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Neogen Corp. (NEOG)

Q4 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

ffOperator: Good morning, ladies and gentlemen. Welcome to Neogen Corporation fourth quarter FY 2025 Earnings 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 Tuesday, July 29, 2025.

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

Bill Waelke

Vice President-Investor Relations & Treasury, Neogen Corp.

Thank you for joining us this morning for the discussion of the fourth quarter of our 2025 fiscal year. I'll briefly cover non-GAAP and forward-looking language before passing the call over to our CEO, John Adent, who will be followed by our CFO and COO, Dave Naemura.

Before the market opened today, we published our fourth 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'll now turn things over to John.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

Thanks, Bill. Good morning, everyone, and welcome to the earnings call for the fourth quarter of our 2025 fiscal year. You may have seen the press release issued last week announcing the Board has identified my successor as CEO, and I will be officially stepping down from the role in a couple of weeks. I remain committed to ensuring a smooth transition for our customers and employees, and we'll work with Mike as needed as he takes the helm of a company that I believe is well-positioned to capitalize on the significant potential ahead of it.

Now, moving on to some color for the quarter. The end market conditions that we saw worsened over the course of the third quarter continued into the fourth quarter, particularly in Food Safety. With consumers continuing to be under pressure from the cumulative inflation over the last four years, we estimate that many food producers are still experiencing year-over-year declines in their production volumes, with many of them not expecting this trend to meaningfully reverse in the near future.

Our view is that the Food Safety end market is still able to grow in this environment, but certainly not at the mid to high single digit levels we believe it has historically seen. As it relates to the regulatory environment in the US, specifically, there have been cuts made at both the USDA and FDA. To-date, these cuts have primarily been in areas outside of normal course food safety testing, and the impact of things like avian flu testing in milk, the emergency response network focused on bioterrorism and certain local food assistance programs.

The USDA and FDA are interacting more with state and local agencies in an effort to improve efficiency and responsiveness, and both agencies appear to be fully committed to continuing their mission of food safety.

In fact, in the last two weeks, the USDA Food Safety and Inspection Service, or FSIS, announced a food safety policy plan, and separately, their fiscal 2025 research priorities. The key tenets of the food safety policy plan were announced at the grand opening of a new state-of-the-art USDA facility in St. Louis, Missouri.

I won't run through all of them, but the first of these key tenets is "enhanced microbiological testing and inspection oversight." USDA is placing particular emphasis on Listeria and detecting results quicker and for a broader set of species. In 2025, so far, the FSIS has increased the volume of samples that is tested for Listeria by over 200% and uses the Neogen Molecular Detection System, or MDS, as its primary method.

It is also performing more robust in-person food safety assessments at an increasing rate, with the intent of proactively identifying and addressing potential food safety concerns and a priority placed on ready-to-eat meat and poultry facilities. In 2025, the number of these assessments conducted is up by over 50% to-date.

Another key tenet of the USDA plan is "charging ahead to reduce Salmonella illnesses." In April, the USDA withdrew the previously proposed Salmonella framework that would have extended beyond raw, breaded, stuffed chicken to include all poultry products. This appears to have been done mainly as a result of the practical complications of implementing the framework as proposed, and not due to any lack of commitment by the USDA to address Salmonella illnesses.

The agency has said they're convening discussions with key stakeholders on the development of a new common sense strategy to address salmonella, and we view it as a question of when, not if, a revised Salmonella framework is proposed.

A few days after the food safety policy plan was announced, FSIS released the research priorities for fiscal 2025, in which the prevention, detection and analysis of pathogens, particularly Salmonella and Campylobacter were prominent studies. While responsibility for food safety ultimately lies with the producers, we are not dependent on the regulatory action to drive growth and is certainly a positive to see this prioritization of food safety in the administration.

On the topic of the enhanced focus on microbiological testing, just yesterday we announced the launch of our Listeria Right Now for use on our MDS platform for pathogens. MDS utilizes loop-mediated isothermal amplification (LAMP), providing customers the opportunity to use one robust platform for the fast detection of environmental pathogens in up to 96 samples per cycle.

