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# Neogen Corp. (NEOG)

Q1 2026 Earnings Call

## CORPORATE PARTICIPANTS

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**Mikhael Nassif**

*President, Chief Executive Officer & Director, Neogen Corp.*

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*Chief Financial Officer & Chief Operating Officer, Neogen Corp.*

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**Subbu Nambi**

*Analyst, Guggenheim Securities LLC (Research)*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning, ladies and gentlemen, and welcome to Neogen Corporation's First Quarter FY 2026 Earnings Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] This call is being recorded on Thursday, October 9, 2025.

I would now like to turn the conference over to Bill Waelke. Please go ahead.

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**Bill Waelke**

*Vice President-Investor Relations & Treasury, Neogen Corp.*

Thank you for joining us this morning for the discussion of the first quarter of our 2026 fiscal year. I'll briefly cover the non-GAAP and forward-looking language before passing the call over to our new CEO, Mike Nassif, who will be followed by our CFO, Dave Naemura.

Before the market opened today, we published our first quarter results as well as a presentation, with both documents available in the Investor Relations section of our website. On our call this morning, we will refer to certain non-GAAP financial measures that we believe are useful in evaluating our performance. Reconciliations of historical non-GAAP financial measures are included in our earnings release and the presentation. Slide 2 of which provides a reminder that our remarks will include forward-looking statements within the meaning of the Private Securities Litigation Reform Act. These forward-looking statements are subject to risks that could cause actual results to be materially different from those expressed in or implied by such forward-looking statements. These risks include, among others, matters that we have described in our most recent Annual Report on Form 10-K and in other filings we make with the SEC. We disclaim any obligation to update these forward-looking statements.

I'd like to extend a special welcome to Mike on his first earnings call at Neogen. I will now turn things over to him.

## Mikhael Nassif

*President, Chief Executive Officer & Director, Neogen Corp.*

Thank you, Bill. Good morning, everyone, and thank you for joining the call today. When I was approached about the opportunity to lead Neogen a few months ago, I was drawn by a strong reputation as a leader in both food and animal safety. Few companies have the chance to shape a safer, healthier world through innovations like Petrifilm and comprehensive environmental monitoring. However, I also found a company not yet reaching its full operational and financial potential. I saw an opportunity to make a transformative impact and position Neogen for sustained success. Having led the turnaround of the Point of Care Diagnostics business at Siemens Healthineers over three years, I drove step changes in performance, and I'm confident that experience equips me to deliver similar results at Neogen.

In my first nine weeks, I prioritized engaging with our talented team, customers, partners and shareholders. Neogen's employees are deeply passionate, and our loyal customer base is equally committed to our mission. We're a leader with unique scale, product depth and global capabilities in a highly attractive market, but execution challenges are holding us back. Moreover, I do not believe a major strategic overhaul is needed. Rather, we can unlock significant growth through disciplined focus, prioritization and scaling of effective processes.

Part of my comprehensive review of the business includes re-examining our strategic initiatives and aligning them with our targeted improvement plan to drive sustainable growth. In the short term, we are focusing on the critical priorities of driving top line growth, rightsizing our cost base, reinvigorating innovation and deleveraging. To rightsize our cost base, we're acting urgently to streamline our organizational structure, boost agility, and scale key processes like sales and operations planning or S&OP.

At the end of September, we took actions to reduce operating expenses by approximately \$20 million on annualized basis through a global head count reduction of approximately 10% of existing and planned positions, as well as non-labor cost reductions. These savings include some level of targeted reinvestment we plan to direct towards enhancing our commercial and R&D capabilities, and we do not believe the cost actions will have a negative effect on demand generation. This was not a decision that was taken lightly, but the costs added by the company over the last few years to scale up capabilities and absorb the 3M transaction contemplated higher levels of revenue. This action better aligned the costs with the current revenue of the business.

For top line growth, we're empowering our commercial teams to execute with precision, targeting higher-growth markets, particularly accelerating growth in the United States. We are optimizing our portfolio for market share gains and profitability, including targeted price increases where we are underindexed.

Additionally, we will evaluate adding commercial head count in select markets to capture incremental growth opportunities. The addition of a Chief Commercial Officer, a role we're currently recruiting for, will provide dedicated global commercial leadership as we work to put the company on trajectory of improving growth.

To reinvigorate innovation, we will strengthen our R&D pipeline in core Food Safety and Animal Health categories, prioritizing fewer high-impact projects, investing in top talent, and enhancing our innovation processes.

We are also tackling critical projects with urgency, advancing Petrifilm production integration, addressing sample collection inefficiencies through productivity enhancements, and optimizing inventory management with a robust S&OP process to reduce write-offs and streamline our supply chain.

With respect to Petrifilm specifically, we recently began initial product testing with the intent of demonstrating at the different steps of production we're able to execute processes within the required parameters. The early results have been promising, and we expect the production testing process to be completed within the next couple of months before we begin transitioning individual SKUs to align for full validation. I've spent a significant amount of time meeting with the team driving this project, and feel comfortable that a solid plan is in place and we are managing it very closely.

