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Neogen Corp. (NEOG)

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CORPORATE PARTICIPANTS

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

OTHER PARTICIPANTS

David Westenberg

Analyst, Piper Sandler & Co.

MANAGEMENT DISCUSSION SECTION

David Westenberg

Analyst, Piper Sandler & Co.

Thank you, everybody, for joining us. Thank you, John, for coming here. We'll just skip this one.

QUESTION AND ANSWER SECTION

David Westenberg

Analyst, Piper Sandler & Co.

Q

Let's start off with – you made a big acquisition in 3M, biggest company acquisition in the company's history. In my opinion, something that fits very well with the overall portfolio. Now, we're looking at guidance that you gave in December of about – I think it was \$1 billion in revenue and \$300 million in EBITDA. Can you talk about where we're tracking relative to that and if you have any maybe updated expectations around what you think that business can do now that you've seen it?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Yeah. Sure, David. Thanks. So 90 days in, I'm pretty excited. Things were going really, really well. The world's changed from December of last year till today. We've got now war in Ukraine. We've got the recession. We've got some other things. So when you think about that guidance, we are really excited to continue. We think that we will hit the \$1 billion and the \$300 million, but we had some headwinds.

So one was about a \$10 million on revenue, \$5 million EBITDA headwind on the business that we bought from trying to close, the 3M business didn't perform as well as what they thought they were going to perform. And then as we talked about, exchange rates, kind of, some of the other macroeconomic headwinds, that was also about \$300 million or \$30 million in revenues and \$15 million in EBITDA.

So that's kind of the big differences that we saw versus December from a macro. But we're confident we're going to hit that number. I mean, what we've seen is the teams are really excited. We're seeing cross-selling

opportunities already. We're seeing the teams really involved. But what's going to happen is it's going to push out that number a little bit because, really, I think the macroeconomic is kind of driving that pushout.

The businesses, I'd say, the end markets have slowed a couple of points versus what they were traditionally, just from a recession standpoint and inflation. So our expectation, we end our fiscal year in May. So our expectation is to hit that number by the end of fiscal year 2025, which is May 31. And if the conditions improve economically, I think we'll do a little even better than that. So we're excited about meeting those numbers.

David Westenberg

Analyst, Piper Sandler & Co.

Q

Great. Just because [indiscernible] (02:44) I did bounce around, hit the hard-hitting one right out front.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Sure.

David Westenberg

Analyst, Piper Sandler & Co.

Q

But let's maybe just talk about the company and a little bit more about at a high level. Can you talk about how your company fits with the global food supply?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Yeah, absolutely. I mean, I think what makes Neogen different from everybody else is most of our competitors start at the processing plant, right. So they either start at a yogurt plant or at a JBS slaughter facility. We really look at the global food supply from the farm all the way, because food doesn't start at a processing plant; food starts at the farm.

So you're going to hear us talk a lot about food safety. Our total business is food safety, because I know everyone likes to split it apart about animal safety and food, but really it's food all the way through. It's just we start at an area before everybody else.

Great customer of ours is Danone. Danone, we work within a whole host of areas. So when we start with Danone, they use our genomics to pick the right animals for their dairy farms. They're fully integrated. So in the US, they've got their own dairy farms. So they're using ours to pick the animals or the traits they want for that dairy farm. They then use our cleaners and disinfectants on the farm, right, because you want to make sure that you have an environment where the animals can really thrive and you want to make sure that environment is clean. These are mycotoxins testing to make sure the feed the animals eat is healthy, because if you've got hybrid mycotoxins, best cases, the animal gets sick. Worst case, the animal dies, right?

So they use our portfolio to make sure they're doing that. Once you've got the animal eating right in a clean environment, there's only a couple of ways that disease and pathogens can get in the environment. Insects, rodents and people, right? That's it. So our insecticide and rodenticide, sometimes people don't think about that as a food safety product, but on the farm, it really is, because it's the only way things can get in.

They then use our ATP products to check for cleanliness of the milk tanks, the pipes, the tanker trucks that are picking up the milk. They use our Listeria Right Now product as a safety check their lines for their yogurt. They

use our Soleris product for checking yeast and mold. So when you're growing yogurt, when you're growing that culture, you also grow other stuff. You want to make sure you're not growing the yeast and mold in the product.

