen Corporation's cumulative 5-Year total shareholder return on common stock with the cumulative total returns of the NASDAQ Composite index and the NASDAQ Medical Equipment index. The graph tracks the performance of a $100 investment in our common stock and in each index (with the reinvestment of all dividends) from May 31, 2013 to May 31, 2018.




| May 31 of: | 2013 | 2014 | 2015 | 2016 | 2017 | **2018** |
|---|---|---|---|---|---|---|
| Neogen Corporation | $ 100.00 | $ 104.07 | $ 128.71 | $ 135.96 | $ 174.29 | **$ 277.99** |
| NASDAQ Composite | 100.00 | 125.98 | 151.80 | 150.04 | 189.31 | **228.19** |
| NASDAQ Medical Equipment | 100.00 | 105.43 | 134.12 | 140.40 | 184.56 | **258.15** |

*The stock price performance included in this graph is not necessarily indicative of future stock price performance.*

## Market Information

Neogen Common Stock is traded on the NASDAQ Global Select Market under the symbol "NEOG." The following table sets forth, for the fiscal periods indicated, the high and low sales prices for the Common Stock as reported on the NASDAQ Stock Market.

| | | High | Low |
|---|---|---|---|
| **Year Ended May 31, 2018** | **First Quarter** | **$ 52.28** | **$ 48.30** |
| | **Second Quarter** | **63.25** | **51.85** |
| | **Third Quarter** | **62.86** | **54.64** |
| | **Fourth Quarter** | **76.13** | **58.78** |
| Year Ended May 31, 2017 | First Quarter | $ 44.76 | $ 38.00 |
| | Second Quarter | 47.47 | 38.40 |
| | Third Quarter | 50.92 | 46.20 |
| | Fourth Quarter | 51.43 | 44.76 |

Neogen declared a 4-for-3 stock split effective on December 29, 2017. All share prices above have been adjusted as if the split had been in effect at the beginning of the periods presented.

## Holders

As of June 30, 2018, there were approximately 266 stockholders of record of Common Stock and management believes there are a total of approximately 12,000 beneficial holders.

## Dividends

Neogen has never paid cash dividends on its Common Stock and does not anticipate paying cash dividends in the foreseeable future.

# *Neogen Corporation Officers and Directors*

## OFFICERS

**James L. Herbert**
Executive Chairman of the Board

**John E. Adent**
President
Chief Executive Officer

**Steven J. Quinlan**
Vice President
Chief Financial Officer and Secretary

**Stewart W. Bauck, DVM, Ph.D.**
Vice President, Agrigenomics

**Joseph A. Corbett**
Vice President, Animal Safety Sales and Operations

**Robert S. Donofrio, Ph.D.**
Vice President, Food Safety R&D

**Shane M. Fitzwater**
Vice President, Animal Safety Operations

**Jerome L. Hagedorn**
Vice President, Food Safety Operations

**Melissa K. Herbert**
Vice President, Support Services

**Jason W. Lilly, Ph.D.**
Vice President, Corporate Development

**Terri A. Morrical**
Vice President, Animal Safety

**Dwight E. Schroedter**
Vice President, Animal Safety Manufacturing

## DIRECTORS

**James L. Herbert**
Neogen Corporation
Executive Chairman of the Board

**William T. Boehm, Ph.D.**
Kroger Company
Former Senior Vice President

President's Council of Economic Advisors
Former Senior Economist

**James C. Borel**
E.I. DuPont de Nemours
Former Executive Vice President

**Ronald D. Green, Ph.D.**
University of Nebraska–Lincoln
Chancellor

**G. Bruce Papesh**
Dart, Papesh & Co.
President

**Jack C. Parnell**
Siller Brothers, Inc.
Chairman of the Board

Siller Helicopters, Inc.
Chairman of the Board

U.S. Department of Agriculture
Former Deputy Secretary
Former Acting Secretary

State of California
Former Secretary of Agriculture

**Thomas H. Reed**
Tom Reed & Associates
President

JBS Packerland
Former Senior Vice President

Michigan Livestock Exchange
Former President and CEO

MSU Board of Trustees
Former Chairman

**James P. Tobin**
Monsanto
Former Vice President

**Darci L. Vetter**
Edelman
General Manager and Vice Chair for Food, Agriculture and Trade

Former Chief Agricultural Negotiator for the U.S. Trade Representative

## Form 10-K and the Company's Code of Ethics

Copies of Form 10-K and the Company's Code of Ethics will be provided upon request without charge to persons directing their request to:

**Neogen Corporation**
**Attention: Investor Relations**
**620 Lesher Place**
**Lansing, MI 48912**

## Annual Meeting

October 4, 2018 at 10:00 a.m.
University Club at Michigan State University
3435 Forest Road
Lansing, MI 48910

## Independent Registered Public Accounting Firm

BDO USA, LLP
200 Ottawa Avenue N.W.
Suite 300
Grand Rapids, MI 49503

## Stock Transfer Agent and Registrar

American Stock Transfer and Trust Co.
6201 15th Avenue
Brooklyn, NY 11219

## Legal Counsel

Lowe Law Firm, P.C.
2375 Woodlake Drive
Suite 380
Okemos, MI 48864



NC056-0818

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