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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2021.

or

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

For the transition period from ________ to ________

Commission file number 0-17988

Neogen Corporation
(Exact name of registrant as specified in its charter)

Michigan	**38-2367843**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification Number)**

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

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller Reporting Company	☐
Emerging growth company	☐		

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

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

As of November 30, 2021 there were 107,768,342 shares of Common Stock outstanding.

NEOGEN CORPORATION AND SUBSIDIARIES
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PART I – FINANCIAL INFORMATION

Item 1. Interim Consolidated Financial Statements

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

	November 30, 2021	May 31, 2021
Assets		
Current Assets		
Cash and cash equivalents	$ 51,119	$ 75,602
Marketable securities	338,130	305,485
Accounts receivable, less allowance of $1,500 and $1,400 at November 30, 2021 and May 31, 2021, respectively	92,498	91,823
Inventories	107,086	100,701
Prepaid expenses and other current assets	22,371	17,840
Total Current Assets	611,204	591,451
Net Property and Equipment	100,863	100,453
Other assets		
Right of use assets	2,171	2,477
Goodwill	142,613	131,476
Other non-amortizable intangible assets	15,359	15,545
Amortizable intangible and other assets, net of accumulated amortization of $51,012 and $53,462 at November 30, 2021 and May 31, 2021, respectively	93,706	76,771
Other non-current assets	2,018	2,019
Total Assets	$ 967,934	$920,192
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 34,222	$ 23,900
Accrued compensation	9,636	11,251
Income taxes	—	1,848
Other accruals	18,815	16,600
Total Current Liabilities	62,673	53,599
Deferred Income Taxes	21,829	21,917
Other Non-Current Liabilities	17,956	4,299
Total Liabilities	101,204	79,815
Commitments and Contingencies (note 10)		
Equity		
Preferred stock, $1.00 par value, 100,000 shares authorized, none issued and outstanding	—	—
Common stock, $0.16 par value, 120,000,000 shares authorized, 107,768,342 and 107,468,304 shares issued and outstanding at November 30, 2021 and May 31, 2021, respectively	17,243	17,195
Additional paid-in capital	304,959	294,953
Accumulated other comprehensive loss	(24,235)	(11,375)
Retained earnings	567,509	539,604
Total Stockholders' Equity	865,476	840,377
Total Liabilities and Stockholders' Equity	$ 967,934	$920,192

See notes to interim consolidated financial statements.

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

	Three Months Ended November 30,		Six Months Ended November 30,	
	2021	2020	2021	2020
Revenues				
Product revenues	$ 106,111	$ 92,537	$ 210,124	$ 180,472
Service revenues	24,406	22,463	48,698	43,853
Total Revenues	130,517	115,000	258,822	224,325
Cost of Revenues				
Cost of product revenues	56,374	49,275	111,100	95,870
Cost of service revenues	13,549	12,511	27,120	24,939
Total Cost of Revenues	69,923	61,786	138,220	120,809
Gross Margin	60,594	53,214	120,602	103,516
Operating Expenses				
Sales and marketing	21,188	17,729	41,743	34,245
General and administrative	22,605	12,184	35,988	23,197
Research and development	4,332	4,056	8,657	7,934
Total Operating Expenses	48,125	33,969	86,388	65,376
Operating Income	12,469	19,245	34,214	38,140
Other Income (Expense)				
Interest income	224	555	427	1,277
Other income (expense)	235	(465)	14	(272)
Total Other Income	459	90	441	1,005
Income Before Taxes	12,928	19,335	34,655	39,145
Provision for Income Taxes	2,100	3,450	6,750	7,400
Net Income	$ 10,828	$ 15,885	$ 27,905	$ 31,745
Net Income Per Share				
Basic	$ 0.10	$ 0.15	$ 0.26	$ 0.30
Diluted	$ 0.10	$ 0.15	$ 0.26	$ 0.30
Weighted Average Shares Outstanding				
Basic	107,641	106,258	107,565	106,044
Diluted	108,122	106,808	108,099	106,600

See notes to interim consolidated financial statements.

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

	Three Months Ended November 30,		Six Months Ended November 30,	
	2021	2020	2021	2020
Net income	$10,828	$15,885	$ 27,905	$31,745
Other comprehensive income (loss), net of tax:				
foreign currency translations	(7,649)	938	(12,272)	5,059
Other comprehensive loss, net of tax:				
unrealized loss on marketable securities	(382)	(317)	(588)	(436)
Total comprehensive income	$ 2,797	$16,506	$ 15,045	$36,368

See notes to interim consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, June 1, 2021	**107,468**	**$17,195**	**$294,953**	**$ (11,375)**	**$539,604**	**$840,377**
Exercise of options and share-based compensation expense	6	1	1,838	—	—	1,839
Issuance of shares under employee stock purchase plan	19	3	896	—	—	899
Net income for the three months ended August 31, 2021	—	—	—	—	17,077	17,077
Other comprehensive loss for the three months ended August 31, 2021	—	—	—	(4,829)	—	(4,829)
Balance, August 31, 2021	**107,493**	**$17,199**	**$297,687**	**$ (16,204)**	**$556,681**	**$855,363**
Exercise of options and share-based compensation expense	275	44	7,272	—	—	7,316
Net income for the three months ended November 30, 2021	—	—	—	—	10,828	10,828
Other comprehensive loss for the three months ended November 30, 2021	—	—	—	(8,031)	—	(8,031)
Balance, November 30, 2021	**107,768**	**17,243**	**304,959**	**$ (24,235)**	**$567,509**	**$865,476**
Balance, June 1, 2020	**105,892**	**$16,943**	**$249,221**	**$ (19,709)**	**$478,722**	**$725,177**
Exercise of options and share-based compensation expense	172	28	5,811	—	—	5,839
Issuance of shares under employee stock purchase plan	18	3	665	—	—	668
Net income for the three months ended August 31, 2020	—	—	—	—	15,860	15,860
Other comprehensive income for the three months ended August 31, 2020	—	—	—	4,002	—	4,002
Balance, August 31, 2020	**106,082**	**$16,974**	**$255,697**	**$ (15,707)**	**$494,582**	**$751,546**
Exercise of options and share-based compensation expense	406	64	9,279	—	—	9,343
Net income for the three months ended November 30, 2020	—	—	—	—	15,885	15,885
Other comprehensive income for the three months ended November 30, 2020	—	—	—	621	—	621
Balance, November 30, 2020	**106,488**	**17,038**	**264,976**	**(15,086)**	**510,467**	**777,395**

See notes to interim consolidated financial statements.

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

	Six Months Ended November 30, 2021	Six Months Ended November 30, 2020
Cash Flows From Operating Activities		
Net Income	$ 27,905	$ 31,745
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	11,511	9,523
Share-based compensation	3,438	3,192
Change in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	(1,500)	6,662
Inventories	(6,929)	4,063
Prepaid expenses and other current assets	(3,709)	(2,080)
Accounts payable, accruals and other changes	10,341	(5,581)
Net Cash From Operating Activities	41,057	47,524
Cash Flows For Investing Activities		
Purchases of property, equipment and other non-current intangible assets	(5,235)	(11,092)
Proceeds from the sale of marketable securities	197,941	309,030
Purchases of marketable securities	(230,586)	(308,524)
Business acquisitions, net of cash acquired	(26,864)	(2,350)
Net Cash For Investing Activities	(64,744)	(12,936)
Cash Flows From Financing Activities		
Exercise of stock options and issuance of employee stock purchase plan shares	6,619	12,658
Net Cash From Financing Activities	6,619	12,658
Effect of Foreign Exchange Rates on Cash	(7,415)	352
Net Increase (Decrease) In Cash and Cash Equivalents	(24,483)	47,598
Cash and Cash Equivalents, Beginning of Period	75,602	66,269
Cash and Cash Equivalents, End of Period	$ 51,119	$ 113,867

See notes to interim consolidated financial statements.

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

1. ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION

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

In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included in the accompanying unaudited consolidated financial statements. All intercompany balances and transactions have been eliminated in consolidation. The results of operations for the three and six month periods ended November 30, 2021 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2022. For more complete financial information, these consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021.

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

Share and per share amounts reflect the June 4, 2021 2-for-1 stock split as if it took place at the beginning of the periods presented.

Recently Adopted Accounting Standards

Income Tax Simplification

On June 1, 2021, the Company adopted ASU 740 Update 2019-12, Income Taxes (Topic 740). This guidance provides amendments to simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

Reference Rate Reform

In March 2020, the FASB issued Update 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. This update provides temporary optional expedients to applying the reference rate reform guidance to contracts that reference LIBOR or another reference rate expected to be discontinued. Under this update, contract modifications resulting in a new reference rate may be accounted for as a continuation of the existing contract. This guidance is effective upon issuance of the update and applies to contract modifications made through December 31, 2022. We will adopt this standard when LIBOR is discontinued and our lender begins using the new reference rate. We are evaluating the impact the new standard will have on our consolidated financial statements and related disclosures, but do not anticipate a material impact.

Comprehensive Income

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

Fair Value of Financial Instruments

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

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

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

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

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

Leases

We lease various manufacturing, laboratory, warehousing and distribution facilities, administrative and sales offices, equipment and vehicles under operating leases. We evaluate our contracts to determine if an arrangement is a lease at inception and classify it as a finance or operating lease. Currently, all our leases are classified as operating leases. Topic 842 requires the Company to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. Right-of-use assets are recorded in other assets on our consolidated balance sheets. Current and non-current lease liabilities are recorded in other accruals within current liabilities and other non-current liabilities, respectively, on our consolidated balance sheets. Costs associated with operating leases are recognized on a straight-line basis within operating expenses over the term of the lease. The right-of-use assets were $2,171,000 and $2,477,000 at November 30, 2021 and May 31, 2021, respectively. The total current and non-current lease liabilities were $2,181,000 and $2,492,000 at November 30, 2021 and May 31, 2021, respectively.

ESTIMATES AND ASSUMPTIONS

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

Accounts Receivable Allowance

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

Inventory

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

Goodwill and Other Intangible Assets

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

Long-Lived Assets

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

Equity Compensation Plans

Share options awarded to employees, restricted stock units (RSUs) and shares of stock awarded to employees under certain stock purchase plans are recognized as compensation expense based on their fair value at grant date. The fair market value of options granted under the Company stock option plans was estimated on the date of grant using the Black-Scholes option-pricing model with assumptions for inputs such as interest rates, expected dividends, an estimate of award forfeitures, volatility measures and specific employee exercise behavior patterns based on statistical data. Some of the inputs used are not market-observable and have to be estimated or derived from available data. Use of different estimates would produce different option values, which in turn would result in higher or lower compensation expense recognized. For RSUs, we use the intrinsic value method to value the units.

To value equity awards, several recognized valuation models exist; none of these models can be singled out as being the best or most correct. The model applied by us can accommodate most of the specific features included in the options granted, which are the reason for their use. If different models were used, the option values could differ despite using the same inputs. Accordingly, using different assumptions coupled with using a different valuation model could have a significant impact on the fair value of employee stock options. Fair value could be either higher or lower than the number provided by the model applied and the inputs used. Further information on our equity compensation plans, including inputs used to determine the fair value of options, is disclosed in Note 7.

Income Taxes

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

2. CASH AND MARKETABLE SECURITIES

Cash and Cash Equivalents

Cash and cash equivalents consist of bank demand accounts, savings deposits, certificates of deposit and commercial paper with original maturities of 90 days or less. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has not experienced losses related to these balances and believes it is not exposed to significant credit risk regarding its cash and cash equivalents. Cash and cash equivalents were $51,119,000 and $75,602,000 at November 30, 2021 and May 31, 2021, respectively. The carrying value of these assets approximates fair value due to the short maturity of these instruments and is classified as Level 1 in the fair value hierarchy.

Marketable Securities

The Company has marketable securities held by banks or broker-dealers at November 30, 2021. Changes in market value are monitored and recorded on a monthly basis; in the event of a downgrade in credit quality subsequent to purchase, the marketable securities investment is evaluated to determine the appropriate action to take to minimize the overall risk to our marketable securities portfolio. These securities are classified as available for sale. The primary objective of management's short-term investment activity is to preserve capital for the purpose of funding current operations, capital expenditures and business acquisitions; short-term investments are not entered into for trading or speculative purposes. These securities are recorded at fair value based on recent trades or pricing models and therefore meet the Level 2 criteria. Interest income on these investments is recorded within other income on the income statement. Adjustments in the fair value of these assets are recorded in other comprehensive income.