The pathogen detection market is one of our top priorities and we are continuing to invest in the development of additional assays to ensure customers have access to fast, accurate results in order to minimize the risk of product recall or disposal costs, and help keep contaminated products from reaching our customers.

In our Animal Safety segment, we believe we continue to work through an environment that is in a cyclical trough. Net farm incomes are expected to improve in 2025, however, the size of the cattle herd, on which most of our Animal Safety business is focused, has declined for several years and is currently at a 70-year low. Inventory levels in the channel remain largely stable, but the veterinary distributors and ag retailers, through which we go to market, seem to be taking a cautious approach, given the broader market uncertainty.

For our Genomics business in total, fourth quarter core revenue growth improved sequentially and was down low single digits on a year-over-year basis. Strong core growth in the bovine business was offset by expected declines in companion animal and other markets. We've disclosed that we have a process underway to divest this business and we have seen a strong level of interest. The process continues to progress, but we won't be commenting beyond that, given the active nature of the project.

This portfolio action, in addition to the recently completed Cleaners & Disinfectants divestiture, will help to simplify the business and focus our efforts on core areas, while also accelerating our deleveraging.

Although we are currently in a pause as it relates to some of the steeper tariff rates that have been in effect, the uncertainty has persisted with numerous discussions with key US trade partners still underway. Our most recent communication on tariffs was that we expected a \$5-million annualized impact on a fully mitigated basis. We have now had additional two months to assess the landscape and believe this impact is likely to be closer to \$10 million on an annualized basis, given the status of surcharges, competitor actions and the timing of certain resourcing opportunities.

We expect the trade environment to remain dynamic. We plan to continue to take actions to mitigate our exposure.

Our new Petrifilm facility continues to progress well, but our expectation remains that initial test and production will begin in a few months. Once Petrifilm production is fully up and running, our intent is to move some additional product lines that we have in Lansing into the new facility, which will affect overhead absorption rates.

We've been able to complete the detailed overhead analysis and also refine our buildup of the bill of material and labor costs with the most current information available. This work has validated our previous estimates and

suggest that Petrifilm gross margins in our facility, once fully running, will be slightly better than what we see today on sales of these products made by our transition manufacturing partner.

Petrifilm is clearly an important product line for the company. We made additions to the team and implemented an enhanced governance process to ensure the remainder of the integration is de-risked as much as possible through the eventual gradual transition of production from our transition manufacturing partner to our own facility.

We saw improved output of sample collection production during the quarter, which enabled a sequential revenue improvement of around 50% in the overall product category, although remained lower than prior-year levels. The challenge with achieving these higher rates is that we were very inefficient in doing so. The production equipment is of an advanced age, and we continue to struggle with sustaining consistent uptime of the automated processes, which is causing us to produce a significant amount of products manually.

Our experience so far in the first quarter has continued to be inconsistent. We are, however, seeing reductions in back-orders and hopefully a more normalized production rate, combined with our engineering efforts, will allow productivity to improve in the coming quarters.

Given the softer market backdrop, we are squarely focused on controlling what we can in order to put the company in the best position to capitalize as conditions improve. To that end, you may have seen the targeted improvement plan we released last month. This is effectively the near-term blueprint in place for managing through the current transition period for Neogen.

As we mentioned on our prior earnings call, we are undertaking actions to accelerate the building of a more profitable, focused Neogen. We believe that rigorously managing these discrete items with a focus on improved execution will maximize the company's ability to take full advantage of its position in attractive end markets.

I'll now turn the call over to Dave for some more insights into our results for the quarter and our outlook for the year.

David H. Naemura

Chief Financial Officer & Chief Operating Officer, Neogen Corp.