In addition, we are anticipating potential challenges and working in tandem with a primary machine builder who has kept a team on site to assist. We have also had a number of our employees spend extended time in Poland over the last year, observing our Petrifilm production there, and refining the understanding of the manufacturing through detailed process documentation.

We have multiple employees with legacy Petrifilm expertise, including the key manufacturing engineers who set up Petrifilm production in Poland, know the process inside-out, and joined Neogen at the time of the 3M transaction. We believe we have a significant amount of knowledge in-house as it relates to both the art and science of Petrifilm manufacturing and are currently tracking to the timeline laid out in April, which has us completing the transfer of Petrifilm production during the second quarter of the next fiscal year. Furthermore, we intend to have production available at our manufacturing partner during the transfer of process to ensure continuity of supply and a smooth transition.

The goal of a focused approach to these priorities and critical projects is to drive EBITDA growth and free cash flow generation, which ultimately results in deleveraging the business. With the rightsizing of the cost base, we anticipate the enhanced commercial and innovation focus will drive future revenue growth that comes through at attractive incremental margins, particularly with respect to Petrifilm.

One of the contributing factors to the recent elevated inventory write-off is simply the fact that we're carrying too much inventory, tying up an unnecessarily large amount of cash. The aim of the work underway to optimize our S&OP process is to release a significant amount of excess inventory over time, further bolstering cash generation.

Finally, the integration of sample collection product line has been a meaningful drag on cash over the last several quarters. We are acting with urgency on this issue and expect to see improvement over the balance of the fiscal year.

Turning to some brief comments on our Q1 results specifically, Neogen delivered revenue approximately \$209 million, up 0.3% year-over-year on a core basis, which was in line with our expectations. In Food Safety, key product lines in which we've been investing, like food quality and pathogens, showed solid growth in the quarter. Petrifilm, which has had a core revenue CAGR in the mid-single digit range over the last few years, had a mid-single digit decline in the first quarter.

We do not believe this decline reflects an underlying change in the demand for Petrifilm, but rather a couple of changes with our distributor base that we believe are temporary in nature. We made a distributor change in Asia and saw what seems to be the normalization of buying patterns at a large distributor in the US. We have decent visibility into sales out of Petrifilm from the distribution channel in the US and those numbers continuing to indicate solid growth in the quarter.

Adjusted EBITDA margin was in line with our expectations and primarily impacted by lower revenue, higher tariff cost, and higher operating expenses. The last two items are being addressed with a combination of pricing and resourcing actions as well as the previously mentioned head count reduction.

Free cash flow in the quarter represented a significant improvement compared to the prior year, with lower investment in CapEx and working capital being the biggest drivers. With Q1 behind us and the trend we saw in September, we are confident and reaffirming our full year guidance.

Now to share with you more details on our Q1 results, I'd like to pass it to Dave.

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## David H. Naemura

*Chief Financial Officer & Chief Operating Officer, Neogen Corp.*

Thank you, Mike, and welcome to everyone on the call today. Jumping into the results, our first quarter revenues were \$209 million. Core revenue, which excludes the impact of foreign currency, divestitures and discontinued product lines, was about flat at positive 30 basis points for the quarter, while foreign currency added 50 basis points, and divestitures and discontinued products were a headwind of 440 basis points compared to the prior year. The impact from divestitures was attributable to the sale of the Cleaners & Disinfectants business midway through the quarter.

At the segment level, revenues in our Food Safety segment were \$152 million in the quarter, down 4.6% compared to the prior year, including a core decline of 1.7%. We saw growth in most of our core Food Safety categories, other than our Indicator Testing and Culture Media product category. We had mid-single digit growth in Pathogens and also grew in Allergens, in Bacterial & General Sanitation, as well as sample collection which benefited from an easy prior-year compare.

As Mike mentioned, Petrifilm core revenue declined in the quarter, which we believe is primarily attributable to adjustment of distributor inventory levels in the US as well as changing in large distributor in Asia Pacific. Sales out of the distribution channel in the US showed solid growth in Petrifilm, giving us confidence in the underlying demand profile of the product line.

In APAC, we're winding down inventory at large distributor and expect to see our new channel partner begin to load in inventory in the third quarter.

Quarterly revenues in the Animal Safety segment were \$57 million, a decline of 0.8%, but the core revenue growth of 5.8% benefiting in part from an easy compare to Q1 of fiscal 2025. We experienced solid growth in our Animal Care product category led by higher sales of biologics and wound care products. Growth in the Life Sciences product category was driven by higher sales of substrates and reagents, and the BioSecurity product category saw strong growth in insect control products. As we discussed, we believe this end market has been in or around a trough for several quarters now.

Our global Genomics business had core growth of 4%, with solid growth in the bovine market, partially offset by weakness in companion animal testing. This marked the first quarter of growth for the total Genomics business since fiscal year 2023, reflecting the move away from certain less attractive end market exposures.

From a regional perspective, core revenue growth in the first quarter was mixed. Growth was led by our LATAM region, up mid-single digits, with strong sales of pathogen detection and general sanitation products. The US and Canada region had core growth in the low single digit range with Food Safety about flat and mid-single digit

growth in Animal Safety. Growth in pathogen detection, sample collection, food quality and general sanitation products was offset by a decline in Petrifilm in the US, which, as I noted before, mostly attribute to some inventory rebalancing in the distribution channel.