And then, they're using our allergen products to be able to label to say it is soy-free, it is coconut-free, it is other-things-free. And then, with our newest acquisition Megazyme, which on the other side of the package we're – now, they're using us to say, okay, polysaccharides [indiscernible] (05:22) dietary fibers that. It's funny, when I was talking to Danone, I asked them if you had to go out and source that from another company, how many would it be? And they said eight to nine.

So we take up in our space eight to nine different suppliers for them. And that's what really makes us different from everybody else. Everybody else is more of a single product focus versus our whole portfolio focus.

David Westenberg

Analyst, Piper Sandler & Co.

Q

Got it. You actually answered questions one, two and three.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

That's good. That's good.

David Westenberg

Analyst, Piper Sandler & Co.

Q

[indiscernible] (05:52) then can you talk about how that's helped you won business on, maybe, the international front? I really do like the color with giving an actual customer. But as we're thinking about global food supply, for example, I mean, is there any instances where you can talk about shipping Argentinian beef to Norway, or shipping Ukrainian wheat to Mexico or...

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Yeah. So the international standards, whether it is ISO in Europe, or whether it is AOAC in the US, when you have these standards, once you are qualified within those standards, then to be able to export into those markets, you have to be able to say, these test fit those international standards. Which is why it's important, like for mycotoxin, we're registered with FGIS, which is the Federal Grain Inspection Service.

Because those now importing know, okay, even though this grain may be coming from Paraguay, it may be coming from Brazil, it could be coming from Iowa, they all know that the Neogen tests are designed to meet the specifications of those testing bodies. So that is how you have a smooth supply chain, right? Because otherwise, if you didn't have that, the inspection bodies wouldn't know, okay, that test is not qualified, we're not going to accept those results. So that's how you seamlessly move food across the different markets, is making sure that you have products and testing that are certified by those governing bodies, that allow you to do that in a fashion that makes sense.

David Westenberg

Analyst, Piper Sandler & Co.

Q

Got you. As far as I know, I think you are one of the only farm-to-table food and animal safety company. I do think that some of the private equity is trying to enter the market. I mean, I think Warburg Pincus with the EU Group

(sic) [EW Group] (07:42) has been assembling some of the assets there. Is there any other companies that are kind of – you're thinking about as trying to maybe use the Neogen model?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

So Warburg sold that business to EW, the Hygiene business. EW is a – really like the Tyson of Europe. They're an integrated poultry business, so they bought it as a piece of their integrated food business. Our competitors look a lot like 3M, where they were a technology developed for something else. So they said, hey, let's throw that over to Food Safety, right? And that's kind of what we saw with the acquisition of 3M was it was 1% of 3M's business. It wasn't a business they focused on. It was great technology. The Petrifilm was a fantastic franchise, but it wasn't something they spent a lot of time on.

DSM has a mycotoxin test. I guarantee you they don't even know they have it, because they bought Erber Group, which was 98%, 99% food or feed flavoring, which is why they bought that business, and they had this small business with it. Bio-Rad's got a small food safety group. 3M had a small food safety group. So you have a technology that's very specific; one product, one driving product within a line kind of buried in these larger companies.

And that's what kind of got us excited about 3M was the ability to go in and give some focus and help unlock that, because 3M is a great company, but even my business, like my bottom 1% of revenues, I don't know that business very well. I mean, that's not where I spend my time. So it's not surprising that that management group didn't spend a lot of time. They rotated people through. Management was generally there 18 to 24 months. When you're there 18 to 24 months, you don't make long-term decisions. You're making decisions because you're just moving through, right?

So we saw an opportunity there and the teams are really excited. I'm going to give you a story. I went to Minneapolis and I talked to the group and they were preparing the business presentation for me. And the first 15 slides were what they did, the markets, who they called on, what they did. And [ph] Monica (09:52) was the Head of Sales and she started and I stopped her and said, [ph] Monica (09:55) look, I know all that, right? I know who you are. I know what you do. I know what your products do. I know who your customers are. I know who you serve. I know your value proposition. And she said, John, I've been here 30 years, this is the first time in a 3M meeting anybody knew my business, right? So teams were excited that we know their business. We understand their business, and we can help them try to put together this value proposition that's really going to drive food safety as a combined organization.