Thank you, John, and welcome to everyone on the call today. Jumping into the results, our fourth quarter revenues were \$225 million. Core revenue, which excludes the impact of foreign currency, acquisitions and discontinued product lines, was down 290 basis points for the quarter, while foreign currency and discontinued products were a headwind of 190 basis points, compared to the prior year.

At the segment level, revenues in our Food Safety segment were \$162 million in the quarter, down 3% compared to the prior year, including a core revenue decline of 1.3%. We saw growth in Biosecurity products, as well as in the Bacterial & General Sanitation product category, which benefited from strong growth in pathogen detection products.

In the Indicator Testing, Culture Media & Other product category, solid new product growth in our food quality product line was offset by the decline in sample collection, as well as a decline in Petrifilm, that was mostly compare-driven. Outside of the sample collection issues, Food Safety core revenue was up low single digits in Q4 and mid-single digits for the full fiscal year.

Quarterly revenues in the Animal Safety segment were \$64 million, which includes a core revenue decline of 6.7% compared to the prior-year quarter. Solid growth in our small animal supplements and rodenticides product

lines was offset by declines in the rest of our major products. As we discussed, we believe this end market has been in or around a trough for several quarters now.

Excluding Genomics, the Animal Safety segment has had core revenue growth at a compound annual rate of 3.5% over the last four fiscal years. This is below the typical through-the-cycle growth rate, but about what we would expect, with three of those four years representing periods of weakening market conditions. Genomics core revenue declined low single digits in Q4, reflecting a sequential improvement and benefits from refocusing the business on more attractive end-market opportunities.

From a regional perspective, core revenue growth in the fourth quarter was mixed. Growth was led by our Europe region, up mid-single digits, with strong sales of pathogen and food quality products, as well as Petrifilm, partially offset by a decline in sample collection. Asia-Pacific core revenue was down mid-single digits on a year over year basis, with solid growth in pathogen detection, offset by declines in most other major product categories, with some impact from the global trade uncertainty we've experienced, particularly in China.

After several quarters of strong growth, our Latin America region was down mid-single digits on a core basis with growth in Culture Media and general microbiology products offset by declines in General Sanitation, Testing, Sample Collection and Petrifilm, which faced a very difficult compare against the prior-year quarter.

In our US and Canada region, Food Safety core revenue improved sequentially to low single-digit growth. Solid growth in our food quality, allergen and pathogen product categories was partially offset by declines in most other major food safety product categories, as well as declines in the Animal Safety segment.

Gross margin in the fourth quarter was 41.2%, which was primarily impacted by lower volume, elevated inventory write-offs, sample collection production inefficiencies, and some tariff impact. Given the focus on improving our internal processes around inventory planning, we believe the fourth quarter should be the peak of these costs, and that we will see a benefit from these improvements in fiscal 2026.

For sample collection, we've discussed that as part of the integration of the 3M business, we relocated this production to a Neogen facility and have been operating with a very high level of inefficiency. We noted that revenue in Q4, although still down year-over-year, represented a significant sequential improvement from Q3, but was achieved with significant inefficiencies.

The elevated level of manual work is causing us to incur cost for expensive temporary labor and excessive scrap rates. We have multiple work streams underway in parallel to address this challenge, including reviewing potential opportunities to involve global manufacturing partners for certain areas of the product line. We continue to have periods of improvement, followed by setbacks and clear line of sight to consistent performance that higher output levels will likely be a gradual progression over the coming quarters.

Adjusted EBITDA was \$41 million in the quarter, representing a margin of 18%. In addition to lower volume, the adjusted EBITDA margin was negatively impacted by the previously covered inventory write-offs, tariffs and sample collection inefficiencies, a portion of which were not considered startup costs, but rather run rate inefficiencies. The elevated inventory write-offs negatively impacted adjusted EBITDA margin by a few hundred basis points compared to what we had anticipated.

The tariff impact was driven by some purchases that were enroute, particularly from China, prior to the current pause going into effect, and subject to the higher rates. And there was also some time lag in the implementation of our offsetting actions.