We declined mid-single digits in EMEA and high-single digits in our APAC region. EMEA saw growth in most major food safety product categories outside the sample collection, which was offset by declines in Genomics and Cleaners & Disinfectants during the period when we still own that business. The APAC region was a mixed story by country, with better than anticipated performance in Japan and Korea, more than offset by headwinds in China and the ASEAN countries, where we have seen a greater impact from shifting supply chains in response to global trade policies as well as the switch of a large distributor.

Gross margin in the first quarter was 45.4%, a sequential improvement from the fourth quarter of fiscal 2025, which was significantly impacted by inventory write-offs. Although the inventory impact in Q1 improved sequentially, we continue to see an elevated level of sample collection production inefficiencies.

Last quarter, we noted our focus on certain core process improvements and driving efficiency in the sample collection product line. These are multi-quarter activities that we made progress on during Q1, which should continue to improve as we progress through the year.

Finally, we also saw tariff impacts in the quarter as the higher tariff rates in Q4 flowed out of inventory, impacting gross margin in Q1.

Adjusted EBITDA was \$35.5 million in the quarter, representing a margin of 17%. In addition to lower volume, the adjusted EBITDA margin was negatively impacted by the previously noted gross margin headwinds as well as higher operating expenses. As Mike noted, we have executed on a reduction in force to better align spending with the current operating environment, which will provide run rate benefit beginning in October through the remainder of the fiscal year.

First quarter adjusted net income and adjusted earnings per share were \$9 million and \$0.04, respectively, compared to \$14 million and \$0.07 in the prior year quarter, due primarily to the lower adjusted EBITDA, which more than offset the lower interest expense.

Moving to the balance sheet, we ended the quarter with gross debt of \$800 million, 68% of which is at a fixed rate and a total cash position of \$139 million. During Q1, we completed the divestiture of our Cleaners & Disinfectants business, which resulted in approximately \$115 million in net proceeds that was used to pay down \$100 million in debt in Q1, representing annualized interest savings of roughly \$6 million at current rates.

Free cash flow in Q1 was an outflow of \$13 million, representing an improvement of \$43 million compared to the prior year Q1 and included \$24 million of CapEx, the high point for the year as we continue to work through our plant-related integration expenditures.

In addition to lower CapEx compared to the prior year, free cash flow benefited from improved trade working capital efficiency, which contributed an inflow of about \$30 million, a 300-basis-point reduction in working capital as a percentage of last 12 months sales compared to the prior year Q1.

As Mike noted, we are reaffirming our full year guide for fiscal 2026. The first quarter came in about as anticipated, with margin improvement expected in the balance of the year as we work to improve in certain areas, namely sample collection, productivity and inventory write-down performance. The first quarter is typically our

seasonally lowest revenue quarter, and this year's first quarter included approximately \$6 million of revenue from the divested Cleaners & Disinfectants business.

Based on historical seasonality, we would expect the second quarter to see a modest sequential step-up from the baseline revenue in the first quarter. The actions that we have taken on cost, a portion of which were contemplated in our original guidance, will help us protect EBITDA and cash flow as the remainder of the year continues to develop.

Elaborating briefly on the actions that Mike referred to, we implemented a reduction in force that impacted about 10% of head count planned for the year. These actions, net of some level of reinvestment in a few targeted growth priorities, are anticipated to have an annualized impact of about \$20 million, from which we expect to see a benefit of about \$12 million this fiscal year, more than half of which was contemplated in our initial guide for the year.

As we noted last quarter, the guide for fiscal 2026 includes our Genomics business, which, as you know, we are involved in the process itself. We are not providing details on that process, but we will share that it continues to progress well. At the time there is a sale of that business, we will adjust our guidance accordingly for the remaining post-sale portion of the year.

I'll now hand the call back to Mike for some final thoughts.

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## Mikhael Nassif

*President, Chief Executive Officer & Director, Neogen Corp.*

Thanks, Dave. I believe that Neogen is a great company with a leading product portfolio of consumables in the attractive food safety end market that should benefit from long-term tailwinds and a broad portfolio of animal safety products that provide value to farm and ranch operators.

With respect to food safety, there is still significant opportunity to improve the quality of food safety testing programs within the overall industry. Despite an increase in the level of testing over the past 20-plus years, the CDC estimates there has not been a significant reduction in the number of infections from food-borne pathogens. Last year, the FDA estimated that the US and Canada had a record 300 food safety incidents with a cost of \$2 billion in direct expense alone. And just last week, we had a reminder of why our mission matters with another high-profile incident of Listeria contamination.

These issues have contributed to a recent drop in consumer confidence in food safety in the US to a 13-year low. The fact that our Food Safety core revenue has grown only modestly over the last few years and even declined in some quarters means that we have not maintained our market share in certain product lines. This appears to primarily be the result of execution challenges related to the 3M integration and some resulting inconsistencies in supply.