Marketable Securities as of November 30, 2021 and May 31, 2021 are listed below by classification and remaining maturities.

(in thousands)	Maturity	November 30, 2021	May 31, 2021
Commercial Paper & Corporate Bonds	0 - 90 days	79,830	106,631
	91 - 180 days	88,246	78,727
	181 days - 1 year	64,526	87,590
	1 - 2 years	104,275	26,752
Certificates of Deposit	0 - 90 days	1,002	3,262
	91 - 180 days	251	1,260
	181 days - 1 year	—	1,263
	1 - 2 years	—	—
Total Marketable Securities		$ 338,130	$305,485

The components of marketable securities at November 30, 2021 are as follows:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Commercial Paper & Corporate Bonds	337,437	18	(578)	336,877
Certificates of Deposit	1,251	2	—	1,253
Total Marketable Securities	$338,688	$ 20	$ (578)	$338,130

The components of marketable securities at May 31, 2021 are as follows:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Commercial Paper & Corporate Bonds	299,524	209	(33)	299,700
Certificates of Deposit	5,755	30	—	5,785
Total Marketable Securities	$305,279	$ 239	$ (33)	$305,485

3. INVENTORIES

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

(in thousands)	November 30, 2021	May 31, 2021
Raw materials	$ 53,940	$ 47,588
Work-in-process	6,303	6,412
Finished and purchased goods	46,843	46,701
	$ 107,086	$100,701

4. REVENUE RECOGNITION

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

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

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

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

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

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

Product revenue consists of shipments of:

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

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

Service revenue consists primarily of:

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

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

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

The following table presents disaggregated revenue by major product and service categories for the three and six month periods ended November 30, 2021 and 2020:

(in thousands)	Three Months ended November 30, 2021	Three Months ended November 30, 2020	Six Months ended November 30, 2021	Six Months ended November 30, 2020
Food Safety				
Natural Toxins, Allergens & Drug Residues	$ 21,028	$ 20,001	$ 41,432	$ 39,016
Bacterial & General Sanitation	12,252	11,235	23,421	21,166
Culture Media & Other	19,935	14,215	37,981	26,387
Rodenticides, Insecticides & Disinfectants	8,232	7,059	15,882	15,888
Genomics Services	5,685	5,024	11,138	9,262
	$ 67,132	$ 57,534	$129,854	$111,719
Animal Safety				
Life Sciences	$ 1,309	$ 1,398	$ 2,672	$ 2,723
Veterinary Instruments & Disposables	15,572	11,974	30,909	22,349
Animal Care & Other	10,849	9,371	20,068	17,029
Rodenticides, Insecticides & Disinfectants	18,269	18,471	40,418	38,385
Genomics Services	17,386	16,252	34,901	32,120
	$ 63,385	$ 57,466	$128,968	$112,606
Total Revenues	$130,517	$115,000	$258,822	$224,325

5. NET INCOME PER SHARE

The calculation of net income per share follows:

(in thousands, except per share amounts)	Three Months Ended November 30, 2021	Three Months Ended November 30, 2020	Six Months Ended November 30, 2021	Six Months Ended November 30, 2020
Numerator for basic and diluted net income per share:				
Net income attributable to Neogen	$ 10,828	$ 15,885	$ 27,905	$ 31,745
Denominator for basic net income per share:				
Weighted average shares	107,641	106,258	107,565	106,044
Effect of dilutive stock options and RSUs	481	550	534	556
Denominator for diluted net income per share	108,122	106,808	108,099	106,600
Net income attributable to Neogen per share:				
Basic	$ 0.10	$ 0.15	$ 0.26	$ 0.30
Diluted	$ 0.10	$ 0.15	$ 0.26	$ 0.30

6. SEGMENT INFORMATION AND GEOGRAPHIC DATA

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

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

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

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

Segment information follows:

(in thousands)	Food Safety	Animal Safety	Corporate and Eliminations (1)	Total
As of and for the three months ended November 30, 2021				
Product revenues to external customers	$ 60,112	$ 45,999	$ —	$ 106,111
Service revenues to external customers	7,020	17,386	—	24,406
Total revenues to external customers	67,132	63,385	—	130,517
Operating income (loss)	10,894	12,701	(11,126)	12,469
Total assets	298,437	278,994	390,503	967,934
As of and for the three months ended November 30, 2020				
Product revenues to external customers	$ 51,323	$ 41,214	$ —	$ 92,537
Service revenues to external customers	6,211	16,252	—	22,463
Total revenues to external customers	57,534	57,466	—	115,000
Operating income (loss)	8,960	12,246	(1,961)	19,245
Total assets	226,735	228,126	390,765	845,626

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

(in thousands)	Food Safety	Animal Safety	Corporate and Eliminations (1)	Total
As of and for the six months ended November 30, 2021				
Product revenues to external customers	$ 116,057	$ 94,067	$ —	$ 210,124
Service revenues to external customers	13,797	34,901	—	48,698
Total revenues to external customers	129,854	128,968	—	258,822
Operating income (loss)	21,026	25,463	(12,275)	34,214
As of and for the six months ended November 30, 2020				
Product revenues to external customers	$ 99,986	$ 80,486	$ —	$ 180,472
Service revenues to external customers	11,733	32,120	—	43,853
Total revenues to external customers	111,719	112,606	—	224,325
Operating income (loss)	16,923	24,411	(3,194)	38,140

(1) Includes elimination of intersegment transactions.

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

	Three months ended November 30,		Six months ended November 30,	
(in thousands)	2021	2020	2021	2020
Domestic	$ 76,378	$ 69,832	$ 154,156	$ 137,156
International	54,139	45,168	104,666	87,169
Total revenue	130,517	115,000	258,822	224,325

7. EQUITY COMPENSATION PLANS

Incentive and non-qualified options to purchase shares of common stock have been granted to directors, officers and employees of Neogen under the terms of the Company's stock option plans. These options are granted at an exercise price of not less than the fair market value of the stock on the date of grant. Options vest ratably over three and five year periods and the contractual terms are generally five or ten years. A summary of stock option activity during the six months ended November 30, 2021 follows:

(Options in thousands)	Shares	Weighted-Average Exercise Price
Options outstanding June 1, 2021	2,957	$ 30.38
Granted	392	40.93
Exercised	(262)	22.42
Forfeited	(21)	31.11
Options outstanding November 30, 2021	3,066	$ 32.40

During the three and six month periods ended November 30, 2021 and 2020, the Company recorded $1,748,000 and $1,511,000 and $3,438,000 and $3,192,000, respectively, of compensation expense related to its share-based awards.

The weighted-average fair value per share of stock options granted during the first six months of fiscal years 2022 and 2021, estimated on the date of grant using the Black-Scholes option pricing model, was $9.54 and $7.71, respectively. The fair value of stock options granted was estimated using the following weighted-average assumptions.

	FY 2022	FY 2021
Risk-free interest rate	0.4%	0.2%
Expected dividend yield	0.0%	0.0%
Expected stock price volatility	32.8%	31.3%
Expected option life	3.12 years	3.25 years

The company grants restricted stock units (RSUs) to directors, officers and employees under the terms of the 2018 Omnibus Incentive Plan, which vest ratably over three and five year periods. The current units are expensed straight-line over the remaining weighted-average period of 4.32 years. On November 30, 2021 there was $6,501,000 in unamortized compensation cost related to non-vested RSUs.

(Options in thousands)	Shares	Weighted-Average Fair Value
RSUs outstanding June 1, 2021	121	$ 34.21
Granted	120	40.92
Released	(25)	34.24
Forfeited	(3)	34.49
RSUs outstanding November 30, 2021	213	$ 37.97

The Company offers eligible employees the option to purchase common stock at a 5% discount to the lower of the market value of the stock at the beginning or end of each participation period under the terms of either the 2011 or the 2021 Employee Stock Purchase Plan; the discount is recorded in general and administrative expense. Total individual purchases in any year are limited to 10% of compensation.

8. BUSINESS COMBINATIONS

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

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

On December 30, 2020, the Company acquired all of the stock of Megazyme, Ltd, an Ireland-based company, and its wholly-owned subsidiaries, U.S.-based Megazyme, Inc. and Ireland-based Megazyme IP. Megazyme is a manufacturer and supplier of diagnostic assay kits and enzymes to measure dietary fiber, complex carbohydrates and enzymes in food and beverages as well as animal feeds. This acquisition has allowed Neogen to expand its commercial relationships across food, feed and beverage companies, and provide additional food quality diagnostic products to commercial labs and food science research institutions. Consideration for the purchase was net cash of $39.8 million paid at closing, $8.6 million of cash placed in escrow payable to the former owner in two installments in two and four years, $4.9 million of stock issued at closing, and up to $2.5 million of contingent consideration, payable in two installments over one year, based upon an excess net sales formula. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $1,376,000, inventory of $5,595,000, net property, plant and equipment of $12,599,000, prepayments of $69,000, accounts payable of $4,000, other current liabilities of $1,815,000, contingent consideration accrual of $2,458,000, non-current liabilities of $319,000, non-current deferred tax liabilities of $3,306,000, intangible assets of $22,945,000 (with an estimated life of 15-20 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. In February 2021, the former owner was paid $1,229,000 for the first installment of contingent consideration, based upon the achievement of sales targets. The Irish companies continue to operate from their current locations in Bray, Ireland, reporting within the Food Safety segment and are managed through Neogen's Scotland operation. The U.S. company's business is managed by our Lansing-based Food Safety team.

On September 17, 2021, the Company acquired the stock of CAPInnoVet, Inc., a companion animal health business that provides pet medications to the veterinary market. This acquisition provides entry into the retail parasiticide market and enhances the Company's presence in companion animal markets. Consideration for the purchase was net cash of $17.9 million paid at closing, including $150,000 of cash placed in escrow payable to the former owners in twelve months. There is also the potential for performance milestone payments to the former owners of up to $6.5 million and the Company could incur up to $14.5 million in future royalty payments. The preliminary purchase allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $308,000, inventory of $408,000, prepayments of $296,000, accounts payable of $120,000, other current liabilities of $132,000, non-current liabilities of $13.9 million, intangible assets of $21.0 million (with an estimated life of 15-20 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. The business is operated from our location in Lexington, KY, reporting within the Animal Safety segment.

On November 30, 2021, the Company acquired the stock of Delf (UK) Ltd., a United Kingdom-based manufacturer and supplier of animal hygiene and industrial cleaning products, and Abbott Analytical Ltd., a related service provider. This acquisition will expand the Company's line of dairy hygiene products and will enhance our cleaner and disinfectant product portfolio. Consideration for the purchase was net cash of $8.8 million paid at closing, including $722,000 of cash placed in escrow payable to the former owner in one year. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of 806,000, inventory of $659,000, net property, plant and equipment of $160,000, prepayments of $43,000, accounts payable of $543,000, other current liabilities of $489,000, non-current deferred tax liabilities of $533,000, intangible assets of $2.6 million (with an estimated life of 10-15 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. The companies continue to operate from their current location in Liverpool, England, reporting within the Food Safety segment and are managed through Neogen's Scotland operation.

Subsequent to the end of the quarter, on December 9, 2021, the Company acquired the stock of Genetic Veterinary Services, Inc., a companion animal genetic testing business providing genetic information for dogs, cats and birds to animal owners, breeders and veterinarians. This acquisition will further expand the Company's presence in the companion animal market. Consideration for the purchase was $11.8 million in cash. Due to the timing of the transaction, the preliminary purchase price allocation was not complete at the time of filing. The business will be operated from its current location in Spokane, Washington, reporting within the Animal Safety segment.

Subsequent to the end of the quarter, on December 13, 2021, the Company entered into an agreement to combine with 3M's food safety business in a Reverse Morris Trust transaction. Please refer to Forms 8-K and Forms 425 filed with the Securities and Exchange Commission for more information.

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

9. LONG TERM DEBT

We have a financing agreement with a bank providing for a $15,000,000 unsecured revolving line of credit, which expires on November 30, 2023. There were no advances against the line of credit during fiscal 2021 and there have been none thus far in fiscal 2022; there was no balance outstanding at November 30, 2021. Interest on any borrowings is at LIBOR plus 100 basis points (rate under the terms of the agreement was 1.09% at November 30, 2021). Financial covenants include maintaining specified levels of tangible net worth, debt service coverage, and funded debt to EBITDA, each of which the Company was in compliance with at November 30, 2021.

