

NEOGEN CORP
Form 10-Q
September 29, 2017
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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 August 31, 2017.

or

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

For the transition period from _____ to _____

Commission file number 0-17988

Neogen Corporation

(Exact name of registrant as specified in its charter)

Michigan
(State or other jurisdiction of
incorporation or organization)

38-2367843
(IRS Employer
Identification Number)

620 Leshar Place

Lansing, Michigan 48912

(Address of principal executive offices, including zip code)

(517) 372-9200

(Registrant's telephone number, including area code)

N/A

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (see definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

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

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As of August 31, 2017 there were 38,233,260 shares of Common Stock outstanding.

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NEOGEN CORPORATION AND SUBSIDIARIES

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Interim Consolidated Financial Statements****Neogen Corporation and Subsidiaries****Consolidated Balance Sheets***(in thousands, except share and**per share amounts)*

	August 31, 2017 (Unaudited)	May 31, 2017 (Audited)
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 58,456	\$ 77,567
Marketable securities (at fair value, which approximates cost)	101,534	66,068
Accounts receivable, less allowance of \$1,900 and \$2,000	66,341	68,576
Inventories	73,413	73,144
Prepaid expenses and other current assets	11,190	7,606
Total Current Assets	310,934	292,961
Net Property and Equipment	63,285	61,748
Other Assets		
Goodwill	105,073	104,759
Other non-amortizable intangible assets	14,346	14,323
Amortizable customer-based intangibles, net of accumulated amortization of \$21,931 and \$20,846 at August 31, 2017 and May 31, 2017	35,011	35,983
Other non-current assets, net of accumulated amortization of \$10,167 and \$9,931 at August 31, 2017 and May 31, 2017	18,685	18,635
Total Assets	\$ 547,334	\$ 528,409
<u>Liabilities and Equity</u>		
Current Liabilities		
Accounts payable	\$ 16,665	\$ 16,244
Accrued compensation	5,079	5,002
Income taxes	6,032	936
Other accruals	10,546	13,820
Total Current Liabilities	38,322	36,002
Deferred Income Taxes	16,917	17,048
Other Non-Current Liabilities	4,842	3,602

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Total Liabilities		60,081	56,652
Commitments and Contingencies (note 9)			
Equity			
Preferred stock, \$1.00 par value, 100,000 shares authorized, none issued and outstanding			
Common stock, \$0.16 par value, 60,000,000 shares authorized, 38,233,260 and 38,199,367 shares issued and outstanding at August 31, 2017 and May 31, 2017, respectively		6,117	6,112
Additional paid-in capital		180,131	176,779
Accumulated other comprehensive loss		(7,000)	(7,203)
Retained earnings		307,773	295,926
Total Neogen Corporation Stockholders Equity		487,021	471,614
Non-controlling interest		232	143
Total Equity		487,253	471,757
Total Liabilities and Equity		\$ 547,334	\$ 528,409

See notes to interim consolidated financial statements.

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Neogen Corporation and Subsidiaries
Consolidated Statements of Income (unaudited)

(in thousands, except per share amounts)

	Three Months Ended August 31,	
	2017	2016
Revenues		
Product revenues	\$ 80,567	\$ 72,245
Service revenues	14,689	11,400
Total Revenues	95,256	83,645
Cost of Revenues		
Cost of product revenues	41,084	35,535
Cost of service revenues	8,301	7,631
Total Cost of Revenues	49,385	43,166
Gross Margin	45,871	40,479
Operating Expenses		
Sales and marketing	17,024	14,797
General and administrative	9,325	8,262
Research and development	3,098	2,678
Total Operating Expenses	29,447	25,737
Operating Income	16,424	14,742
Other Income		
Interest income	369	123
Other income	443	369
Total Other Income	812	492
Income Before Taxes	17,236	15,234
Provision for Income Taxes	5,300	5,300
Net Income	11,936	9,934
Net (Income) Attributable to Non-Controlling Interest	(22)	(53)
Net Income Attributable to Neogen	\$ 11,914	\$ 9,881
Net Income Attributable to Neogen Per Share		
Basic	\$ 0.31	\$ 0.26

Diluted	\$ 0.31	\$ 0.26
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See notes to interim consolidated financial statements.

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

	Three Months Ended August 31,	
	2017	2016
Net income	\$ 11,936	\$ 9,934
Other comprehensive income (loss), net of tax: currency translation adjustments	203	(2,578)
Comprehensive income	12,139	7,356
Comprehensive (income) attributable to non-controlling interest	(22)	(53)
Comprehensive income attributable to Neogen Corporation	\$ 12,117	\$ 7,303

See notes to interim consolidated financial statements.

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Neogen Corporation and Subsidiaries
Consolidated Statement of Equity (unaudited)

(in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non- controlling Interest	Total
	Shares	Amount	Capital	(Loss)	Earnings	Interest	Total
Balance, May 31, 2017	38,199	\$ 6,112	\$ 176,779	\$ (7,203)	\$ 295,926	\$ 143	471,757
Issuance of shares under share-based compensation plan	26	4	2,868				2,872
Issuance of shares under employee stock purchase plan	8	1	484				485
Conversion of minority interest purchase to retained earnings					(67)	67	
Net income for the three months ended August 31, 2017					11,914	22	11,936
Other comprehensive income				203			203
Balance August 31, 2017	38,233	\$ 6,117	\$ 180,131	\$ (7,000)	\$ 307,773	\$ 232	\$ 487,253

See notes to interim consolidated financial statements.

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

(in thousands)

	Three Months Ended August 31,	
	2017	2016
Cash Flows From Operating Activities		
Net Income	\$ 11,936	\$ 9,934
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	3,993	3,476
Share-based compensation	1,401	1,516
Excess income tax benefit from the exercise of stock options (see note 5)		(728)
Change in operating assets and liabilities:		
Accounts receivable	2,227	7,684
Inventories	(276)	(5,910)
Prepaid expenses and other current assets	(3,590)	42
Accounts payable, accruals and other changes	2,980	4,262
Net Cash From Operating Activities	18,671	20,276
Cash Flows Used In Investing Activities		
Purchases of property, equipment and other non-current intangible assets	(4,415)	(3,446)
Proceeds from the sale of marketable securities	44,502	28,116
Purchases of marketable securities	(79,968)	(28,616)
Net Cash Used In Investing Activities	(39,881)	(3,946)
Cash Flows From Financing Activities		
Exercise of stock options	1,956	4,053
Excess income tax benefit from the exercise of stock options (see note 5)		728
Net Cash From Financing Activities	1,956	4,781
Effect of Exchange Rate on Cash	143	(181)
Net Increase In Cash and Cash Equivalents	(19,111)	20,930
Cash And Cash Equivalents At Beginning Of Period	77,567	55,257
Cash And Cash Equivalents At End Of Period	\$ 58,456	\$ 76,187

See notes to interim consolidated financial statements.

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The accompanying unaudited consolidated financial statements 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. The results of operations for the three month period ended August 31, 2017 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2018. For more complete financial information, these consolidated financial statements should be read in conjunction with the May 31, 2017 audited consolidated financial statements and the notes thereto included in the Company's annual report on Form 10-K for the year ended May 31, 2017.

2. INVENTORIES

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

	August 31,	May 31,
	2017	2017
	<i>(in thousands)</i>	
Raw materials	\$ 34,364	