When I've spoken directly with customers and also heard objective feedback from them indirectly, the majority still seem to have a favorable view of our company and our products. This has been encouraging to hear, not only because it speaks to the longstanding reputation of Neogen, but also because it means to me that we have the opportunity to gain back market share with improved execution.

I expect that relentless focus on the priorities was laid out, including successfully executing on our critical projects, will propel Neogen to a more predictable and consistent execution and higher levels of service and delivery. I'm confident we can deliver world-leading innovation for our customers, significantly improve financial performance,

and a fulfilling experience to our engaged workforce. My team and I are looking forward to transparent and constructive engagement with the investment community, customers and all stakeholders, with a more in-depth update planned to be shared in early 2026.

I would like to thank the Neogen team for welcoming me to the company and for the thoughtful dialogue that has taken place since I've joined. The effort and commitment around the world are refreshing to see as we embark on a journey of realizing the potential we believe lies ahead of us.

I'll now turn things over to the operator to begin the Q&A.

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## QUESTION AND ANSWER SECTION

**Operator:** Thank you. And ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] And your first question comes from the line of Brandon Vazquez with William Blair. Please go ahead.

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**Brandon Vazquez**

*Analyst, William Blair & Co. LLC*

Q

Hey. Good morning, everyone. Thanks for taking the question. Mike, nice to meet you.

Mike, maybe to start us off, can you talk a little bit about the time period during the interview process and thinking about taking this job, just reflect a little bit on what were you hearing out in the field that gave you comfort that Neogen is a differentiated asset? I think this is something that a lot of us in the investor community have done expert calls and we kind of heard pockets that there are good products here and there, but it's been hard to kind of grasp that given kind of the execution that we've seen. And frankly, now, competitors have been a little aggressive in terms of what they're saying about share taking from you all.

So just spend a little bit of time on like where are the pockets of strength? What were the things that you were really encouraging, that you were hearing that gave you confidence to take the role?

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**Mikhael Nassif**

*President, Chief Executive Officer & Director, Neogen Corp.*

A

Yeah. Thanks for the question, Brandon. Listen, when I was looking at this opportunity, certainly I had my questions as well when you look at the performance in the company itself. But now being here two months, what I can say is I've confirmed what attracted me in the first place, which is a growing market, strong portfolio, significant opportunity to unlock shareholder value.

Neogen has got a broad portfolio that I think is really well positioned in an attractive end market. What stood out to me is being here two months is really the genuine and dedication nature of our employees. They want to win. They're still frustrated with the challenges that we've had, but they want to win, which is a great foundation to start with.

I think with that in place, we have a clear opportunity to build core processes and really become experts in the fundamentals of managing the business. You've heard us speak to S&OP as an example. Well, we have to scale that and we have to do a better job at how we collaborate and manage the business to be able to see around the corner and prevent surprises.

So looking ahead, my focus is really around organizing in a way that supports our Food Safety and Animal Safety businesses. We want to align the functions appropriately. We want to strip out complexity, and really focus on driving those key processes that I think is going to help us unlock the value.

With regards to your question on share loss, I think it's true. I think we've lost share in sample collection, in allergens, natural toxins. I think those are related to supply challenges that we've had. When you look at pathogens, I think that we're growing with market. We've got a strong portfolio there. I feel the same way about Petrifilm, putting aside performance in Q1. But Petrifilm, we're seeing sell-out data that's very strong.

And so, to summarize what I'm saying, Brandon, the opportunity is ours and we are focused on maximizing that opportunity.

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**Brandon Vazquez**

*Analyst, William Blair & Co. LLC*

Q

Got it. Maybe as a follow-up to that, Mike, one question that I think a lot of us have tried to grasp with over time is products like Petrifilm are unique. And there are some other product lines within Neogen that are pretty unique within the market. How do you take share with those products, right? Like talk to us a little bit, in your view, what the commercial organization needs to do to actually take share in this market? And then maybe step one is grow in line with the market, but then ideally with those unique products, take a little share.

And as a side follow-up note maybe for Dave, I'll ask my second other follow-up real quick. Dave, can you walk us through a little bit how we should expect kind of EBITDA margins and EBITDA to progress through the year? What's contemplated in that guidance? There's a lot of moving pieces here with OpEx reductions and improvements in sales, things like that. How do you think – on our math, you need kind of like a north of 20% margin number exiting this year. Is that kind of fair how you guys are thinking about it, and talk us through what gets you there? Thanks, guys.

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**Mikhael Nassif**

*President, Chief Executive Officer & Director, Neogen Corp.*

A

Thanks, Brandon. Yeah, let me answer your first question and then I'll hand it over to Dave.

How do we take share? I think it's more than product portfolio. So there's three things that I think give us an opportunity to regain growth through share gain.

I think first and foremost, Neogen is by far the most broad portfolio, specifically in food safety. Our customers look to us not only for our products, but also to partner with them on test needs and how to go about doing what they need to do. So we're seen as a trusted partner in addition to having a very broad portfolio.

Number two, when you look at our share position around the world, there are markets where we're under-penetrated, if you think about Petrifilm, for example, in Europe. There's other areas that I think we need to explore. So, that's number two.