10. COMMITMENTS AND CONTINGENCIES

The Company is involved in environmental remediation and monitoring activities at its Randolph, Wisconsin manufacturing facility and accrues for related costs when such costs are determined to be probable and estimable. The Company currently utilizes a pump and treat remediation strategy, which includes semi-annual monitoring and reporting, consulting, and maintenance of monitoring wells. We expense these annual costs of remediation, which have ranged from $38,000 to $131,000 per year over the past five years. The Company's estimated remaining liability for these costs was $916,000 at both November 30, 2021 and May 31, 2021, measured on an undiscounted basis over an estimated period of 15 years. In fiscal 2019, the Company performed an updated Corrective Measures Study on the site, per a request from the Wisconsin Department of Natural Resources (WDNR) and is currently in discussion with the WDNR regarding potential alternative remediation strategies going forward. The Company believes that the current pump and treat strategy is appropriate for the site. However, the Company has agreed to a pilot study in which chemical reagents are injected into the ground in an attempt to reduce on-site contamination and is currently working with its consultant to design the system. At this time, the outcome of the pilot study is unknown, but a change in the current remediation strategy, depending on the alternative selected, could result in an increase in future costs and ultimately, an increase in the currently recorded liability, with an offsetting charge to operations in the period recorded. The Company has recorded $300,000 as a current liability, and the remaining $616,000 is recorded in other non-current liabilities in the consolidated balance sheets.

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

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

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

PART I – FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Safe Harbor and Forward-Looking Statements

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

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

COVID-19

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

In the first half of fiscal 2022, the COVID-19 pandemic continued to impact our business operations and financial results. A number of our food safety diagnostic product lines have been negatively impacted due to decreased demand in many of our customers' businesses around the world, particularly those serving restaurants, bars and other institutional food service markets. Many of our markets across the world are recovering, but the pandemic has continued to adversely impact our customers and ultimately, our revenues. We have also experienced supply chain difficulties including vendor disruptions, border closures, shipping issues and significantly increased shipping costs; labor shortages and higher labor costs, as we have had to use staffing agencies and increase our base pay in many areas of the company to fill open positions; and restricted travel, which hinders our ability to connect with customers. During the current fiscal year, we have incurred less expense for travel, meals, trade shows and some other customer-facing marketing activities; some of these activities have resumed but have not yet returned to pre-pandemic levels. Higher spend on shipping and labor are offsetting these savings.

Overall, the impact of COVID-19 remains uncertain and ultimately depends on the length and severity of the pandemic, inclusive of the introduction of new strains of the virus; the federal, state, and local government actions taken in response; vaccination rates and effectiveness; the impact of vaccination requirements; and the macroeconomic environment. We will continue to evaluate the nature and extent to which COVID-19 will impact our business, supply chain, including labor availability and attrition, consolidated results of operations, financial condition, and liquidity; we expect it to impact us through at least the end of our current fiscal year.

Executive Overview

- Consolidated revenues were $130.5 million in the second quarter of fiscal 2022, an increase of 13% compared to $115.0 million in the second quarter of fiscal 2021. Organic sales growth in the second quarter of fiscal 2022 was 10%. For the six month period, consolidated revenues were $258.8 million, an increase of 15% compared to $224.3 million in the same period in the prior fiscal year. On a year to date basis, organic sales rose 12%.
- Food Safety segment sales were $67.1 million in the second quarter of fiscal 2022, an increase of 17% compared to $57.5 million in the same period a year ago. Organic sales in this segment rose 11% for the comparative period, with revenues from the acquisition of Megazyme (December 2020) providing the remainder of the increase in revenues for the segment. For the year to date, Food Safety segment sales were $129.9 million, an increase of 16% compared to $111.7 million in the same period of the prior fiscal year; the organic sales increase was 10% for the comparative period, with the Megazyme acquisition providing the additional contribution to revenue.
- Animal Safety segment sales were $63.4 million in the second quarter of fiscal 2022, an increase of 10% compared to $57.5 million in the second quarter of fiscal 2021. Organic sales in this segment also rose 10% in the second quarter, with a minor contribution from the CAPInnovet acquisition (September 2021). For the six month period, Animal Safety segment sales were $129.0 million, an increase of 15%, compared to $112.6 million in the same period a year ago. Year to date organic sales rose 14%, with revenues from the StandGuard (July 2020) and CAPInnovet acquisitions contributing the difference.
- International sales in the second quarter of fiscal 2022 were 41% of total sales compared to 39% of total sales in the second quarter of fiscal 2021. For the year to date, fiscal 2022 international sales were 40% of total sales compared to 39% of total sales in the same period of the prior year.
- Our effective tax rate in the second quarter was 16.2% compared to an effective tax rate of 17.8% in the prior year second quarter; the fiscal 2022 year to date effective tax rate was 19.5% compared to 18.9% for the same period a year ago.
- Net income for the quarter ended November 30, 2021 was $10.8 million, or $0.10 per diluted share, compared to $15.9 million, or $0.15 per diluted share in the same period in the prior year. For the year to date, net income was $27.9 million, or $0.26 per diluted share compared to prior year to date net income of $31.7 million, or $0.30 per diluted share. Net income was decreased by $9.3 million of legal and consulting expenses for due diligence related to our recently announced agreement to combine with 3M’s Food Safety business.
- Cash provided from operating activities in the first six months of fiscal 2022 was $41.1 million, compared to $47.5 million in the first half of fiscal 2021.

International sales rose 20% in both the second quarter of fiscal 2022 and also increased 20% for the year to date, each compared to the same respective periods in the prior year. Excluding international sales of the Megazyme acquisition, the increase was 14% for both the quarter and year to date periods. Revenue changes, expressed in percentages, for the three and six month periods of fiscal 2022 compared to the same respective periods in the prior year are as follows for each of our international locations:

	Three Months Ended November 30, 2021		Six Months Ended November 30, 2021	
	Revenue % Inc (Dec) USD	Revenue % Inc (Dec) Local Currency	Revenue % Inc (Dec) USD	Revenue % Inc (Dec) Local Currency
U.K Operations (including Neogen Italia)	20%	14%	13%	6%
Brazil Operations	(5)%	(6)%	(10)%	(12)%
Neogen Latinoamerica	13%	10%	18%	10%
Neogen Argentina	44%	84%	28%	68%
Neogen Uruguay	(4)%	(2)%	3%	5%
Neogen Chile	48%	54%	59%	59%
Neogen China	28%	22%	42%	34%
Neogen India	(10)%	(9)%	1%	1%
Neogen Canada	34%	28%	60%	50%
Neogen Australasia	29%	27%	38%	33%

Currency translations increased comparative revenues by approximately $1.0 million in the second quarter of fiscal 2022 and $3.3 million for the year to date, each compared to the same periods a year ago, primarily due to the increased strength of the British pound and Mexican peso relative to the U.S. dollar. Combined revenues at our U.K. operations increased 20% in the second quarter; growth was led by strong cleaner and disinfectant sales into Asia, as the African swine fever outbreak continues to drive demand, and new culture media business with commercial laboratories in the U.K. that have adopted our recently launched One Broth One Plate workflow. For the six month period, revenues at our U.K. operations increased 13% as a large non-recurring prior year shipment of hand sanitizers to the U.K. government's health organization affected growth in the first quarter.

Sales in Brazil decreased 5% in this year's second quarter, as an extended drought led to a significantly reduced corn crop and the associated testing, resulting in a large decrease in sales of aflatoxin test kits. For the six month period, sales at our Brazilian operations decreased 10%, primarily due to the reduced aflatoxin test kit sales and a large non-recurring insecticide sale to a government health organization in the first quarter of the prior fiscal year. Neogen Latinoamerica sales rose 13% for the second quarter, primarily due to increases in natural toxins test kits, environmental sanitation, culture media and biosecurity products. Sales at Neogen China increased 28% and 42% for the three and six month periods, respectively, from new sales of Megazyme products and growth in genomics, as the commercial dairy, swine and sheep markets have increased sampling volumes. The Neogen Australasia location benefitted from increased genomics business with customers in the beef and sheep markets.

Service revenue, which includes genomics testing and other laboratory services, was $24.4 million in the second quarter of fiscal 2022, an increase of 9% over prior year second quarter revenues of $22.5 million. For the six month period, service revenue was $48.7 million, an increase of 11% over prior year revenues of $43.9 million. The growth for both the quarter and year to date periods was led by increases in revenues at our Australia, China, U.K., Brazil and Canada genomics operations; growth in our domestic operation was reduced by lower volumes of companion animal samples, the result of difficult comparison from large increases in the prior year.

Revenues

	Three Months Ended November 30,			
(in thousands)	2021	2020	Increase/ (Decrease)	%
Food Safety				
Natural Toxins, Allergens & Drug Residues	$ 21,028	$ 20,001	$ 1,027	5%
Bacterial & General Sanitation	12,252	11,235	1,017	9%
Culture Media & Other	19,935	14,215	5,720	40%
Rodenticides, Insecticides & Disinfectants	8,232	7,059	1,173	17%
Genomics Services	5,685	5,024	661	13%
	$ 67,132	$ 57,534	$ 9,598	17%
Animal Safety				
Life Sciences	$ 1,309	$ 1,398	$ (89)	(6)%
Veterinary Instruments & Disposables	15,572	11,974	3,598	30%
Animal Care & Other	10,849	9,371	1,478	16%
Rodenticides, Insecticides & Disinfectants	18,269	18,471	(202)	(1)%
Genomics Services	17,386	16,252	1,134	7%
	$ 63,385	$ 57,466	$ 5,919	10%
Total Revenues	$130,517	$115,000	$ 15,517	13%

	Six Months Ended November 30,			
(in thousands)	2021	2020	Increase/ (Decrease)	%
Food Safety				
Natural Toxins, Allergens & Drug Residues	$ 41,432	$ 39,016	$ 2,416	6%
Bacterial & General Sanitation	23,421	21,166	2,255	11%
Culture Media & Other	37,981	26,387	11,594	44%
Rodenticides, Insecticides & Disinfectants	15,882	15,888	(6)	0%
Genomics Services	11,138	9,262	1,876	20%
	$129,854	$111,719	$ 18,135	16%
Animal Safety				
Life Sciences	$ 2,672	$ 2,723	$ (51)	(2)%
Veterinary Instruments & Disposables	30,909	22,349	8,560	38%
Animal Care & Other	20,068	17,029	3,039	18%
Rodenticides, Insecticides & Disinfectants	40,418	38,385	2,033	5%
Genomics Services	34,901	32,120	2,781	9%
	$128,968	$112,606	$ 16,362	15%
Total Revenues	$258,822	$224,325	$ 34,497	15%

Food Safety

Natural Toxins, Allergens & Drug Residues – Sales in this category increased 5% and 6% for the three and six month periods ended November 30, 2021, respectively, compared to the same periods in the prior year. In the second quarter, sales of our natural toxin test kits rose 10% as higher sales in the domestic pet food market and Europe were partially offset by lower aflatoxin sales in Brazil, as a drought significantly reduced crop size and associated testing. Sales of allergen test kits rose 6% in the second quarter, while sales of our drug residue test kits declined 23% due to the termination of a European distribution agreement and competitive pressure within the marketplace.

Bacterial & General Sanitation – Revenues in this category increased 9% and 11% for the second quarter and for the year to date, compared to the same periods in the prior year. In the second quarter, sales of products to detect spoilage organisms in processed foods increased 22%, resulting from sales of our new instrument which continued to gain market acceptance after launching over a year ago. Sales of our AccuPoint sanitation monitoring product line increased 8% in the second quarter as strong sales of our new reader partially offset lower sales of consumables due to supply issues. Sales of products to detect pathogens increased 3% in the second quarter.

Culture Media & Other – Sales in this category increased 40% in the quarter ended November 30, 2021 compared to the second quarter in the prior year; for the six month period, sales increased 44%. Excluding sales from the December 2020 acquisition of Megazyme, Veterinary which are reported in this category, sales increased 17% and 19% for the three and six month periods, respectively. This category includes sales of instruments and other veterinary products at some of our international locations; these sales increased significantly over the prior year due to recovering markets and expanded market share. Sales of Neogen Culture Media products increased 11% in the second quarter as our new workflow, One Broth One Plate, continued to drive increased sales to commercial labs in the U.K.; the growth was partially offset by a decline in domestic sales due to non-recurring business in the prior year. For the six month period, Neogen Culture Media sales increased 22%, due to strength in the U.K. and also a large domestic sale to a vaccine manufacturer in the first quarter.