David Westenberg

Analyst, Piper Sandler & Co.

Q

That's great. I think there has been some trends in terms of spending off food safety businesses. Do you anticipate that trend to – or some of those trends to accelerate? And is that a headwind or a tailwind, do you think for you?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

I think it's a tailwind. I think we're having discussions with people. We're talking about that, because even the groups are thinking about it, right? And everybody looks at their portfolios and we do the same thing, right. You saw what we did on some of our rationalization within our SKUs, on our portfolio is that – you have to constantly

be looking at your business to understand, is this something that's really important for us that's going to drive long-term shareholder value? Is it going to be better place somewhere else?

So we're starting to see businesses look like that. I think it was a great opportunity for us with 3M. If you think about if market would have been great, they would have been performing at a very high level. There's no impetus for them to sell the business, right?

So when you see that they're thinking about something and trying something new, you go and talk to people that gives you an opportunity to do that. I think we have those opportunities with others. We're having discussions now. So we continue to look, and I think it's a great tailwind, because Neogen – if you want to be in food safety, Neogen is the company. There's nobody that has the portfolio, breadth, scope, team that we do. And so I think it's – we're seeing that with talent, we're seeing that with customers, and people are excited to be here.

David Westenberg

Analyst, Piper Sandler & Co.



Yeah. I've covered you at three different companies and for a number of years now. And I've never been able to call your quarters or call your years with very good precision here. But one thing that is on the news here that can be impacting numbers potentially is people are talking about avian flu right now. How much of a headwind could that be potentially for the business? I know that's one food in a – of many that you support. But any thoughts on that?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.



That one's like a – that's a give and take. So when we have an outbreak like that, and avian flu, I don't know if you guys pay attention – it's very serious, right? So, we've had 52 million birds that have already been killed because they were found positive, 46 states. The last time we had an outbreak was in 2015. It was 11 states and only about 30 million birds. This is the largest outbreak in US history, okay?

You saw that with prices for turkey. Turkey prices doubled versus last year. That's because we had to go out and depopulate. When that happens, people are more focused with our products on the cleaner and disinfectant side. So we see sales rise. We're seeing that with our Neogen Viroxide Super, which is a – the strongest product in the marketplace and our synergized products.

Conversely, though, what happens is the number of barns go down. So while we see it as a tailwind from a standpoint of cleaning and disinfecting because they really want to make sure those barns are clean before they bring in the next flock, we see the number of sites go down. So it's a bit of a push and take.

Long term, it's a tailwind because people understand the importance of disinfecting. But when these things hit, what it does is it reinforces everybody's safety protocols. Farms take it far more seriously where before maybe they were trying to save money and they said, look, I'll clean it every other flock. Can't, you've got to do it every flock, you've got to make sure because the economic impact is just too big if you make a mistake.

David Westenberg

Analyst, Piper Sandler & Co.



Got you. And thinking about trying to predict how the business and how it goes and how diversified it is and how I'm always wrong, you actually finally do have a business, I think, that represents a pretty big chunk of that EBITDA in the Petrifilm business. So can you talk about expected – or what the growth rate of Petrifilm is, who the

competitors are, what kind of the long-term trends in Petrifilm are and kind of why there hasn't been necessarily a bunch of competition in that historically?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Yeah. So you're right. So one of the things that I really liked about this business is that we are now what we would consider 70-plus-percent within the more stable market of kind of the food safety on the manufacturing side, right, because the food safety on the ag side is more cyclical. You and I have always talked about this, right? That three-year cycle is pretty predictable. And so that added a bigger delta for ups and downs within the business.

You have that within the processing side. It's just a narrower delta. So the business doesn't move as much. It's not recession-proof, but I always tell everybody, look, no matter how bad it gets, people need to eat, right? So you need to continue to supply the food chain.

I talk about this with our teams, too, is that we've had 20 years of consecutive growth. We've grown 122 out of 127 quarters. And while we're really proud of that as a team, I always warn the team, don't hurt yourself patting yourself on the back too much because you have to be in a great market for that to happen, right?