Then number three, having those two points that I stated earlier is really the opportunity in front of us with three being all about execution. So really honing in the commercial excellence around what are those targeted accounts, how are we going and trying to gain share? How do we position our products and position a solution of product, partnerships, but also with our analytics platforms, how do we become that partner to deliver on what the customer needs.

So, all of those things are tailwinds and they're there for us to leverage, to share gain. But I just have to say and go back to it, it really comes down to focus and driving the discipline within the commercial organization. And that's going to be the focus since I started and it will continue to be in the coming quarters.

So, I'll hand it over to Dave to answer the second question.

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**David H. Naemura**

*Chief Financial Officer & Chief Operating Officer, Neogen Corp.*

A

Yeah. Hey, Brandon. Yeah. Look, I think your view is right around the year, we need to see a progression of EBITDA margin as the year progresses. From a volume standpoint, Q1 usually starts a little low. But we talked about two notable items, inventory write-off activity as well as our sample collection performance. We think both of those improve as the year progresses.

We talked about the restructuring. We'll start to see run rate benefit from that. Some in the second quarter, but a full quarter's worth in the second half of the year. We think all of those are contributing factors. But obviously volumes matter here given our kind of robust fall-through. But I think you're thinking about it right. We'll continue to provide a little more clarity as we work our way into the year.

Thanks for the question, Brandon.

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**Operator:** Thank you. And your next question comes from the line of Subbu Nambi with Guggenheim. Please go ahead.

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**Subbu Nambi**

*Analyst, Guggenheim Securities LLC (Research)*

Q

Hey, guys. Thank you for taking my question. The transition to a new CEO can always be an exciting time for a company. However, in this instance, we have to acknowledge that there are a lot of idiosyncratic challenges and a leadership transition that goes well beyond the CEO across the C-suite. Recognizing all of these variables, what is a reasonable and fair timeline for investors to expect you to outline your vision and a possible timeline to where the company can be playing offense?

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**Mikhael Nassif**

*President, Chief Executive Officer & Director, Neogen Corp.*

A

Thank you for that question, Subbu. I think two months in, I could say I've had a chance to sit with the team and look at our strategy and our focus areas. I think from a strategic perspective, where we need to play and what we need to do, that does not need to change. I think how we monopolize – how we leverage that to drive growth and how we organize ourselves around that is something that we're currently focused on, and we're looking to take specific actions, one being the head count reduction we took last week to streamline some of our activities.

And so, I think that as I get more time under my belt in the coming months, I think probably early 2026 calendar year when we start to lay out more of the vision of what we're doing and have a bit more time under my belt to kind of share with you here's the things that are going well, here's what we need to do. I'll have more to share with you then. But right now, it's really around how can we monopolize on quick wins to drive top line, to manage our costs, and deliver on the critical projects that you expect us to deliver on.

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**Subbu Nambi**

*Analyst, Guggenheim Securities LLC (Research)*

Q

Thank you for that, Mike. Then two specific question. Given you beat revenue estimates consensus, but didn't raise revenue guidance, was there any one-time where we saw a pull-forward mainly in Animal Safety that we need to be aware of?

**David H. Naemura**

*Chief Financial Officer & Chief Operating Officer, Neogen Corp.*

A

No, Subbu. I don't think there was any onetimers. It's early in the year and it came in a little better than expected. I think there's still some uncertainty in the year around sample collection volumes as we continue to ramp back there. So we felt things came in close enough to what we expected and we want to get further into the year. But no onetimers, if you will, to call out.

**Subbu Nambi**

*Analyst, Guggenheim Securities LLC (Research)*

Q

Thanks, Dave. And then, revenue improved but it might be a repetitive question to what Brandon asked, but margins and cash flow continue to be pressured. Can you talk about the underlying business, as it sits today on margins and cash generation potential outside of short-term headwinds? And then, why are you still comfortable with expansion opportunities from here?

And also, a follow-up. What gives you the confidence around the \$15 million Petrifilm duplicative cost guide? Thank you so much.

**David H. Naemura**

*Chief Financial Officer & Chief Operating Officer, Neogen Corp.*

A

Yeah. Subbu, thanks for the questions. I'll jump in here and see if Mike wants to add any color. But look, there's some big variables that we've called out that kind of building on the earlier question as well that we know we have some execution on. I mean, inventory is taking core process development and sample collection is well documented as being a difficult area for us.

Having said that, when we think margin expansion kind of from a financial model standpoint, we have very robust fall-through on incremental margins. That incremental gets better as we continue to work on improving the end market exposures of the portfolio as well. So, we think those things work in our favor.

As far as the \$15 million of duplicate cost, we accomplished the key milestone in the Petrifilm plant standup. And so, we're working into that now. Based on our current estimates, we still feel good about the \$15 million cash impact this year. But we'll continue to update folks as we get into the year.

And then, finally, cash flow was negative. Free cash flow was negative for the first quarter, but it also included the largest CapEx outflow as we continue to work through the plant standup, and we anticipate seeing that improve as the year progresses.