Rodenticides, Insecticides & Disinfectants – Revenues in this category increased 17% in the second quarter of fiscal 2022 compared to the same period a year ago, due primarily to continued strength in cleaners and disinfectants into Asia resulting from increased demand from the African swine fever outbreak in that region; there was also higher sales of rodenticides in Mexico. For the year to date, sales were flat, with the previously discussed increases being offset by large non-recurring sales of hand sanitizers in the U.K. and insecticides in Brazil in the first quarter of the prior fiscal year.

Genomics Services – Sales of genomics services sold through our international Food Safety operations increased 13% and 20% for the three and six month periods ended November 30, 2021, respectively. The increase in the second quarter was from overall strength at our labs in the U.K., Brazil and China as improved economic conditions in several markets have contributed to increased testing.

Animal Safety

Life Sciences – Sales in this category decreased 6% in the second quarter, compared to the same period in the prior year; for the year to date, the decrease in this product line was 2%. The decline in both periods was due primarily to the loss of hair testing business with a large U.S. commercial laboratory that moved to a different testing platform.

Veterinary Instruments & Disposables – Revenues in this category increased 30% for the three month period ended November 30, 2021, led by a large increase sales of in veterinary instruments, including needles and syringes, resulting from recently won private label business; revenues increased 38% for the year to date.

Animal Care & Other – Sales of these products increased 16% and 18% in the three and six month periods ended November 30, 2021, respectively. Excluding the contribution of parasiticides from the September acquisition of CAPInnovet, revenues in this category increased 13% in the second quarter, primarily due to strength in equine and companion animal markets. Additionally, we continued to regain customers with our recently re-launched ThyroKare™ product. Partially offsetting these gains was a decline in sales of dairy supplies of 67% and 76% for the quarter and year to date periods, respectively, due to the June 2020 termination of an agreement in which we distributed these types of products for a large manufacturer of dairy equipment.

Rodenticides, Insecticides & Disinfectants – Revenues in this category decreased 1% for the three month period ended November 30, 2021, resulting from a 14% decrease in rodenticide sales due to supply constraints and a non-outbreak year. Insecticide sales rose 46% in the quarter, led by growth in the StandGuard® product line acquired in July 2020. Cleaners and disinfectants sales decreased 2% due to a difficult prior year comparison that included a large non-recurring sale. Sales of these products for the year to date period increased 5%, as compared to a year ago, for the same reasons.

Genomics Services – Sales in this category increased 7% and 9% in the second quarter and the year to date periods, each compared to the prior year. The growth in both periods was led by increases in beef and sheep testing in Australia due to improved market conditions and higher sample volumes from domestic dairy and beef cattle and poultry customers. Growth in both the three and six month periods was partially offset by lower domestic companion animal revenues due to difficult prior year comparisons.

Gross Margin

Gross margin, expressed as a percentage of sales, was 46.4% in the second quarter of fiscal 2022 compared to 46.3% in the same quarter a year ago. The slight change in gross margin percentage is the result of a 30 basis point improvement in Food Safety gross margins, partially offset by a 20 basis point decline in gross margin percentage in the Animal Safety segment. The primary driver of the improved Food Safety gross margin percentage was incremental revenue from the Megazyme product line; these products generate higher gross margins than the average in this segment. In the Animal Safety segment, the slight decline in gross margin percentage was the result of lower sales of higher margin rodenticide products due to a lessening of vole pressure across the domestic market, and a reduction in genomics service revenues in the domestic companion animal markets. Within each segment, higher raw material and freight costs, resulting from continued supply chain issues across most of our markets, put downward pressure on gross margins. The company has taken pricing actions where appropriate in response to these cost increases. For the year to date, gross margin was 46.6% compared to 46.1% in the prior year, for the same reasons.

Operating Expenses

Operating expenses were $48.1 million in the second quarter, compared to $34.0 million in the same quarter of the prior year, an increase of $14.2 million, or 42%. Legal, consulting and other professional fees totaling $9.3 million were incurred in the second quarter in conjunction with due diligence and negotiation of terms for the proposed business combination with 3M's Food Safety business, which was announced on December 14, 2021. Excluding costs related to the transaction, run rate operating expenses were $38.8 million, an increase of 14% compared to the prior year. For the six month period ended November 30, 2021, excluding the $9.3 million in deal costs, operating expenses were $77.1 million, an increase of 18% compared to the prior year.

Sales and marketing expenses increased $3.5 million, or 20%, in the second quarter, primarily due to increases in personnel related expenses, the result of higher sales volumes and headcount. Additionally, travel, trade shows and other customer facing activities have continued to rise, the result of easing of restrictions in a number of our markets due to the COVID-19 pandemic; for the year to date, sales and marketing expenses increased 22% compared to the same period last year.

General and administrative expense increased $10.4 million in the second quarter, primarily the result of $9.3 million in legal, consulting and other professional fees resulting from due diligence efforts and negotiation of terms relating to the proposed transaction with 3M referenced above. Run rate general and administrative expenses rose $1.1 million, or 9%, due primarily to increases in salaries and bonuses resulting from improved operating performance and additional senior management hires, higher amortization expenses from the Megazyme and CAPInnovet acquisitions, increased stock based compensation expense and higher depreciation and license fees relating to information technology infrastructure and software. These increases were partially offset by $1 million in spending on strategic consulting, legal and other professional fees related to acquisition activity in the prior year second quarter for businesses which we were not ultimately successful in acquiring. Year to date, run rate general and administrative expenses increased 15%, for the same reasons.

Research and development expense was $4.3 million in the second quarter, an increase of $270,000, or 7%, compared to the same period in the prior year. The increase was primarily the result of incremental costs of personnel absorbed from the Megazyme acquisition and outside service costs for development spending on new products. For the year to date, research and development expenses increased 9% over the same period last year, for the same reasons.

Operating Income

Operating income was $12.5 million in the second quarter of fiscal 2022, compared to $19.2 million in the same period of the prior year; year to date operating income was $34.2 million compared to $38.1 million in the prior year. Expressed as a percentage of sales, operating income was 9.6% for the second quarter and 13.2% for the year to date, compared to 16.7% and 17.0%, respectively, for the same periods in the prior year. Adjusting for the $9.3 million in transaction costs resulting from the proposed 3M transaction, operating income was 16.7% in the second quarter and 16.8% for the year to date.

Other Income

	Three Months Ended November 30,		Six Months Ended November 30,	
(dollars in thousands)	2021	2020	2021	2020
Interest income (net of expense)	$ 217	$ 555	$ 420	$ 1,277
Foreign currency transactions	167	(432)	15	(256)
Insurance settlement	—	309	—	—
Legal settlement	—	(300)	—	—
LGS contingent consideration	(135)	—	(135)	—
Other	210	(42)	141	(16)
Total Other Income	$ 459	$ 90	$ 441	$ 1,005

The decrease in interest income in the six month period of fiscal 2022 compared to the same period a year ago was the result of continued lower yields on our marketable securities balances. Other income or expense resulting from foreign currency transactions was the result of changes in the value of foreign currencies relative to the U.S. dollar in countries in which we operate. In the second quarter of the current fiscal year, we recorded a charge of $135,000 for additional contingent consideration in the final payment to the former owner of Livestock Genomic Services.

Income Tax Expense

Income tax expense in the second quarter of fiscal 2022 was $2.1 million, an effective tax rate of 16.2%, compared to $3.5 million, an effective tax rate of 17.8%, in the same period of the prior year. For the year to date, income tax expense was $6.8 million, an effective rate of 19.5%, in fiscal 2022 and $7.4 million, an effective rate of 18.9%, in fiscal 2021. For each period, the primary difference between the statutory rate of 21% and the effective rates recorded is the benefit resulting from the exercise of stock options; this benefit was $859,000 in the second quarter of fiscal 2022 compared to $1,060,000 in the second quarter of the prior year. For the year to date, the benefit was $874,000 in fiscal 2022 compared to $1,481,000 in fiscal 2021. The decrease in the effective tax rate for the second quarter was primarily due to lower taxable income resulting from fees related to the 3M combination. The increase in effective rate for the year to date period is the result of lower benefit from stock option exercises and a $548,000 charge to expense in the first quarter because the U.K. enacted a higher tax rate effective in 2023. Since our deferred tax balances at this operation are expected to reverse in the future at the higher tax rate, we were required to revalue them when the new rate was passed.

Net Income

Net income was $10.9 million in the second quarter of fiscal 2022, compared to $15.9 million in the same period in the prior year. The decline in earnings for this year’s second quarter was the result of $9.3 million in legal, consulting and other professional fees from the intended transaction with 3M. Excluding those charges, net income rose 14% in the second quarter of fiscal 2021 compared to the same period in the prior year. For the year to date, net income was $27.9 million, a decrease of 12% compared to $31.7 million in the prior year; excluding the $9.3 million of expense, net income rose 11% year to date. Six month net income in fiscal 2022 was also negatively impacted by a higher effective tax rate.

Financial Condition and Liquidity

The overall cash, cash equivalents and marketable securities position of Neogen was $389.2 million at November 30, 2021, compared to $381.1 million at May 31, 2021. Approximately $41.1 million was generated from operations during the first six months of fiscal 2022 and spent $26.9 million on acquisitions. Net cash proceeds of $6.6 million were realized from the exercise of stock options and issuance of shares under our Employee Stock Purchase Plan during the first six months of fiscal 2022. We spent $5.2 million for property, equipment and other non-current assets in the first half of fiscal 2022.

Net accounts receivable balances were $92.5 million at November 30, 2021, an increase of $700,000, compared to $91.8 million at May 31, 2021. Days' sales outstanding, a measurement of the time it takes to collect receivables, were 63 days at November 30, 2021, compared to 66 days at May 31, 2021 and 61 days at November 30, 2020. We have been carefully monitoring our customer receivables as the COVID-19 pandemic has spread across our global markets; to date, we have not experienced an appreciable increase in bad debt write offs.

Net inventory was $107.1 million at November 30, 2021, an increase of $6.4 million, compared to a May 31, 2021 balance of $100.7 million. The two acquisitions completed in the second quarter added approximately $1.0 million to our inventory balance. Additionally, we have been increasing inventory levels recently in an effort to reduce freight costs and prevent backorders, as shipments are taking longer and some suppliers are requiring higher orders due to their supply constraints.

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

Management believes that our existing cash and marketable securities balances at November 30, 2021, along with available borrowings under our credit facility and cash expected to be generated from operations, will be sufficient to fund activities for the remainder of the current fiscal year. However, existing cash and borrowing capacity will be insufficient to meet cash requirements for our planned combination with the 3M Food Safety business, which is currently expected to close in the third quarter of calendar year 2022. The transaction will be funded by issuing equity securities to 3M's shareholders and borrowing approximately $1 billion in cash under an agreement with JPMorgan Chase.

PART I – FINANCIAL INFORMATION

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

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

Risk Category	Hypothetical Change	November 30, 2021	Impact
(dollars in thousands)			
Foreign Currency - Revenue	10% Decrease in exchange rates	$ 5,414	Earnings
Foreign Currency - Hedges	10% Decrease in exchange rates	1,959	Earnings

PART I – FINANCIAL INFORMATION

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of November 30, 2021 was carried out under the supervision and with the participation of the Company’s management, including the President & Chief Executive Officer and the Vice President & Chief Financial Officer (“the Certifying Officers”). Based on the evaluation, the Certifying Officers concluded that the Company’s disclosure controls and procedures are effective.

Changes in Internal Controls over Financial Reporting

No changes in our control over financial reporting were identified as having occurred during the quarter ended November 30, 2021 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 6. Exhibits

(a) Exhibit Index

31.1	Certification of Principal Executive Officer
31.2	Certification of Principal Financial Officer
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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

SIGNATURES

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

NEOGEN CORPORATION
(Registrant)

Dated: December 30, 2021

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

Dated: December 30, 2021

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

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2021.

or

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

For the transition period from ________ to ________

Commission file number 0-17988

Neogen Corporation
(Exact name of registrant as specified in its charter)

Michigan	38-2367843
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller Reporting Company	☐
Emerging growth company	☐		

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

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

As of November 30, 2021 there were 107,768,342 shares of Common Stock outstanding.