Fourth quarter adjusted net income and adjusted earnings per share were \$11 million and \$0.05 respectively, compared to \$22 million and \$0.10 in the prior-year quarter, due primarily to the lower adjusted EBITDA, which more than offset the lower interest expense and effective tax rate.

During the fourth quarter, in connection with our annual goodwill valuation assessment, we further impaired the carrying value of goodwill primarily associated with the 3M Food Safety division acquisition. As we have seen end-market conditions weaken and some impacts on the global trade environment, as well as inconsistent execution in our startup of sample collection production, we determined that a further impairment under US GAAP was warranted, and recorded an additional \$598 million non-cash charge.

Moving to the balance sheet, we ended the quarter with gross debt of \$900 million, 61% of which is at a fixed rate and a total cash position of \$129 million. Just under two weeks ago, we completed the divestiture of our Cleaners & Disinfectants business, which resulted in approximately \$115 million in net proceeds that will be used to pay down \$100 million of debt in Q1. On a pro forma basis, this would reduce our net leverage by approximately 0.4 turns.

Free cash flow in Q4 was roughly breakeven, representing an improvement of \$14 million compared to Q3, but lower than we had anticipated due to lower EBITDA, some pull-forward of CapEx from fiscal 2026, and the timing of certain international cash taxes.

Total capital expenditures declined to \$16 million in Q4, a trend we expect to continue with substantially lower CapEx in fiscal 2026 compared to fiscal 2025.

Moving to our outlook, we are not assuming the current end-market conditions will improve meaningfully over the course of the fiscal year. The cumulative effect on the consumer from the protracted period of elevated inflation and the related pressure on overall food production are conditions we currently expect to continue through fiscal year 2026. Until we see signs that the Animal Safety market is beginning to meaningfully improve, our expectation is that we will continue to work through the trough of the cycle.

In addition to the underlying market weakness, we see indications that the uncertain global trade environment is having some effect on food producers' import-export planning, as well as distributors' purchase decisions. Taking these factors into account, our current expectation is for revenue to be between \$820 million and \$840 million, which excludes 10.5 months of annualized revenue from our Cleaners & Disinfectants business, which was in the low \$60 million in fiscal 2025.

Our current view is that revenue in the second half of fiscal 2026 will be higher than in the first half, due in part to the normal seasonality of the business.

Regarding adjusted EBITDA, our current expectation is a range of \$165 million to \$175 million, which similarly excludes 10.5 months of an annualized EBITDA impact of approximately \$11 million from Cleaners & Disinfectants. Compared to fiscal 2025, we are planning for gross margin in fiscal 2026 to include a tailwind from lower inventory write-offs and headwinds from sample collection and tariffs, which will flow through to impact adjusted EBITDA.

Our work to reduce these headwinds continues, but we believe it is prudent to reflect them in our outlook. Accordingly, we would anticipate higher adjusted EBITDA margins in the second half of the year as we make improvements in these areas and also benefit from the higher expected second half revenue from normal

seasonality. Due in part to our expectation of capital expenditures coming down significantly to approximately \$50 million, we expect free cash flow in fiscal 2026 will be positive.

Finally, I am pleased to share that we have successfully remediated two of the Sarbanes-Oxley material weaknesses, which will be reflected in the upcoming filing of our 10-K. I'll now hand the call back to John for some final thoughts.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

Thanks, Dave. Before we wrap up today's call, I want to thank you for your engagement and support as the company progresses into the later stages of the integration of the former 3M Food Safety business. While we have made significant progress, the integration has been complex and we've had some execution shortfalls, which had been exacerbated by the soft end-market conditions, foreign currency headwinds, and more recently, the global trade environment. We are taking clear steps to address the sample collection production challenges and, in parallel, implementing pricing actions to improve the profitability.

As it relates to inventory, we're implementing more robust planning and coordination across the key organizational functions and expect to see a decreasing impact from this issue moving forward. At the same time, I want to emphasize that we believe the company is well positioned, particularly in the attractive Food Safety end market and that our long-term growth drivers remain fully intact.