Our working capital performance was on at least on a year-over-year basis as compared to Q1 of last year. It has been strong from a payables and from receivables standpoint, but inventory remains a challenge, one that we would be the first to acknowledge. And it's really seen improvement there that's going to add improvement going forward.

I don't know, Mike, if you want to add anything.

**Mikhael Nassif**

*President, Chief Executive Officer & Director, Neogen Corp.*

A

Maybe a little bit more. Thanks for that, Dave. I think certainly, what's in our control within OpEx, capital expenditures and managing cash flow, managing our inventory better is all going to show an improvement. But really, what's going to drive cash flow is revenue conversion.

So when we think about maximizing the opportunity we have in front of us, we're prioritizing sort of high-margin, high-growth product lines across Food Safety and Animal Safety. We're looking to sharpen sort of the pencil that I can say from a commercial perspective on how we drive these globally in the various regions. And it's all about accelerating growth, especially in really profitable, important product lines like Petrifilm.

So, as we continue to push that and at the same time identify opportunities to run leaner, smarter, manage our capital expenditures in a better way, all of that is going to result in higher cash flow, but it's going to be revenue conversion, and that's where we're spending a significant amount of time trying to drive top line growth.

**Subbu Nambi**

*Analyst, Guggenheim Securities LLC (Research)*

Q

Thank you, guys.

**David H. Naemura**

*Chief Financial Officer & Chief Operating Officer, Neogen Corp.*

A

Thank you.

**Operator:** And your next question comes from the line of Bob Labick with CJS Securities. Please go ahead.

**Robert James Labick**

*Analyst, CJS Securities, Inc.*

Q

Good morning. Thanks for taking our questions.

**David H. Naemura**

*Chief Financial Officer & Chief Operating Officer, Neogen Corp.*

A

Hi, Bob.

**Mikhael Nassif**

*President, Chief Executive Officer & Director, Neogen Corp.*

A

Hi, Bob.

**Robert James Labick**

*Analyst, CJS Securities, Inc.*

Q

Hi. So, Mike, in your introductory remarks, you mentioned why you joined Neogen: market-leading position, the strong secular growth in the industry. But then you very candidly said also execution challenges are holding us back. You've discussed the market share kind of losses portion of that, so I'll skip that through my question. But oftentimes, when companies are going through some execution challenges, they take their eyes off the future growth potential and can impact years beyond. Can you discuss how Neogen's gone through this and the new

product pipeline, if that's been impacted at all? New products that are coming out have come out recently. And those opportunities and if they've been impacted and how you feel about the pipeline for new growth?

**Mikhael Nassif**

*President, Chief Executive Officer & Director, Neogen Corp.*

A

Yeah. That's a great question, Bob. And you're absolutely right. That does happen. I had experienced it in prior organizations. I think what's a little bit different here is, listen, the challenges within Neogen are – you all know them. They are very public and we are all well aware of them. But we are tackling them head-on.

I think these execution challenges, I've been two months, and just from prior turnarounds, really it's just about an organization that's had misaligned priorities. The stretch, trying to get an integration up and running, that's had some of its challenges. And so we're addressing these.

But we really need to streamline how we operate. We need to clarify roles. We need to enhance accountability across the teams to make sure that we're delivering on the things that we need to deliver. And I think if we do that consistently, we're going to start to be more predictable and consistent in our performance.

Now, we are going to drive our portfolio because we've got a broad portfolio, a very healthy product line, and we've got a lot of great products within there we want to drive. But you're absolutely right, we can't lose our vision towards innovation, which innovation is extremely important.

Now, as we think about that, this is where, in my remarks, I talked about we want to look at reinvigorating innovation. So what does reinvigorating innovation means? I think that our R&D team has done solid work in integrating the 3M portfolio and driving incremental innovation. I think that lays a very strong foundation for us.

However, I think that's limited our capacity to build robust, needs-based pipeline while pursuing transformational breakthroughs. So, I really believe that now is the time for us to focus on this, build an innovation strategy that's externally informed to drive a substantial market-shaping innovations.

So along with sort of refining how we think about innovation, focusing on a few high-impact opportunities I think will position us really well forward in the future. And I'm looking forward to – in future calls going to give you a bit more around what do I mean by that. But we are very willing to invest in innovation. And certainly, the work we're doing right now I think is going to help us prepare to do that. But we've got to drive top line and get the business healthy enough that we can invest in innovation. So we're trying to do both at the same time.

I don't know, Dave, if you want to add anything.

**David H. Naemura**

*Chief Financial Officer & Chief Operating Officer, Neogen Corp.*

A

No, I think that's great. That's a great question, Bob. Thank you.

**Mikhael Nassif**

*President, Chief Executive Officer & Director, Neogen Corp.*

A

Yeah. Thanks, Bob.

**Robert James Labick**

*Analyst, CJS Securities, Inc.*

Q

Okay, great. Yeah. And then just one quick follow-up for Dave. I think midpoint of EBITDA guidance is about 20.5% EBITDA margins or so. But obviously, we've talked about inventory write-offs and sample handling issues short-term and things like that. If we were to kind of back it out and those impacts are short-term impacts, can you give us a ballpark of what the kind of core margin operating level might be this year? I know it's not exactly precise. And then the opportunities for margin kind of recovery over the next few years.