NEOGEN CORPORATION AND SUBSIDIARIES
TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Interim Consolidated Financial Statements

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

	November 30, 2021	May 31, 2021
Assets		
Current Assets		
Cash and cash equivalents	$ 51,119	$ 75,602
Marketable securities	338,130	305,485
Accounts receivable, less allowance of $1,500 and $1,400 at November 30, 2021 and May 31, 2021, respectively	92,498	91,823
Inventories	107,086	100,701
Prepaid expenses and other current assets	22,371	17,840
Total Current Assets	611,204	591,451
Net Property and Equipment	100,863	100,453
Other assets		
Right of use assets	2,171	2,477
Goodwill	142,613	131,476
Other non-amortizable intangible assets	15,359	15,545
Amortizable intangible and other assets, net of accumulated amortization of $51,012 and $53,462 at November 30, 2021 and May 31, 2021, respectively	93,706	76,771
Other non-current assets	2,018	2,019
Total Assets	$ 967,934	$920,192
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 34,222	$ 23,900
Accrued compensation	9,636	11,251
Income taxes	—	1,848
Other accruals	18,815	16,600
Total Current Liabilities	62,673	53,599
Deferred Income Taxes	21,829	21,917
Other Non-Current Liabilities	17,956	4,299
Total Liabilities	101,204	79,815
Commitments and Contingencies (note 10)		
Equity		
Preferred stock, $1.00 par value, 100,000 shares authorized, none issued and outstanding	—	—
Common stock, $0.16 par value, 120,000,000 shares authorized, 107,768,342 and 107,468,304 shares issued and outstanding at November 30, 2021 and May 31, 2021, respectively	17,243	17,195
Additional paid-in capital	304,959	294,953
Accumulated other comprehensive loss	(24,235)	(11,375)
Retained earnings	567,509	539,604
Total Stockholders' Equity	865,476	840,377
Total Liabilities and Stockholders' Equity	$ 967,934	$920,192

See notes to interim consolidated financial statements.

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

	Three Months Ended November 30, 2021	Three Months Ended November 30, 2020	Six Months Ended November 30, 2021	Six Months Ended November 30, 2020
Revenues				
Product revenues	$ 106,111	$ 92,537	$210,124	$180,472
Service revenues	24,406	22,463	48,698	43,853
Total Revenues	130,517	115,000	258,822	224,325
Cost of Revenues				
Cost of product revenues	56,374	49,275	111,100	95,870
Cost of service revenues	13,549	12,511	27,120	24,939
Total Cost of Revenues	69,923	61,786	138,220	120,809
Gross Margin	60,594	53,214	120,602	103,516
Operating Expenses				
Sales and marketing	21,188	17,729	41,743	34,245
General and administrative	22,605	12,184	35,988	23,197
Research and development	4,332	4,056	8,657	7,934
Total Operating Expenses	48,125	33,969	86,388	65,376
Operating Income	12,469	19,245	34,214	38,140
Other Income (Expense)				
Interest income	224	555	427	1,277
Other income (expense)	235	(465)	14	(272)
Total Other Income	459	90	441	1,005
Income Before Taxes	12,928	19,335	34,655	39,145
Provision for Income Taxes	2,100	3,450	6,750	7,400
Net Income	$ 10,828	$ 15,885	$ 27,905	$ 31,745
Net Income Per Share				
Basic	$ 0.10	$ 0.15	$ 0.26	$ 0.30
Diluted	$ 0.10	$ 0.15	$ 0.26	$ 0.30
Weighted Average Shares Outstanding				
Basic	107,641	106,258	107,565	106,044
Diluted	108,122	106,808	108,099	106,600

See notes to interim consolidated financial statements.

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

	Three Months Ended November 30,		Six Months Ended November 30,	
	2021	2020	2021	2020
Net income	$10,828	$15,885	$ 27,905	$31,745
Other comprehensive income (loss), net of tax:				
foreign currency translations	(7,649)	938	(12,272)	5,059
Other comprehensive loss, net of tax:				
unrealized loss on marketable securities	(382)	(317)	(588)	(436)
Total comprehensive income	$ 2,797	$16,506	$ 15,045	$36,368

See notes to interim consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, June 1, 2021	**107,468**	**$17,195**	**$294,953**	**$ (11,375)**	**$539,604**	**$840,377**
Exercise of options and share-based compensation expense	6	1	1,838	—	—	1,839
Issuance of shares under employee stock purchase plan	19	3	896	—	—	899
Net income for the three months ended August 31, 2021	—	—	—	—	17,077	17,077
Other comprehensive loss for the three months ended August 31, 2021	—	—	—	(4,829)	—	(4,829)
Balance, August 31, 2021	**107,493**	**$17,199**	**$297,687**	**$ (16,204)**	**$556,681**	**$855,363**
Exercise of options and share-based compensation expense	275	44	7,272	—	—	7,316
Net income for the three months ended November 30, 2021	—	—	—	—	10,828	10,828
Other comprehensive loss for the three months ended November 30, 2021	—	—	—	(8,031)	—	(8,031)
Balance, November 30, 2021	**107,768**	**17,243**	**304,959**	**$ (24,235)**	**$567,509**	**$865,476**
Balance, June 1, 2020	**105,892**	**$16,943**	**$249,221**	**$ (19,709)**	**$478,722**	**$725,177**
Exercise of options and share-based compensation expense	172	28	5,811	—	—	5,839
Issuance of shares under employee stock purchase plan	18	3	665	—	—	668
Net income for the three months ended August 31, 2020	—	—	—	—	15,860	15,860
Other comprehensive income for the three months ended August 31, 2020	—	—	—	4,002	—	4,002
Balance, August 31, 2020	**106,082**	**$16,974**	**$255,697**	**$ (15,707)**	**$494,582**	**$751,546**
Exercise of options and share-based compensation expense	406	64	9,279	—	—	9,343
Net income for the three months ended November 30, 2020	—	—	—	—	15,885	15,885
Other comprehensive income for the three months ended November 30, 2020	—	—	—	621	—	621
Balance, November 30, 2020	**106,488**	**17,038**	**264,976**	**(15,086)**	**510,467**	**777,395**

See notes to interim consolidated financial statements.

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

	Six Months Ended November 30, 2021	2020
Cash Flows From Operating Activities		
Net Income	$ 27,905	$ 31,745
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	11,511	9,523
Share-based compensation	3,438	3,192
Change in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	(1,500)	6,662
Inventories	(6,929)	4,063
Prepaid expenses and other current assets	(3,709)	(2,080)
Accounts payable, accruals and other changes	10,341	(5,581)
Net Cash From Operating Activities	41,057	47,524
Cash Flows For Investing Activities		
Purchases of property, equipment and other non-current intangible assets	(5,235)	(11,092)
Proceeds from the sale of marketable securities	197,941	309,030
Purchases of marketable securities	(230,586)	(308,524)
Business acquisitions, net of cash acquired	(26,864)	(2,350)
Net Cash For Investing Activities	(64,744)	(12,936)
Cash Flows From Financing Activities		
Exercise of stock options and issuance of employee stock purchase plan shares	6,619	12,658
Net Cash From Financing Activities	6,619	12,658
Effect of Foreign Exchange Rates on Cash	(7,415)	352
Net Increase (Decrease) In Cash and Cash Equivalents	(24,483)	47,598
Cash and Cash Equivalents, Beginning of Period	75,602	66,269
Cash and Cash Equivalents, End of Period	$ 51,119	$ 113,867

See notes to interim consolidated financial statements.

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

1. ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION

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

In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included in the accompanying unaudited consolidated financial statements. All intercompany balances and transactions have been eliminated in consolidation. The results of operations for the three and six month periods ended November 30, 2021 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2022. For more complete financial information, these consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021.

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

Share and per share amounts reflect the June 4, 2021 2-for-1 stock split as if it took place at the beginning of the periods presented.

Recently Adopted Accounting Standards

Income Tax Simplification

On June 1, 2021, the Company adopted ASU 740 Update 2019-12, Income Taxes (Topic 740). This guidance provides amendments to simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

Reference Rate Reform

In March 2020, the FASB issued Update 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. This update provides temporary optional expedients to applying the reference rate reform guidance to contracts that reference LIBOR or another reference rate expected to be discontinued. Under this update, contract modifications resulting in a new reference rate may be accounted for as a continuation of the existing contract. This guidance is effective upon issuance of the update and applies to contract modifications made through December 31, 2022. We will adopt this standard when LIBOR is discontinued and our lender begins using the new reference rate. We are evaluating the impact the new standard will have on our consolidated financial statements and related disclosures, but do not anticipate a material impact.

Comprehensive Income

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

Fair Value of Financial Instruments

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

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

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

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

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

Leases

We lease various manufacturing, laboratory, warehousing and distribution facilities, administrative and sales offices, equipment and vehicles under operating leases. We evaluate our contracts to determine if an arrangement is a lease at inception and classify it as a finance or operating lease. Currently, all our leases are classified as operating leases. Topic 842 requires the Company to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. Right-of-use assets are recorded in other assets on our consolidated balance sheets. Current and non-current lease liabilities are recorded in other accruals within current liabilities and other non-current liabilities, respectively, on our consolidated balance sheets. Costs associated with operating leases are recognized on a straight-line basis within operating expenses over the term of the lease. The right-of-use assets were $2,171,000 and $2,477,000 at November 30, 2021 and May 31, 2021, respectively. The total current and non-current lease liabilities were $2,181,000 and $2,492,000 at November 30, 2021 and May 31, 2021, respectively.

ESTIMATES AND ASSUMPTIONS

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

Accounts Receivable Allowance

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

Inventory

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

Goodwill and Other Intangible Assets

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

Long-Lived Assets

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

Equity Compensation Plans

Share options awarded to employees, restricted stock units (RSUs) and shares of stock awarded to employees under certain stock purchase plans are recognized as compensation expense based on their fair value at grant date. The fair market value of options granted under the Company stock option plans was estimated on the date of grant using the Black-Scholes option-pricing model with assumptions for inputs such as interest rates, expected dividends, an estimate of award forfeitures, volatility measures and specific employee exercise behavior patterns based on statistical data. Some of the inputs used are not market-observable and have to be estimated or derived from available data. Use of different estimates would produce different option values, which in turn would result in higher or lower compensation expense recognized. For RSUs, we use the intrinsic value method to value the units.

To value equity awards, several recognized valuation models exist; none of these models can be singled out as being the best or most correct. The model applied by us can accommodate most of the specific features included in the options granted, which are the reason for their use. If different models were used, the option values could differ despite using the same inputs. Accordingly, using different assumptions coupled with using a different valuation model could have a significant impact on the fair value of employee stock options. Fair value could be either higher or lower than the number provided by the model applied and the inputs used. Further information on our equity compensation plans, including inputs used to determine the fair value of options, is disclosed in Note 7.

Income Taxes

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

2. CASH AND MARKETABLE SECURITIES

Cash and Cash Equivalents

Cash and cash equivalents consist of bank demand accounts, savings deposits, certificates of deposit and commercial paper with original maturities of 90 days or less. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has not experienced losses related to these balances and believes it is not exposed to significant credit risk regarding its cash and cash equivalents. Cash and cash equivalents were $51,119,000 and $75,602,000 at November 30, 2021 and May 31, 2021, respectively. The carrying value of these assets approximates fair value due to the short maturity of these instruments and is classified as Level 1 in the fair value hierarchy.

Marketable Securities

The Company has marketable securities held by banks or broker-dealers at November 30, 2021. Changes in market value are monitored and recorded on a monthly basis; in the event of a downgrade in credit quality subsequent to purchase, the marketable securities investment is evaluated to determine the appropriate action to take to minimize the overall risk to our marketable securities portfolio. These securities are classified as available for sale. The primary objective of management's short-term investment activity is to preserve capital for the purpose of funding current operations, capital expenditures and business acquisitions; short-term investments are not entered into for trading or speculative purposes. These securities are recorded at fair value based on recent trades or pricing models and therefore meet the Level 2 criteria. Interest income on these investments is recorded within other income on the income statement. Adjustments in the fair value of these assets are recorded in other comprehensive income.

Marketable Securities as of November 30, 2021 and May 31, 2021 are listed below by classification and remaining maturities.