Our core mission, helping to protect the world's food supply, has never been more relevant. The global food system is under increasing pressure to be safer, more transparent and more resilient. We believe the regulatory backdrop is favorable, particularly in the US, with the USDA having made key announcements this month focused on the priority of food safety. We have a long history as a trusted food safety partner and source of expertise for our customers, resulting from our over 40-plus years in the industry.

Our commercial teams, in combination with our leading product portfolio and innovation opportunities, should be valuable partners for both customers and regulators to maximize the effectiveness of their food safety efforts.

I'd like to once again thank the Neogen team for their dedication and perseverance throughout my tenure at the company. We faced and overcome real challenges, and the team is entirely focused on the road ahead and executing our improvement plan with precision. I'm excited about the positive future I believe is in store for the company.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] With that, our first question comes from the line of Subbu Nambi with Guggenheim. Please go ahead.

Subbu Nambi

Analyst, Guggenheim Securities LLC

Q

Hey, guys. Good morning. Thank you for taking my question. At this time with Mike as a new CEO appointment, why is this the right time to put out guidance and why are these the right numbers, how much prudence is built in?

David H. Naemura

Chief Financial Officer & Chief Operating Officer, Neogen Corp.

A

Yeah. Hey, Subbu, good morning. Look, I think at the end of the day, we still have a position here that we want to give people color as to where the year's going. We tried to take into account that there would be a change, but I think we're operating going forward here like we usually would, and don't think we've put Mike in a position here where we've signed him up for something that's out of the ordinary for us. So, I guess I would characterize it more as business as usual.

Subbu Nambi

Analyst, Guggenheim Securities LLC

Q

And then David, along those lines, you articulated some of the assumptions here, recognizing that you limited the tariff impact of \$10 million annualized after supply actions, how much of a headwind is built for next year?

David H. Naemura

Chief Financial Officer & Chief Operating Officer, Neogen Corp.

A

I'm so sorry, can you repeat that part again about the \$10 million, what – I didn't quite catch the question, Subbu.

Subbu Nambi

Analyst, Guggenheim Securities LLC

Q

The tariff impact that you have cited to \$10 million annualized after the issues, how much of a headwind is built in for next year?

David H. Naemura

Chief Financial Officer & Chief Operating Officer, Neogen Corp.

A

Yeah. \$10 million is the headwind for fiscal 2026 that we're trying to communicate.

Subbu Nambi

Analyst, Guggenheim Securities LLC

Q

I see [indiscernible] (00:35:04) apologies...

David H. Naemura

Chief Financial Officer & Chief Operating Officer, Neogen Corp.

A

And we increased that from our previous – okay. Does that make sense? Did I answer your question?

Subbu Nambi

Analyst, Guggenheim Securities LLC

Yes, David. Yes. Yes. And then I have...

Q

David H. Naemura

Chief Financial Officer & Chief Operating Officer, Neogen Corp.

Okay.

A

Subbu Nambi

Analyst, Guggenheim Securities LLC

...two more questions, real quick I will – recognizing there are others on the line. We've seen some of the major food brands continue to emphasize that consumer backdrop is pressured, just as you mentioned today. How do you work around that headwind this year and then what are some of the ways that you'll be able to grow above market?

Q

David H. Naemura

Chief Financial Officer & Chief Operating Officer, Neogen Corp.

Yeah. Look, I think what you see is coming into the year with, there's a view that that kind of carries in the market environment, that we experienced in the second half of the year. The sample collection here for us is an opportunity to drive additional volumes, but we're being cautious about that, given the inefficiencies that we've experienced.