**David H. Naemura**

*Chief Financial Officer & Chief Operating Officer, Neogen Corp.*

A

Yeah. Look, I don't want to sharpen the pencil too sharp here, Bob. But I mean, clearly, we had easily a few hundred basis points of headwinds from these items in the first quarter, which tends to be a little bit light, particularly from a volume perspective.

So as we're able to make improvements and see volumes improve in the second half and frankly, the benefits of the cost structure flow-through, that's going to help a lot. If it's a \$20 million annualized OpEx savings, that's obviously \$5 million a quarter. So, starting to see that impact partially in Q2 and seeing the read-through in Q3 and Q4 is another helpful item relative to the current run rate.

But look, we've got to execute some of these core process improvement things that we're working on in both inventory and sample collection. I'd say, they're both very much kind of a little bit of a back-to-basics and fundamentals approach, but those should see improvement as the year progresses from some of those headwinds we experienced in the first.

**Robert James Labick**

*Analyst, CJS Securities, Inc.*

Q

Okay, great. Thank you.

**David H. Naemura**

*Chief Financial Officer & Chief Operating Officer, Neogen Corp.*

A

Thanks, Bob.

**Operator:** Thank you. And your next your next question comes from the line of David Westenberg with Piper Sandler. Please go ahead.

**David Westenberg**

*Analyst, Piper Sandler & Co.*

Q

All right. Thanks for taking the question. Welcome, Mike. Dave, been great. I'll start actually with Dave. Since you're transitioning, I'll give you a little tougher one.

Can you talk about that \$6 million in sample collection cost? What exactly is that? And I mean, we did see it in non-GAAP. Does that imply that this won't be going on maybe into the next quarter? And then can you just kind of remind us what this is? I mean, I know we've had some spoilage. Is this kind of just purely spoilage or just help us out with what exactly is going on there because sample collection is an important part of [indiscernible] (00:40:01) business? Thanks.

**David H. Naemura**

*Chief Financial Officer & Chief Operating Officer, Neogen Corp.*

A

Yeah. Look, we, for the first year or so, standing up sample collection, considered part of the startup costs that we have pretty good disclosure around. But what it is, is scrap and kind of quality play, which results in finished goods scrap as well as excess production costs, which implies that, in total, yeah, we're selling the product at a loss currently.

So, as we talk sample collection improvement, what we're talking about, David, is first and foremost, getting our labor cost down, reducing scrap. And there's a pricing component here as well, where we've had to make some concessions, because the customers that buy sample collection buy other products as well that are very important.

So, it's a multifaceted approach to getting back to where we needed to be. The first thing that's going to help a lot is getting our back orders under control. And when we look at what our back orders were six and even three months ago, we've made significant improvement to that. And basically, we've got it down to kind of almost a normal level.

Well, as we do that, we're able to takeout high-priced temp labor. So we're reducing the overall labor. We're reducing the cost of labor. But it's also high turnover. And high turnover is one of the contributing factors to scrap and machine uptime because operator consistency on machine matters a lot.

So there's a reasonable kind of number of aspects to this to get back in kind of the positive here, which we hope to be. And we have a plan that says we can do as we kind of come through the second and into the third. So, we've got performance to demonstrate, but we need to see that here in the sequential quarters. So a good question. Thank you.

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**David Westenberg**

*Analyst, Piper Sandler & Co.*

Q

Got you. Yeah. Thank you very much. And actually, maybe Mike, sorry, I'm going to ask you a hard one, I guess. You're CEO so you kind of deserve it, right? So stabilized...

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**Mikhael Nassif**

*President, Chief Executive Officer & Director, Neogen Corp.*

A

Bring it on. Bring them in. Bring it on.

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**David Westenberg**

*Analyst, Piper Sandler & Co.*

Q

Thanks. Just going with this head count reduction, but then also kind of like working on this lack of turnover, how are you thinking about head count, getting the right employees and stable employees here in face of stabilizing your head count or rightsizing the business? And I'll stop after this one. Thanks so much.

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**Mikhael Nassif**

*President, Chief Executive Officer & Director, Neogen Corp.*

A

Yeah. Yeah, certainly, any time we're having a conversation about colleagues and friends, it's a very tough one. So, it's not a decision we take lightly at all. But there are certain times in a business where you have to look at that. And I am not a believer of a onetime correction. I think that, as a business, you constantly need to re-look at how you are operating and make sure that you're allocating your limited resources to maximize your overall growth all the time.

Okay. So, I know this may seem like a onetime event. But I think moving forward, you're going to see us starting to challenge every part of the business to make sure that we are as optimized as we need to be and where we need to invest, we will invest to drive higher growth. But that is something that we're going to continue to evaluate.

Now, with regards to the turnover, you guys know this as well as I do. In any turnaround situation or businesses have some challenges, you're going to have turnover. Those things happen at different levels. And I see this as a opportunity to re-engage with the organization with a fresh vision.