(in thousands)	Maturity	November 30, 2021	May 31, 2021
Commercial Paper & Corporate Bonds	0 - 90 days	79,830	106,631
	91 - 180 days	88,246	78,727
	181 days - 1 year	64,526	87,590
	1 - 2 years	104,275	26,752
Certificates of Deposit	0 - 90 days	1,002	3,262
	91 - 180 days	251	1,260
	181 days - 1 year	—	1,263
	1 - 2 years	—	—
Total Marketable Securities		$ 338,130	$305,485

The components of marketable securities at November 30, 2021 are as follows:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Commercial Paper & Corporate Bonds	337,437	18	(578)	336,877
Certificates of Deposit	1,251	2	—	1,253
Total Marketable Securities	$338,688	$ 20	$ (578)	$338,130

The components of marketable securities at May 31, 2021 are as follows:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Commercial Paper & Corporate Bonds	299,524	209	(33)	299,700
Certificates of Deposit	5,755	30	—	5,785
Total Marketable Securities	$305,279	$ 239	$ (33)	$305,485

3. INVENTORIES

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

(in thousands)	November 30, 2021	May 31, 2021
Raw materials	$ 53,940	$ 47,588
Work-in-process	6,303	6,412
Finished and purchased goods	46,843	46,701
	$ 107,086	$100,701

4. REVENUE RECOGNITION

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

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

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

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

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

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

Product revenue consists of shipments of:

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

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

Service revenue consists primarily of:

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

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

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

The following table presents disaggregated revenue by major product and service categories for the three and six month periods ended November 30, 2021 and 2020:

(in thousands)	Three Months ended November 30, 2021	2020	Six Months ended November 30, 2021	2020
Food Safety				
Natural Toxins, Allergens & Drug Residues	$ 21,028	$ 20,001	$ 41,432	$ 39,016
Bacterial & General Sanitation	12,252	11,235	23,421	21,166
Culture Media & Other	19,935	14,215	37,981	26,387
Rodenticides, Insecticides & Disinfectants	8,232	7,059	15,882	15,888
Genomics Services	5,685	5,024	11,138	9,262
	$ 67,132	$ 57,534	$129,854	$111,719
Animal Safety				
Life Sciences	$ 1,309	$ 1,398	$ 2,672	$ 2,723
Veterinary Instruments & Disposables	15,572	11,974	30,909	22,349
Animal Care & Other	10,849	9,371	20,068	17,029
Rodenticides, Insecticides & Disinfectants	18,269	18,471	40,418	38,385
Genomics Services	17,386	16,252	34,901	32,120
	$ 63,385	$ 57,466	$128,968	$112,606
Total Revenues	$130,517	$115,000	$258,822	$224,325

5. NET INCOME PER SHARE

The calculation of net income per share follows:

(in thousands, except per share amounts)	Three Months Ended November 30, 2021	2020	Six Months Ended November 30, 2021	2020
Numerator for basic and diluted net income per share:				
Net income attributable to Neogen	$ 10,828	$ 15,885	$ 27,905	$ 31,745
Denominator for basic net income per share:				
Weighted average shares	107,641	106,258	107,565	106,044
Effect of dilutive stock options and RSUs	481	550	534	556
Denominator for diluted net income per share	108,122	106,808	108,099	106,600
Net income attributable to Neogen per share:				
Basic	$ 0.10	$ 0.15	$ 0.26	$ 0.30
Diluted	$ 0.10	$ 0.15	$ 0.26	$ 0.30

6. SEGMENT INFORMATION AND GEOGRAPHIC DATA

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

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

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

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

Segment information follows:

(in thousands)	Food Safety	Animal Safety	Corporate and Eliminations (1)	Total
As of and for the three months ended November 30, 2021				
Product revenues to external customers	$ 60,112	$ 45,999	$ —	$ 106,111
Service revenues to external customers	7,020	17,386	—	24,406
Total revenues to external customers	67,132	63,385	—	130,517
Operating income (loss)	10,894	12,701	(11,126)	12,469
Total assets	298,437	278,994	390,503	967,934
As of and for the three months ended November 30, 2020				
Product revenues to external customers	$ 51,323	$ 41,214	$ —	$ 92,537
Service revenues to external customers	6,211	16,252	—	22,463
Total revenues to external customers	57,534	57,466	—	115,000
Operating income (loss)	8,960	12,246	(1,961)	19,245
Total assets	226,735	228,126	390,765	845,626

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

(in thousands)	Food Safety	Animal Safety	Corporate and Eliminations (1)	Total
As of and for the six months ended November 30, 2021				
Product revenues to external customers	$ 116,057	$ 94,067	$ —	$ 210,124
Service revenues to external customers	13,797	34,901	—	48,698
Total revenues to external customers	129,854	128,968	—	258,822
Operating income (loss)	21,026	25,463	(12,275)	34,214
As of and for the six months ended November 30, 2020				
Product revenues to external customers	$ 99,986	$ 80,486	$ —	$ 180,472
Service revenues to external customers	11,733	32,120	—	43,853
Total revenues to external customers	111,719	112,606	—	224,325
Operating income (loss)	16,923	24,411	(3,194)	38,140

(1) Includes elimination of intersegment transactions.

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

	Three months ended November 30,		Six months ended November 30,	
(in thousands)	2021	2020	2021	2020
Domestic	$ 76,378	$ 69,832	$ 154,156	$ 137,156
International	54,139	45,168	104,666	87,169
Total revenue	130,517	115,000	258,822	224,325

7. EQUITY COMPENSATION PLANS

Incentive and non-qualified options to purchase shares of common stock have been granted to directors, officers and employees of Neogen under the terms of the Company's stock option plans. These options are granted at an exercise price of not less than the fair market value of the stock on the date of grant. Options vest ratably over three and five year periods and the contractual terms are generally five or ten years. A summary of stock option activity during the six months ended November 30, 2021 follows:

(Options in thousands)	Shares	Weighted-Average Exercise Price
Options outstanding June 1, 2021	2,957	$ 30.38
Granted	392	40.93
Exercised	(262)	22.42
Forfeited	(21)	31.11
Options outstanding November 30, 2021	3,066	$ 32.40

During the three and six month periods ended November 30, 2021 and 2020, the Company recorded $1,748,000 and $1,511,000 and $3,438,000 and $3,192,000, respectively, of compensation expense related to its share-based awards.

The weighted-average fair value per share of stock options granted during the first six months of fiscal years 2022 and 2021, estimated on the date of grant using the Black-Scholes option pricing model, was $9.54 and $7.71, respectively. The fair value of stock options granted was estimated using the following weighted-average assumptions.

	FY 2022	FY 2021
Risk-free interest rate	0.4%	0.2%
Expected dividend yield	0.0%	0.0%
Expected stock price volatility	32.8%	31.3%
Expected option life	3.12 years	3.25 years

The company grants restricted stock units (RSUs) to directors, officers and employees under the terms of the 2018 Omnibus Incentive Plan, which vest ratably over three and five year periods. The current units are expensed straight-line over the remaining weighted-average period of 4.32 years. On November 30, 2021 there was $6,501,000 in unamortized compensation cost related to non-vested RSUs.

(Options in thousands)	Shares	Weighted-Average Fair Value
RSUs outstanding June 1, 2021	121	$ 34.21
Granted	120	40.92
Released	(25)	34.24
Forfeited	(3)	34.49
RSUs outstanding November 30, 2021	213	$ 37.97

The Company offers eligible employees the option to purchase common stock at a 5% discount to the lower of the market value of the stock at the beginning or end of each participation period under the terms of either the 2011 or the 2021 Employee Stock Purchase Plan; the discount is recorded in general and administrative expense. Total individual purchases in any year are limited to 10% of compensation.

8. BUSINESS COMBINATIONS

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

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

On December 30, 2020, the Company acquired all of the stock of Megazyme, Ltd, an Ireland-based company, and its wholly-owned subsidiaries, U.S.-based Megazyme, Inc. and Ireland-based Megazyme IP. Megazyme is a manufacturer and supplier of diagnostic assay kits and enzymes to measure dietary fiber, complex carbohydrates and enzymes in food and beverages as well as animal feeds. This acquisition has allowed Neogen to expand its commercial relationships across food, feed and beverage companies, and provide additional food quality diagnostic products to commercial labs and food science research institutions. Consideration for the purchase was net cash of $39.8 million paid at closing, $8.6 million of cash placed in escrow payable to the former owner in two installments in two and four years, $4.9 million of stock issued at closing, and up to $2.5 million of contingent consideration, payable in two installments over one year, based upon an excess net sales formula. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $1,376,000, inventory of $5,595,000, net property, plant and equipment of $12,599,000, prepayments of $69,000, accounts payable of $4,000, other current liabilities of $1,815,000, contingent consideration accrual of $2,458,000, non-current liabilities of $319,000, non-current deferred tax liabilities of $3,306,000, intangible assets of $22,945,000 (with an estimated life of 15-20 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. In February 2021, the former owner was paid $1,229,000 for the first installment of contingent consideration, based upon the achievement of sales targets. The Irish companies continue to operate from their current locations in Bray, Ireland, reporting within the Food Safety segment and are managed through Neogen's Scotland operation. The U.S. company's business is managed by our Lansing-based Food Safety team.

On September 17, 2021, the Company acquired the stock of CAPInnoVet, Inc., a companion animal health business that provides pet medications to the veterinary market. This acquisition provides entry into the retail parasiticide market and enhances the Company's presence in companion animal markets. Consideration for the purchase was net cash of $17.9 million paid at closing, including $150,000 of cash placed in escrow payable to the former owners in twelve months. There is also the potential for performance milestone payments to the former owners of up to $6.5 million and the Company could incur up to $14.5 million in future royalty payments. The preliminary purchase allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $308,000, inventory of $408,000, prepayments of $296,000, accounts payable of $120,000, other current liabilities of $132,000, non-current liabilities of $13.9 million, intangible assets of $21.0 million (with an estimated life of 15-20 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. The business is operated from our location in Lexington, KY, reporting within the Animal Safety segment.

On November 30, 2021, the Company acquired the stock of Delf (UK) Ltd., a United Kingdom-based manufacturer and supplier of animal hygiene and industrial cleaning products, and Abbott Analytical Ltd., a related service provider. This acquisition will expand the Company's line of dairy hygiene products and will enhance our cleaner and disinfectant product portfolio. Consideration for the purchase was net cash of $8.8 million paid at closing, including $722,000 of cash placed in escrow payable to the former owner in one year. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of 806,000, inventory of $659,000, net property, plant and equipment of $160,000, prepayments of $43,000, accounts payable of $543,000, other current liabilities of $489,000, non-current deferred tax liabilities of $533,000, intangible assets of $2.6 million (with an estimated life of 10-15 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. The companies continue to operate from their current location in Liverpool, England, reporting within the Food Safety segment and are managed through Neogen's Scotland operation.

Subsequent to the end of the quarter, on December 9, 2021, the Company acquired the stock of Genetic Veterinary Services, Inc., a companion animal genetic testing business providing genetic information for dogs, cats and birds to animal owners, breeders and veterinarians. This acquisition will further expand the Company's presence in the companion animal market. Consideration for the purchase was $11.8 million in cash. Due to the timing of the transaction, the preliminary purchase price allocation was not complete at the time of filing. The business will be operated from its current location in Spokane, Washington, reporting within the Animal Safety segment.

Subsequent to the end of the quarter, on December 13, 2021, the Company entered into an agreement to combine with 3M's food safety business in a Reverse Morris Trust transaction. Please refer to Forms 8-K and Forms 425 filed with the Securities and Exchange Commission for more information.

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

9. LONG TERM DEBT

We have a financing agreement with a bank providing for a $15,000,000 unsecured revolving line of credit, which expires on November 30, 2023. There were no advances against the line of credit during fiscal 2021 and there have been none thus far in fiscal 2022; there was no balance outstanding at November 30, 2021. Interest on any borrowings is at LIBOR plus 100 basis points (rate under the terms of the agreement was 1.09% at November 30, 2021). Financial covenants include maintaining specified levels of tangible net worth, debt service coverage, and funded debt to EBITDA, each of which the Company was in compliance with at November 30, 2021.