A

So, I think also – and I'm going to turn over to John, because we think there's a regulatory backdrop in our portfolio that provides us a nice opportunity. John, can you speak to that?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

Yeah. Thanks, Dave. Yeah, Subbu, I think, a way to help us continue – help us outgrow the market is to use the tailwind of the regulatory. As we talked about, we saw that testing at FDA was – USDA was up almost 200 – of FSIS is up 200% increase in Listeria on a pace, because the industry – the administration is really focusing on pathogen, whether that's Listeria or Salmonella. And we think we're really well aligned for that.

A

Regarding salmonella, we're working kind of with the National Chicken Council, Meat Institute and FSIS to kind of develop a program and we think that our MDS Quant Salmonella and serotyping kits are really going to provide the data that is going to help them develop a robust program for this protein industry. So, working with those constituents is going to help us continue to grow.

Subbu Nambi

Analyst, Guggenheim Securities LLC

Thank you for that, David and John. And one last one, real quick. What are you pointing investors to in terms of clear KPIs in regards to Petrifilm's Q numbers transition, CapEx targets, or just other beyond just timing of these projects? I know you said Q4 is going to be the largest impact in terms of duplication cost, but anything else that you would point out, when it comes to Petrifilm transition?

Q

David H. Naemura

Chief Financial Officer & Chief Operating Officer, Neogen Corp.

A

Yeah. Thanks, Subbu. Clearly, we have a large reduction in capital expenditures year over year, and we're going to need – we'll stay within that envelope. The – as we move into the transition period here, we've talked about starting test production. That is an important milestone and then as we proceed through test production, the degree to which we're kind of certifying SKUs for salable product, there's 17 SKUs of Petrifilm. They'll stand up over four or five quarters after we start test production, and that'll be an important milestone that we take people through. So, I think more to come here in a quarter as we work towards standup.

Subbu Nambi

Analyst, Guggenheim Securities LLC

Thank you. [ph] Thanks (00:38:07).

David H. Naemura

Chief Financial Officer & Chief Operating Officer, Neogen Corp.

Thank you, Subbu.

Operator: And your next question comes from the line of Brandon Vazquez with William Blair. Please go ahead.

Brandon Vazquez

Analyst, William Blair & Co. LLC

Hey, good morning, everyone. Thanks for taking the questions. The first one, I just wanted to focus a little bit on the macro side first and clarify, it sounds like – correct me if I'm wrong, are things getting incrementally worse on a sequential basis on the macro front? Anywhere that you can point to what you think might be causing it getting worse, if I'm understanding that correctly.

And then maybe just talk about, historically, we've said, even though food volumes from the manufacturers are declining, the food testing segment is still growing somewhere in the mid-single digits. Where do you guys expect that to be over the next four quarters? What are you assuming within the guidance?

David H. Naemura

Chief Financial Officer & Chief Operating Officer, Neogen Corp.

Yeah, Brandon, it's a good question. So, I think what we saw, kind of rewinding a little bit, is as we came through the third quarter, we saw softening of the macroenvironment as we worked through the third. We saw that continue through the fourth. So, sequentially, a lower environment. As you know, we developed some internal proxies that we used as a – as an indicator of food production levels and we saw that decrease sequentially, Q3 to Q4.

And of course, we pay close attention to what some of our large – larger, broader customers are saying. So, we think the environment remains soft and we're going to see some – we're going to need to see some recovery in the macro for the consumer to get back to buying more volumes.

As it relates to food safety industry growth, yes, we believe food safety testing grows even when production is negative, but we think it grows at a lower rate. I think if we rewind a year, we felt that was mid-single, it might be lower than that now. It's difficult to tell. We think other than our sample collection issues, we grew low single in the fourth on our food safety testing side, and we've really for the year assumed this kind of environment that we've exited the year is what we're kind of carrying through the year.

And until we maybe see something different, given some of the uncertainties out there, including some of the impacts of the global trade environment related uncertainty, we've kind of planned an environment not too dissimilar than what we experienced here in the second half of the year.