I already shared earlier, we've got a workforce that wants to win. They come in every single day, working very, very hard. So it's a great – I've been pleasantly surprised by that because that's a great foundation for us to move forward.

And so, as we realign the organization to make sure that everything we're doing is on the priorities that I said, which is driving top line growth, improving operational excellence, making sure that we deliver on these critical projects with Petrifilm, sample collection, fixing our inventory challenges, and really reinvigorating innovation. And that's going to be the focus and we will continue to improve our processes, bring in talent, upgrade roles to really build a best-in-class organization.

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**David Westenberg**

*Analyst, Piper Sandler & Co.*

Q

Thank you.

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**David Westenberg**

*Analyst, Piper Sandler & Co.*

Q

Thank you, Dave.

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**Operator:** And your next question comes from the line of Thomas DeBourcy with Nephron Research. Please go ahead.

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**David H. Naemura**

*Chief Financial Officer & Chief Operating Officer, Neogen Corp.*

A

Hey, Tom.

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**Thomas DeBourcy**

*Analyst, Nephron Research LLC*

Q

Hi. Thanks for taking the question. Hi, guys. So, my main question is really around, I guess, the assessment of Neogen's portfolio overall, which has been ongoing and I think it's resulted in the divestitures of Disinfectants & Cleaners, and outgoing potential sale of Genomics. I think there's been a clear shift of focus towards Food Safety and obviously lower margin product lines, reevaluating whether those make sense in the portfolio. So, I was curious whether that work still continues and whether we could still see additional divestitures beyond obviously the Genomics process that's ongoing.

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**Mikhael Nassif**

*President, Chief Executive Officer & Director, Neogen Corp.*

A

Yeah. Thanks, Tom. Maybe I'll say a few words and then I'll pass it on to Dave.

Coming in two months, I've had a chance to sit down with the team and really look at the broad portfolio of Food Safety and Animal Safety in our plans. And I have to say that I'm very aligned with the approach that we're taking.

I think I agree with the rationale. I want to thank the team that's worked really hard on C&D and other things that we are planning to do because there's been a lot of work on top of sort of the day-to-day.

As for the remaining portfolio, our focus is how do we optimize the remaining product lines and position ourselves for return to predictable, profitable growth. I think we have a very strong, healthy Animal Safety portfolio. We have even a stronger Food Safety that we need to continue to drive and execute on. And so, as we position ourselves for growth, improving our processes, improving our focus, and we anticipate improving end markets in the coming quarters and years, we'll start to see that accelerate.

But, Dave, I don't know if you want add a few comments.

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**David H. Naemura**

*Chief Financial Officer & Chief Operating Officer, Neogen Corp.*

A

Well, look, I think that's great. And Tom, if we went back a year and a half or so when we started talking about portfolio, we talked about looking at end market exposures, the growth profile and the financial profile of some of the product lines, and that was kind of our filtering process that we followed.

I think we've been effective here, but it'll always be an ongoing thing, right, that we'll continue to look at the current market environments, but I think we like where we're at and I think Mike said it right, right? I mean, I think we've got a really good portfolio. But of course, we're always in kind of portfolio review mode. But I think we did what we said we'd do a few years ago and we'll see what the coming years hold. But I think we like where we're at.

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**Thomas DeBourcy**

*Analyst, Nephron Research LLC*

Q

Thank you.

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**David H. Naemura**

*Chief Financial Officer & Chief Operating Officer, Neogen Corp.*

A

Thanks for your question.

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**Operator:** And we have a follow-up question coming from the line of Subbu Nambi with Guggenheim. Please go ahead.

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**Subbu Nambi**

*Analyst, Guggenheim Securities LLC (Research)*

Q

Hey, guys. Just a follow-up and clarification, and maybe this is operating differently. But you say you've reduced your back orders over the last few months, yet you have excess spoiling inventory. Could you give us more color as maybe it is completely different product lines, but just what are these inefficiencies to call out and how can execution fix it?

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**David H. Naemura**

*Chief Financial Officer & Chief Operating Officer, Neogen Corp.*

A

So, Subbu, the back order comment was specific to sample collection, where we had an elevated level of back orders because we had kind of a pause last year in our ability to get production ramped in a timely manner.

I think when we talked about kind of excess spoilage in inventory, that really has more to do with getting the right products, frankly, that have shelf life to the right places in the right amounts. And that goes to the core S&OP process improvement actions that Mike talked about that there's a lot of energy on in the company right now. So just trying to reconcile those two statements.

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**Subbu Nambi**

*Analyst, Guggenheim Securities LLC (Research)*

Q

Thank you for that.

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**David H. Naemura**

*Chief Financial Officer & Chief Operating Officer, Neogen Corp.*

A

You're welcome.

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**Operator:** And I'm showing no further questions at this time. I would like to turn it back to Mike Nassif for some closing remarks.

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**Mikhael Nassif**

*President, Chief Executive Officer & Director, Neogen Corp.*

Yeah, thank you very much. This has been a great first earnings call. Thank you so much for your questions. I look forward to future conversations with you. Have a great rest of your day.

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**Operator:** Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for attending. You may now disconnect.

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