10. COMMITMENTS AND CONTINGENCIES

The Company is involved in environmental remediation and monitoring activities at its Randolph, Wisconsin manufacturing facility and accrues for related costs when such costs are determined to be probable and estimable. The Company currently utilizes a pump and treat remediation strategy, which includes semi-annual monitoring and reporting, consulting, and maintenance of monitoring wells. We expense these annual costs of remediation, which have ranged from $38,000 to $131,000 per year over the past five years. The Company's estimated remaining liability for these costs was $916,000 at both November 30, 2021 and May 31, 2021, measured on an undiscounted basis over an estimated period of 15 years. In fiscal 2019, the Company performed an updated Corrective Measures Study on the site, per a request from the Wisconsin Department of Natural Resources (WDNR) and is currently in discussion with the WDNR regarding potential alternative remediation strategies going forward. The Company believes that the current pump and treat strategy is appropriate for the site. However, the Company has agreed to a pilot study in which chemical reagents are injected into the ground in an attempt to reduce on-site contamination and is currently working with its consultant to design the system. At this time, the outcome of the pilot study is unknown, but a change in the current remediation strategy, depending on the alternative selected, could result in an increase in future costs and ultimately, an increase in the currently recorded liability, with an offsetting charge to operations in the period recorded. The Company has recorded $300,000 as a current liability, and the remaining $616,000 is recorded in other non-current liabilities in the consolidated balance sheets.

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

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

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

PART I – FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Safe Harbor and Forward-Looking Statements

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

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

COVID-19

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

In the first half of fiscal 2022, the COVID-19 pandemic continued to impact our business operations and financial results. A number of our food safety diagnostic product lines have been negatively impacted due to decreased demand in many of our customers' businesses around the world, particularly those serving restaurants, bars and other institutional food service markets. Many of our markets across the world are recovering, but the pandemic has continued to adversely impact our customers and ultimately, our revenues. We have also experienced supply chain difficulties including vendor disruptions, border closures, shipping issues and significantly increased shipping costs; labor shortages and higher labor costs, as we have had to use staffing agencies and increase our base pay in many areas of the company to fill open positions; and restricted travel, which hinders our ability to connect with customers. During the current fiscal year, we have incurred less expense for travel, meals, trade shows and some other customer-facing marketing activities; some of these activities have resumed but have not yet returned to pre-pandemic levels. Higher spend on shipping and labor are offsetting these savings.

Overall, the impact of COVID-19 remains uncertain and ultimately depends on the length and severity of the pandemic, inclusive of the introduction of new strains of the virus; the federal, state, and local government actions taken in response; vaccination rates and effectiveness; the impact of vaccination requirements; and the macroeconomic environment. We will continue to evaluate the nature and extent to which COVID-19 will impact our business, supply chain, including labor availability and attrition, consolidated results of operations, financial condition, and liquidity; we expect it to impact us through at least the end of our current fiscal year.

Executive Overview

- Consolidated revenues were $130.5 million in the second quarter of fiscal 2022, an increase of 13% compared to $115.0 million in the second quarter of fiscal 2021. Organic sales growth in the second quarter of fiscal 2022 was 10%. For the six month period, consolidated revenues were $258.8 million, an increase of 15% compared to $224.3 million in the same period in the prior fiscal year. On a year to date basis, organic sales rose 12%.
- Food Safety segment sales were $67.1 million in the second quarter of fiscal 2022, an increase of 17% compared to $57.5 million in the same period a year ago. Organic sales in this segment rose 11% for the comparative period, with revenues from the acquisition of Megazyme (December 2020) providing the remainder of the increase in revenues for the segment. For the year to date, Food Safety segment sales were $129.9 million, an increase of 16% compared to $111.7 million in the same period of the prior fiscal year; the organic sales increase was 10% for the comparative period, with the Megazyme acquisition providing the additional contribution to revenue.
- Animal Safety segment sales were $63.4 million in the second quarter of fiscal 2022, an increase of 10% compared to $57.5 million in the second quarter of fiscal 2021. Organic sales in this segment also rose 10% in the second quarter, with a minor contribution from the CAPInnovet acquisition (September 2021). For the six month period, Animal Safety segment sales were $129.0 million, an increase of 15%, compared to $112.6 million in the same period a year ago. Year to date organic sales rose 14%, with revenues from the StandGuard (July 2020) and CAPInnovet acquisitions contributing the difference.
- International sales in the second quarter of fiscal 2022 were 41% of total sales compared to 39% of total sales in the second quarter of fiscal 2021. For the year to date, fiscal 2022 international sales were 40% of total sales compared to 39% of total sales in the same period of the prior year.
- Our effective tax rate in the second quarter was 16.2% compared to an effective tax rate of 17.8% in the prior year second quarter; the fiscal 2022 year to date effective tax rate was 19.5% compared to 18.9% for the same period a year ago.
- Net income for the quarter ended November 30, 2021 was $10.8 million, or $0.10 per diluted share, compared to $15.9 million, or $0.15 per diluted share in the same period in the prior year. For the year to date, net income was $27.9 million, or $0.26 per diluted share compared to prior year to date net income of $31.7 million, or $0.30 per diluted share. Net income was decreased by $9.3 million of legal and consulting expenses for due diligence related to our recently announced agreement to combine with 3M’s Food Safety business.
- Cash provided from operating activities in the first six months of fiscal 2022 was $41.1 million, compared to $47.5 million in the first half of fiscal 2021.

International sales rose 20% in both the second quarter of fiscal 2022 and also increased 20% for the year to date, each compared to the same respective periods in the prior year. Excluding international sales of the Megazyme acquisition, the increase was 14% for both the quarter and year to date periods. Revenue changes, expressed in percentages, for the three and six month periods of fiscal 2022 compared to the same respective periods in the prior year are as follows for each of our international locations:

	Three Months Ended November 30, 2021		Six Months Ended November 30, 2021	
	Revenue % Inc (Dec) USD	Revenue % Inc (Dec) Local Currency	Revenue % Inc (Dec) USD	Revenue % Inc (Dec) Local Currency
U.K Operations (including Neogen Italia)	20%	14%	13%	6%
Brazil Operations	(5)%	(6)%	(10)%	(12)%
Neogen Latinoamerica	13%	10%	18%	10%
Neogen Argentina	44%	84%	28%	68%
Neogen Uruguay	(4)%	(2)%	3%	5%
Neogen Chile	48%	54%	59%	59%
Neogen China	28%	22%	42%	34%
Neogen India	(10)%	(9)%	1%	1%
Neogen Canada	34%	28%	60%	50%
Neogen Australasia	29%	27%	38%	33%

Currency translations increased comparative revenues by approximately $1.0 million in the second quarter of fiscal 2022 and $3.3 million for the year to date, each compared to the same periods a year ago, primarily due to the increased strength of the British pound and Mexican peso relative to the U.S. dollar. Combined revenues at our U.K. operations increased 20% in the second quarter; growth was led by strong cleaner and disinfectant sales into Asia, as the African swine fever outbreak continues to drive demand, and new culture media business with commercial laboratories in the U.K. that have adopted our recently launched One Broth One Plate workflow. For the six month period, revenues at our U.K. operations increased 13% as a large non-recurring prior year shipment of hand sanitizers to the U.K. government's health organization affected growth in the first quarter.

Sales in Brazil decreased 5% in this year's second quarter, as an extended drought led to a significantly reduced corn crop and the associated testing, resulting in a large decrease in sales of aflatoxin test kits. For the six month period, sales at our Brazilian operations decreased 10%, primarily due to the reduced aflatoxin test kit sales and a large non-recurring insecticide sale to a government health organization in the first quarter of the prior fiscal year. Neogen Latinoamerica sales rose 13% for the second quarter, primarily due to increases in natural toxins test kits, environmental sanitation, culture media and biosecurity products. Sales at Neogen China increased 28% and 42% for the three and six month periods, respectively, from new sales of Megazyme products and growth in genomics, as the commercial dairy, swine and sheep markets have increased sampling volumes. The Neogen Australasia location benefitted from increased genomics business with customers in the beef and sheep markets.

Service revenue, which includes genomics testing and other laboratory services, was $24.4 million in the second quarter of fiscal 2022, an increase of 9% over prior year second quarter revenues of $22.5 million. For the six month period, service revenue was $48.7 million, an increase of 11% over prior year revenues of $43.9 million. The growth for both the quarter and year to date periods was led by increases in revenues at our Australia, China, U.K., Brazil and Canada genomics operations; growth in our domestic operation was reduced by lower volumes of companion animal samples, the result of difficult comparison from large increases in the prior year.

Revenues

(in thousands)	Three Months Ended November 30, 2021	2020	Increase/ (Decrease)	%
Food Safety				
Natural Toxins, Allergens & Drug Residues	$ 21,028	$ 20,001	$ 1,027	5%
Bacterial & General Sanitation	12,252	11,235	1,017	9%
Culture Media & Other	19,935	14,215	5,720	40%
Rodenticides, Insecticides & Disinfectants	8,232	7,059	1,173	17%
Genomics Services	5,685	5,024	661	13%
	$ 67,132	$ 57,534	$ 9,598	17%
Animal Safety				
Life Sciences	$ 1,309	$ 1,398	$ (89)	(6)%
Veterinary Instruments & Disposables	15,572	11,974	3,598	30%
Animal Care & Other	10,849	9,371	1,478	16%
Rodenticides, Insecticides & Disinfectants	18,269	18,471	(202)	(1)%
Genomics Services	17,386	16,252	1,134	7%
	$ 63,385	$ 57,466	$ 5,919	10%
Total Revenues	$130,517	$115,000	$ 15,517	13%

(in thousands)	Six Months Ended November 30, 2021	2020	Increase/ (Decrease)	%
Food Safety				
Natural Toxins, Allergens & Drug Residues	$ 41,432	$ 39,016	$ 2,416	6%
Bacterial & General Sanitation	23,421	21,166	2,255	11%
Culture Media & Other	37,981	26,387	11,594	44%
Rodenticides, Insecticides & Disinfectants	15,882	15,888	(6)	0%
Genomics Services	11,138	9,262	1,876	20%
	$129,854	$111,719	$ 18,135	16%
Animal Safety				
Life Sciences	$ 2,672	$ 2,723	$ (51)	(2)%
Veterinary Instruments & Disposables	30,909	22,349	8,560	38%
Animal Care & Other	20,068	17,029	3,039	18%
Rodenticides, Insecticides & Disinfectants	40,418	38,385	2,033	5%
Genomics Services	34,901	32,120	2,781	9%
	$128,968	$112,606	$ 16,362	15%
Total Revenues	$258,822	$224,325	$ 34,497	15%

Food Safety

Natural Toxins, Allergens & Drug Residues – Sales in this category increased 5% and 6% for the three and six month periods ended November 30, 2021, respectively, compared to the same periods in the prior year. In the second quarter, sales of our natural toxin test kits rose 10% as higher sales in the domestic pet food market and Europe were partially offset by lower aflatoxin sales in Brazil, as a drought significantly reduced crop size and associated testing. Sales of allergen test kits rose 6% in the second quarter, while sales of our drug residue test kits declined 23% due to the termination of a European distribution agreement and competitive pressure within the marketplace.

Bacterial & General Sanitation – Revenues in this category increased 9% and 11% for the second quarter and for the year to date, compared to the same periods in the prior year. In the second quarter, sales of products to detect spoilage organisms in processed foods increased 22%, resulting from sales of our new instrument which continued to gain market acceptance after launching over a year ago. Sales of our AccuPoint sanitation monitoring product line increased 8% in the second quarter as strong sales of our new reader partially offset lower sales of consumables due to supply issues. Sales of products to detect pathogens increased 3% in the second quarter.

Culture Media & Other – Sales in this category increased 40% in the quarter ended November 30, 2021 compared to the second quarter in the prior year; for the six month period, sales increased 44%. Excluding sales from the December 2020 acquisition of Megazyme, Veterinary which are reported in this category, sales increased 17% and 19% for the three and six month periods, respectively. This category includes sales of instruments and other veterinary products at some of our international locations; these sales increased significantly over the prior year due to recovering markets and expanded market share. Sales of Neogen Culture Media products increased 11% in the second quarter as our new workflow, One Broth One Plate, continued to drive increased sales to commercial labs in the U.K.; the growth was partially offset by a decline in domestic sales due to non-recurring business in the prior year. For the six month period, Neogen Culture Media sales increased 22%, due to strength in the U.K. and also a large domestic sale to a vaccine manufacturer in the first quarter.