Brandon Vazquez

Analyst, William Blair & Co. LLC

Q

Okay. And just to clarify, Dave, on what you just said there. It sounds like you – from what you can tell, you are growing in line with the food safety market – the food testing market, ex sample handling, at that low single digit clip. And for the most part, that's kind of what you're assuming for the rest of the year. Is that the right way to categorize that?

David H. Naemura

Chief Financial Officer & Chief Operating Officer, Neogen Corp.

A

Yes, Brandon, directionally I think that's right. I mean, if we step back and look for the full year, it would be 5%. So, we think we're in that zone.

Brandon Vazquez

Analyst, William Blair & Co. LLC

Q

Okay. And then, Dave, maybe you can spend a minute just talking a little bit also about like, is there any kind of sequential guidance you can give us whether it's kind of high level even on where margins go on a sequential basis through the year? There's just a lot of moving pieces like when do the tariffs really roll through inventory and meaningfully start impacting you? When does some of the OpEx of the Disinfectants business kind of roll off?

Anything else in terms – when does the inventory management level off – or sorry, not the inventory management, but the inventory write-offs, when do those level off? Like help us think about how we should be modeling the sequentials of margins through the year.

David H. Naemura

Chief Financial Officer & Chief Operating Officer, Neogen Corp.

A

Okay. So, we usually start the year with Q1 as our lowest quarter, and I think a combination of volumes plus some of the headwinds that we intend to make improvement upon over the course of the year, particularly sample collection, will most impact margins in the first quarter, and will improve as the year progresses. And that's kind of compounded with a lower volume environment.

On the margin side, I think we can point to some of the challenges we saw in the fourth and see some pretty clear path to doing better this year. But we will get a full year of sample handling, which is very inefficient. We have a path to doing better there, but it's going to take a few quarters at least here. So, I think we'll see gradual improvement as well.

I think all of these things are pointing to kind of directional improvement as the year progresses, with some bias from a volume standpoint, usually towards the second half, maybe not as large as we've seen in prior years, because we've taken Cleaners & Disinfectants out of the business, and that tended to drive a little bit of the seasonality and lumpiness. Does that help directionally, Brandon?

Brandon Vazquez

Analyst, William Blair & Co. LLC

Q

Yeah. It does. And I'll just ask one last one and let someone else hop in here. But as we think about – obviously you have the Disinfectants that you've already announced as a divestiture. We'll have Genomics updates later in the year. When these businesses are divested and as we play with our model, it seems like maybe the biggest lever in terms of understanding what the standalone company or pro forma margins will be, is essentially how much OpEx goes away with those businesses. Is there anything you can share with us in terms of how quickly OpEx goes with those businesses? Will there be some stranded costs that need to come out? Will they take a couple of quarters? Any color around that would be helpful, too, and I'll let someone else hop in. Thanks, guys.

David H. Naemura

Chief Financial Officer & Chief Operating Officer, Neogen Corp.

A

Yeah. So, as we sell the businesses, the majority of the – let's talk about Cleaners & Disinfectants because that's done. The majority of the related costs are direct costs that go directly with the business. There tends to be \$1.5 million to \$2 million of additional costs that remain behind. We will be delayed in getting those out, because we will continue to service, under a TSA arrangement, for a period of time, probably at least a full year here, in the case of this business and then we'll see some reductions.

But, again, that may be a \$1.5 million or so, not the biggest number of the majority of the costs go directly with the business. So, thanks for the questions, Brandon.

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

Jon Petersen

Analyst, Piper Sandler & Co.

Q

Hi, everyone. This is Jon on for Dave. Thanks for taking the questions. So, just first off, could you give any commentary, like any thoughts on the key differences in the management styles between Mike and John, any different priorities, and what we should be looking out for going forward?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Yeah. Look, fair question. But again, remember, Mike hasn't started yet. And so, I think we'll see – getting to know Mike a little bit. I think very much a back-to-basics guy, but he'll still start here in a few weeks, and we'll get into it, and I think as we do that, he'll be looking forward to kind of meeting you guys and sharing some of his philosophy in the coming quarters.