I've been in markets in my other jobs where you've followed me, where it is a flat business, and the only way you grow is take share from everybody else, and it is a hand-to-hand combat every single day. You're not going to get 122 out of 127 quarters growth in a market like that. So we are in a fantastic market with really strong tailwinds and we're the leader in food security. And this really transformative merger has really strengthened our position, right, to have that and continue to grow. And the second part of that question was?

David Westenberg

Analyst, Piper Sandler & Co.

Q

I was just curious about market share, competition in that, why there's actually not been that much competition in Petrifilm historically.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

So a couple of things. 65% of the business for 3M was Petrifilm. The other was indicator testing, I like. They had a very small allergen business, which is one of our strengths, we're the leader in allergen. So we're seeing good cross-selling opportunities there.

The Petrifilm business, it was interesting. When I went to see the plants, there's two facilities. There's one in Brookings, South Dakota, and there's one in Poland. And this actually gave me confidence on doing the deal. 3M had just moved a manufacturing facility to Poland 18 months ago. So the engineers and the group that designed, built, and moved that came over to Neogen in the acquisition.

So when people ask, John, you feel pretty confident about being able to stand up that plant? I do, because we have a very good blueprint of how it was done in Poland and what we're going to do in our new Lansing facility. That facility, with Petrifilm is two sheets of plastic with an adhesive, sounds a lot like 3M products, right? Two sides with an adhesive, you put [indiscernible] (17:21) in it and you seal it.

The same line that makes that Petrifilm makes the derma care product. So it's a plastic with an adhesive that you put on your skin when they're doing the operation. So it was in the healthcare facility. We know that the machines

were designed for a multiple listing of SKUs for that. The engineers that have been working with us have said, look, we can make the equipment even more efficient by making it just for Petrifilm, which is what we're going to do for the new facility on the lines.

I think it's a great business for a couple of reasons. One is, it's not very easy to make. And I don't mean it from a manufacturing standpoint; I mean the capital. So if you wanted to go in, let's say, EW Group says we're going to become the new Neogen, right. And we've got one product, which is ATP. They only have an ATP product, they don't have everything else. Well, they've got a – one pathogen product, but small. And we're going to start a new Petrifilm line to compete.

Okay. Well, you're going to need – one, we've got 130-some patents on that business. Second, you're going to need at least \$100 million in capital to build a plant to be of scale enough to compete. And then third, we've got a thousand sales reps on the field you get to compete with. So I've got three really big moats. And I always tell everybody, I love competition, come on in, right. But these are three really big moats that we feel really good about.

David Westenberg

Analyst, Piper Sandler & Co.

Q

Got you. Okay. No, that's helpful. So let's just maybe go back to some of the market share in your prospective segments. I mean, what's your market share, you think, in food safety, animal safety and genomics?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

So we know in animal safety, we're in a – we'll talk about food safety on the farm. I got to retrain everybody, right, the food safety on the farm.

David Westenberg

Analyst, Piper Sandler & Co.

Q

Okay.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

When you think about our share there, we're generally in the mid-teens for that business. And that's because we've got that long and wide portfolio. Now, that business grows at that – generally, again, over a long period of time, 4% to 6% is kind of where that market grows at.

On the processing side, that's more of a high-single-digit grower. Again, the Petrifilm I know is under 20% share market, the biggest competitor to Petrifilm is traditional method. So the traditional method is a Petri dish, where inoculate a Petri dish, your [indiscernible] (19:51) you count the colonies, you see whether you have it or not. It was interesting, I asked the team at 3M, I said, okay, if that's the biggest opportunity – because it surprised me. I would assume with that product that they would have been – 3M's business would have been very strong in commercial labs, right? Because it's a high throughput, it's six seconds, you can – automated readers, 80% of the business is in the food processing groups.

I asked the team, why is that? And I said, because we compete with traditional methods, the lab site. And I said, okay, what do you need to do to compete with the lab segment for the commercial side of the business? The traditional side? And they said, we need a high throughput reader. Great. When are we going to get a high

throughput reader? And I said, John, we've – for the last five years, we presented that as a project to 3M, we never got approved. I'm like, great, we already got it. Let's go, right? Let's get working on it.