Rodenticides, Insecticides & Disinfectants – Revenues in this category increased 17% in the second quarter of fiscal 2022 compared to the same period a year ago, due primarily to continued strength in cleaners and disinfectants into Asia resulting from increased demand from the African swine fever outbreak in that region; there was also higher sales of rodenticides in Mexico. For the year to date, sales were flat, with the previously discussed increases being offset by large non-recurring sales of hand sanitizers in the U.K. and insecticides in Brazil in the first quarter of the prior fiscal year.

Genomics Services – Sales of genomics services sold through our international Food Safety operations increased 13% and 20% for the three and six month periods ended November 30, 2021, respectively. The increase in the second quarter was from overall strength at our labs in the U.K., Brazil and China as improved economic conditions in several markets have contributed to increased testing.

Animal Safety

Life Sciences – Sales in this category decreased 6% in the second quarter, compared to the same period in the prior year; for the year to date, the decrease in this product line was 2%. The decline in both periods was due primarily to the loss of hair testing business with a large U.S. commercial laboratory that moved to a different testing platform.

Veterinary Instruments & Disposables – Revenues in this category increased 30% for the three month period ended November 30, 2021, led by a large increase sales of in veterinary instruments, including needles and syringes, resulting from recently won private label business; revenues increased 38% for the year to date.

Animal Care & Other – Sales of these products increased 16% and 18% in the three and six month periods ended November 30, 2021, respectively. Excluding the contribution of parasiticides from the September acquisition of CAPInnovet, revenues in this category increased 13% in the second quarter, primarily due to strength in equine and companion animal markets. Additionally, we continued to regain customers with our recently re-launched ThyroKare™ product. Partially offsetting these gains was a decline in sales of dairy supplies of 67% and 76% for the quarter and year to date periods, respectively, due to the June 2020 termination of an agreement in which we distributed these types of products for a large manufacturer of dairy equipment.

Rodenticides, Insecticides & Disinfectants – Revenues in this category decreased 1% for the three month period ended November 30, 2021, resulting from a 14% decrease in rodenticide sales due to supply constraints and a non-outbreak year. Insecticide sales rose 46% in the quarter, led by growth in the StandGuard® product line acquired in July 2020. Cleaners and disinfectants sales decreased 2% due to a difficult prior year comparison that included a large non-recurring sale. Sales of these products for the year to date period increased 5%, as compared to a year ago, for the same reasons.

Genomics Services – Sales in this category increased 7% and 9% in the second quarter and the year to date periods, each compared to the prior year. The growth in both periods was led by increases in beef and sheep testing in Australia due to improved market conditions and higher sample volumes from domestic dairy and beef cattle and poultry customers. Growth in both the three and six month periods was partially offset by lower domestic companion animal revenues due to difficult prior year comparisons.

Gross Margin

Gross margin, expressed as a percentage of sales, was 46.4% in the second quarter of fiscal 2022 compared to 46.3% in the same quarter a year ago. The slight change in gross margin percentage is the result of a 30 basis point improvement in Food Safety gross margins, partially offset by a 20 basis point decline in gross margin percentage in the Animal Safety segment. The primary driver of the improved Food Safety gross margin percentage was incremental revenue from the Megazyme product line; these products generate higher gross margins than the average in this segment. In the Animal Safety segment, the slight decline in gross margin percentage was the result of lower sales of higher margin rodenticide products due to a lessening of vole pressure across the domestic market, and a reduction in genomics service revenues in the domestic companion animal markets. Within each segment, higher raw material and freight costs, resulting from continued supply chain issues across most of our markets, put downward pressure on gross margins. The company has taken pricing actions where appropriate in response to these cost increases. For the year to date, gross margin was 46.6% compared to 46.1% in the prior year, for the same reasons.

Operating Expenses

Operating expenses were $48.1 million in the second quarter, compared to $34.0 million in the same quarter of the prior year, an increase of $14.2 million, or 42%. Legal, consulting and other professional fees totaling $9.3 million were incurred in the second quarter in conjunction with due diligence and negotiation of terms for the proposed business combination with 3M's Food Safety business, which was announced on December 14, 2021. Excluding costs related to the transaction, run rate operating expenses were $38.8 million, an increase of 14% compared to the prior year. For the six month period ended November 30, 2021, excluding the $9.3 million in deal costs, operating expenses were $77.1 million, an increase of 18% compared to the prior year.

Sales and marketing expenses increased $3.5 million, or 20%, in the second quarter, primarily due to increases in personnel related expenses, the result of higher sales volumes and headcount. Additionally, travel, trade shows and other customer facing activities have continued to rise, the result of easing of restrictions in a number of our markets due to the COVID-19 pandemic; for the year to date, sales and marketing expenses increased 22% compared to the same period last year.

General and administrative expense increased $10.4 million in the second quarter, primarily the result of $9.3 million in legal, consulting and other professional fees resulting from due diligence efforts and negotiation of terms relating to the proposed transaction with 3M referenced above. Run rate general and administrative expenses rose $1.1 million, or 9%, due primarily to increases in salaries and bonuses resulting from improved operating performance and additional senior management hires, higher amortization expenses from the Megazyme and CAPInnovet acquisitions, increased stock based compensation expense and higher depreciation and license fees relating to information technology infrastructure and software. These increases were partially offset by $1 million in spending on strategic consulting, legal and other professional fees related to acquisition activity in the prior year second quarter for businesses which we were not ultimately successful in acquiring. Year to date, run rate general and administrative expenses increased 15%, for the same reasons.

Research and development expense was $4.3 million in the second quarter, an increase of $270,000, or 7%, compared to the same period in the prior year. The increase was primarily the result of incremental costs of personnel absorbed from the Megazyme acquisition and outside service costs for development spending on new products. For the year to date, research and development expenses increased 9% over the same period last year, for the same reasons.

Operating Income

Operating income was $12.5 million in the second quarter of fiscal 2022, compared to $19.2 million in the same period of the prior year; year to date operating income was $34.2 million compared to $38.1 million in the prior year. Expressed as a percentage of sales, operating income was 9.6% for the second quarter and 13.2% for the year to date, compared to 16.7% and 17.0%, respectively, for the same periods in the prior year. Adjusting for the $9.3 million in transaction costs resulting from the proposed 3M transaction, operating income was 16.7% in the second quarter and 16.8% for the year to date.

Other Income

	Three Months Ended November 30,		Six Months Ended November 30,	
(dollars in thousands)	2021	2020	2021	2020
Interest income (net of expense)	$ 217	$ 555	$ 420	$ 1,277
Foreign currency transactions	167	(432)	15	(256)
Insurance settlement	—	309	—	—
Legal settlement	—	(300)	—	—
LGS contingent consideration	(135)	—	(135)	—
Other	210	(42)	141	(16)
Total Other Income	$ 459	$ 90	$ 441	$ 1,005

The decrease in interest income in the six month period of fiscal 2022 compared to the same period a year ago was the result of continued lower yields on our marketable securities balances. Other income or expense resulting from foreign currency transactions was the result of changes in the value of foreign currencies relative to the U.S. dollar in countries in which we operate. In the second quarter of the current fiscal year, we recorded a charge of $135,000 for additional contingent consideration in the final payment to the former owner of Livestock Genomic Services.

Income Tax Expense

Income tax expense in the second quarter of fiscal 2022 was $2.1 million, an effective tax rate of 16.2%, compared to $3.5 million, an effective tax rate of 17.8%, in the same period of the prior year. For the year to date, income tax expense was $6.8 million, an effective rate of 19.5%, in fiscal 2022 and $7.4 million, an effective rate of 18.9%, in fiscal 2021. For each period, the primary difference between the statutory rate of 21% and the effective rates recorded is the benefit resulting from the exercise of stock options; this benefit was $859,000 in the second quarter of fiscal 2022 compared to $1,060,000 in the second quarter of the prior year. For the year to date, the benefit was $874,000 in fiscal 2022 compared to $1,481,000 in fiscal 2021. The decrease in the effective tax rate for the second quarter was primarily due to lower taxable income resulting from fees related to the 3M combination. The increase in effective rate for the year to date period is the result of lower benefit from stock option exercises and a $548,000 charge to expense in the first quarter because the U.K. enacted a higher tax rate effective in 2023. Since our deferred tax balances at this operation are expected to reverse in the future at the higher tax rate, we were required to revalue them when the new rate was passed.

Net Income

Net income was $10.9 million in the second quarter of fiscal 2022, compared to $15.9 million in the same period in the prior year. The decline in earnings for this year's second quarter was the result of $9.3 million in legal, consulting and other professional fees from the intended transaction with 3M. Excluding those charges, net income rose 14% in the second quarter of fiscal 2021 compared to the same period in the prior year. For the year to date, net income was $27.9 million, a decrease of 12% compared to $31.7 million in the prior year; excluding the $9.3 million of expense, net income rose 11% year to date. Six month net income in fiscal 2022 was also negatively impacted by a higher effective tax rate.

Financial Condition and Liquidity

The overall cash, cash equivalents and marketable securities position of Neogen was $389.2 million at November 30, 2021, compared to $381.1 million at May 31, 2021. Approximately $41.1 million was generated from operations during the first six months of fiscal 2022 and spent $26.9 million on acquisitions. Net cash proceeds of $6.6 million were realized from the exercise of stock options and issuance of shares under our Employee Stock Purchase Plan during the first six months of fiscal 2022. We spent $5.2 million for property, equipment and other non-current assets in the first half of fiscal 2022.

Net accounts receivable balances were $92.5 million at November 30, 2021, an increase of $700,000, compared to $91.8 million at May 31, 2021. Days' sales outstanding, a measurement of the time it takes to collect receivables, were 63 days at November 30, 2021, compared to 66 days at May 31, 2021 and 61 days at November 30, 2020. We have been carefully monitoring our customer receivables as the COVID-19 pandemic has spread across our global markets; to date, we have not experienced an appreciable increase in bad debt write offs.

Net inventory was $107.1 million at November 30, 2021, an increase of $6.4 million, compared to a May 31, 2021 balance of $100.7 million. The two acquisitions completed in the second quarter added approximately $1.0 million to our inventory balance. Additionally, we have been increasing inventory levels recently in an effort to reduce freight costs and prevent backorders, as shipments are taking longer and some suppliers are requiring higher orders due to their supply constraints.

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

Management believes that our existing cash and marketable securities balances at November 30, 2021, along with available borrowings under our credit facility and cash expected to be generated from operations, will be sufficient to fund activities for the remainder of the current fiscal year. However, existing cash and borrowing capacity will be insufficient to meet cash requirements for our planned combination with the 3M Food Safety business, which is currently expected to close in the third quarter of calendar year 2022. The transaction will be funded by issuing equity securities to 3M's shareholders and borrowing approximately $1 billion in cash under an agreement with JPMorgan Chase.

PART I – FINANCIAL INFORMATION

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

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

Risk Category *(dollars in thousands)*	Hypothetical Change	November 30, 2021	Impact
Foreign Currency - Revenue	10% Decrease in exchange rates	$ 5,414	Earnings
Foreign Currency - Hedges	10% Decrease in exchange rates	1,959	Earnings

PART I – FINANCIAL INFORMATION

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of November 30, 2021 was carried out under the supervision and with the participation of the Company’s management, including the President & Chief Executive Officer and the Vice President & Chief Financial Officer (“the Certifying Officers”). Based on the evaluation, the Certifying Officers concluded that the Company’s disclosure controls and procedures are effective.

Changes in Internal Controls over Financial Reporting

No changes in our control over financial reporting were identified as having occurred during the quarter ended November 30, 2021 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 6. Exhibits

(a) Exhibit Index

31.1	Certification of Principal Executive Officer
31.2	Certification of Principal Financial Officer
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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

SIGNATURES

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

NEOGEN CORPORATION
(Registrant)

Dated: December 30, 2021

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

Dated: December 30, 2021

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

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

CEO CERTIFICATION

I, John E. Adent, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended November 30, 2021 of Neogen Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the audit committee of registrant's board of directors:

   a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: December 30, 2021

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

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

CFO CERTIFICATION

I, Steven J. Quinlan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended November 30, 2021 of Neogen Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the audit committee of registrant's board of directors:
   a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: December 30, 2021

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

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

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

In connection with this Quarterly Report on Form 10-Q of Neogen Corporation (the "Company") for the period ended November 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John E. Adent, as Chief Executive Officer of the Company and I, Steven J. Quinlan, as Chief Financial Officer, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) This Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) Information contained in this Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: December 30, 2021

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

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

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