Jon Petersen

Analyst, Piper Sandler & Co.

Q

Got it. Thank you. And you mentioned that Genomics saw sequential improvement, particularly in bovine. Do you see that that business overall is stabilizing for fiscal 2026? And can you give any thoughts on demand in the different species and use cases for it?

David H. Naemura

Chief Financial Officer & Chief Operating Officer, Neogen Corp.

A

Yeah. Look, if you recall, back in mid-year fiscal 2025, we talked about a restructuring of that business, trying to refocus it on more attractive cattle end-market, where we think we're more highly differentiated. And with that, we brought down some of the second-half revenue associated with Genomics. I'd say the top line for genomics will

be a little less in fiscal 2026 as compared to fiscal 2025, and, you know, I can't break it down for you by species, but recall that it's predominantly, or the majority of the business, is focused on the cattle end markets.

Jon Petersen

Analyst, Piper Sandler & Co.

Q

All right. Great. Thank you. I'll jump back in queue.

David H. Naemura

Chief Financial Officer & Chief Operating Officer, Neogen Corp.

A

Thank you.

Operator: [Operator Instructions] Your next question comes from the line of Thomas DeBourcy with Nephron Research. Please go ahead.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Can't hear you, Tom, if you're talking.

David H. Naemura

Chief Financial Officer & Chief Operating Officer, Neogen Corp.

A

Operator, we might have a problem with Tom's line.

Thomas DeBourcy

Analyst, Nephron Research LLC

Q

Hi, can you hear me now?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Yes, I can, Tom.

Thomas DeBourcy

Analyst, Nephron Research LLC

Q

Okay. Hi, sorry about that. So, just at the Food Safety segment, in terms of the strength that you've seen, I guess, in the food quality pathogen product line, would you say that you've seen some market share gain or addressing additional kind of unmet need, what is really driven, I guess the strength in, I guess, in pathogen most specifically?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

A

Sure Tom, I can start with that. I think, look, we know that pathogens have been a priority for us. We've stated that pathogens have been a priority and part of that is some of the new launches we've done, right? We've talked a little bit about our MDS Quant Salmonella test that we just launched, and then we just did our Listeria Right Now on the MDS platform.

So, we are continuing to invest in the pathogen space. And with those investments, we're saying that we're able to meet some of the needs where we didn't have the product portfolio before that we do now. So, we see that as a great opportunity for us to continue to drive growth in that pathogen space.

Thomas DeBourcy

Analyst, Nephron Research LLC

Q

Got it. And just one other question on CapEx. For 2026, I think you've mentioned \$50 million, actually, no, a little bit lower than I was expecting. So, just, is part of the divestiture helping, or was this kind of in line with maybe the expected CapEx step-down over the kind of years since the merger?

David H. Naemura

Chief Financial Officer & Chief Operating Officer, Neogen Corp.

A

Yes, Tom, I think combination of things, maybe minimally from the divestiture that we did, but we also did see some CapEx pull forward into 2025 from 2026. So, that brings it down a few million as well. And look, we're prioritizing the plant and getting that work done, as you know. So, what I think you can see us here doing is also just kind of focusing our CapEx on the priority. And so, it's a pretty good step down for us, as you point out.

Thomas DeBourcy

Analyst, Nephron Research LLC

Q

Thank you.

David H. Naemura

Chief Financial Officer & Chief Operating Officer, Neogen Corp.

A

Thanks, Tom.

Operator: And we have no further questions. At this time, I would like to turn it back to John Adent for closing remarks.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

Thank you. Thank you all for joining us. We look forward to helping drive – I look forward to helping drive a smooth transition to Mike. We talked about, I will be here through the end of October and working with him and really see great opportunities for Neogen in the future and excited to watch the growth of this company. So, thank you very much.

Operator: Thank you, presenters. And ladies and gentlemen, this concludes today's conference call. Thank you all for joining. You may now disconnect.

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