The other advantages, we know all those commercial labs, because we sell dehydrated culture media to those labs. So because they weren't selling there, they didn't build a team to call on it, which means they didn't have a lot of opportunity to grow that business. The other thing I like about that segmentation is 3M is very specific with that group, that product, that Petrifilm product was only to be sold within the food safety segment.

That technology has a lot of different type of opportunities. Because think about it, any time you are culturing something, to try to see if there's presence or absence, that is an opportunity, right? So think about veterinary diagnostics, any type of virus, parvovirus, rabies, any things like that. Those are opportunities for that type of business. Same thing on the human healthcare side, right? When you're trying to see is there presence or absence of that.

So those were areas that the team couldn't go in in the past. Those are things that I told the team, look, if you were told no in the past, that was the right decision, but this is a new company. Right? Let's build our company together. What are the opportunities?

So one of the big challenges we have is not boiling the ocean because everybody is really excited. We're making sure that we are capturing all these opportunities. We're then evaluating what are the biggest opportunities for success and how fast we can get there. So, David, one of them and I know it's on your question. One of them is cross-selling, right?

And we were very specific in the way that we manage that. So one of the things I'm really proud of was 3M was using Salesforce as their CRM program. We said, look, best idea wins, we're going to go – Neogen is going to go to Salesforce. We started working on it [indiscernible] (22:47) . By the time we closed the second day, the second day after close, we had a consolidated CRM system with all the customers in one database and able to track sales and customer interaction in one database by day two.

Now, that's a big accomplishment, right? That's how fast we can move with our company when we focus versus – we didn't have to set up a committee to decide who was going to look at it and which team was going to build it. Right? We just said, we're moving it, we do it, we move fast. That allowed us to look at all the customers and say, okay, typical customer who buys Petrifilm, what other products should they buy? We then mapped that out by customer. We then went to the salesperson [ph] and so, well, if you're (23:30) working for me, we said, look, these are your 10 prospects and this is exactly what you're going to sell. Because we didn't want every individual rep making a decision, I'm going to sell this product, I'm going to sell that product, I'm going to sell that, because we could train them all fast enough.

So we said, okay, these are the ones, we identified it, and then we did intensive training and said, go sell these, right? And then, we made a game out of it. We spiffed them. So it's an internal sales incentive. But, okay, whoever can drive the most new revenue, here's an addition to your commission structure. Let's see who the champs are and the teams and we're out driving that business.

So we've got engagement really quick, allowed people to start selling the new portfolio really quick. And, I think, we gave the sales teams a lot of excitement was, when the deal was announced, the customers kept saying, this is a good deal for you, like we like this deal. So that really put an ease to the sales teams.

David Westenberg

Analyst, Piper Sandler & Co.

Q

Got you. We're running low on time. I've got one question, and, I'm sorry, I'm going to give you the gotcha kind of question. I'm going to hold you to...

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

I'm ready.

David Westenberg

Analyst, Piper Sandler & Co.

Q

...Jim Herbert standards, where he has that 25% EBITDA margin target or not 25%...

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Yeah, it's 20%.

David Westenberg

Analyst, Piper Sandler & Co.

Q

... yeah, it was 20% – I thought 25% was the bogey?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

That was 20%.

David Westenberg

Analyst, Piper Sandler & Co.

Q

So [indiscernible] (24:42).

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Yeah.

David Westenberg

Analyst, Piper Sandler & Co.

Q

Yeah. Okay. So what is the bogey for you in terms of not necessarily next year margin, what's the kind of the peak operating margin you think of when you think of this business?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Well, out of the block, what we're saying is by mid or by fiscal 2025, we'll be 30% EBITDA margins on that \$1 billion. And that's why Dave's here. Look, so we have two new employees that are here today. So, Dave Naemura, our new CFO is here. So, Dave's here. And Bill Waelke, Bill's here is our new Head of IR.

Dave and I spend a lot of time. We have an opportunity to do better than that, right? So – but out of the block, we'll be at 30%. So Jim likes that, right? But I told him, I said, nah, that was the old standard 20% and now we're going to do 30%. So we'll be 30% by mid fiscal year 2025.

David Westenberg

Analyst, Piper Sandler & Co.

All right. Thank you very much, everyone.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

Yeah. Thank you. Thanks, everyone.

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