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PRESENTATION

Operator

Ladies and gentlemen, this is the operator. Today's conference is scheduled to begin in about two minutes. Until that time, your lines will remain on musical. Thank you for your patience. Good morning, ladies and gentlemen, and welcome to the Neogen third quarter 2026 earnings conference call. (Operator Instructions). This call is being recorded on Thursday, April 9, 2026. I would now like to turn the conference over to Scott Gleason, Head of Investor Relations at Neogen. Please go ahead.

Scott Gleason - Neogen Corp - Investor Relations

Thank you for joining us this morning for the discussion of our fiscal third quarter 2026 earnings. I'll briefly cover the non-GAAP and forward-looking language before passing the call over to our CEO, Mike Nassif, and our CFO, Brian Rigsby. Before the market opened today, we published our third 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'm now pleased to turn the call over to our CEO, Mike Nassif.

Mikhael Nassif - Neogen Corp - President, Chief Executive Officer

Good morning, everyone, and thank you for joining us. I'm happy to report that we delivered solid core growth in our Food Safety segment again this quarter, including continued growth in the United States.

And our growth in the quarter was consistent with current market dynamics. This is an important milestone to achieve our goal of above-market growth. We improved our adjusted EBITDA margins to some of the highest levels in recent company history at 22.8% through cost discipline.

This bodes well for our future as we look to accelerate top-line growth in fiscal year 2027 and beyond and helps demonstrate the inherent financial leverage in the business. At the same time, we encountered several supplier challenges stemming from third-party manufacturers that unfortunately had a meaningful impact on our animal safety business. While many of these issues were outside of our direct

Control, they don't meet the standards we've established as an organization. So in response, we've implemented a more rigorous supplier qualification and review process to strengthen reliability going forward. Meeting our customer needs remains our highest priority, and we're addressing these challenges head-on with urgency and discipline.

As we look at our transformation journey, we continue to be focused on three major strategic initiatives to stabilize and strengthen our mission as the market leader in food safety. First, commercial prowess. We're strengthening our sales and marketing engine by deploying an enhanced go-to-market strategy.

We're introducing a global solutions-based selling model that will fully leverage our market leadership position, implement rigorous metric-driven performance tracking, and continue to invest in talent and capabilities of our commercial team.

Second, high-impact innovation. We're building the foundation for true organic innovation for the first time at Neogen. This means identifying the products and technologies that can expand our addressable markets, advance our technology leadership and differentiation, and unlock new growth opportunities within our core channel.

And finally, operational efficiency. We're simplifying and fortifying our enterprise processes to drive stronger efficiency and execution. Our key operational initiatives include advancing and scaling our S&OP process, completing the transition of our manufacturing operations, and refining our budgeting and forecasting processes. We're already preparing for fiscal 2027 and pursuing technology enhancements and consolidation opportunities that can further streamline operations.

Together, these three initiatives paint the picture of how we're upgrading our capabilities and solutions across the organization to be best in class. I'll start with our first growth initiative, commercial prowess. First, I think it's important to highlight that Neogen has a strong commercial foundation for us to build upon with the most comprehensive portfolio of high-quality, integrated solutions in food safety, unparalleled technical expertise and standard-setting guidance, and best-in-class global education training and implementation support. These foundational elements provide a strong launching platform for a next-generation commercial engine.

Additionally. As we have previously announced, we've added two outstanding leaders to our commercial organization, Tammy Rinalli, our new General Manager of Global Food Safety, and Joe Friels, our new Chief Commercial Officer. Tammy and Joe have been conducting a comprehensive review of our global go-to-market strategy. These leaders know what good looks like and are leading a commercial transformation on a day-to-day basis.

As we assess our presence across countries and customer segments, a clear theme has emerged. It's time to optimally realign our resources from either a geographic or revenue exposure standpoint. To address this, we intend to reallocate investment towards the markets, product lines, and customer segments that deliver the most significant impact on our ability to grow, while allowing us to provide better customer service.

In certain regions, partnering through distribution can be a more effective playbook. This allows us to streamline our cost structure and improve the level of service we deliver to customers in those areas. I implemented a similar approach when I led the Siemens point-of-care diagnostics business, and it resulted in significantly improved operating performance, a more efficient organization overall, and a better ability to meet our customers' needs.

From a sales and operations perspective, Neogen has historically operated in a siloed manner with limited process standardization or resource alignment across geographies. Tammy and Joe are developing global standards and a unified solutions-based selling framework for our teams.

We believe this approach is the most effective way to differentiate Neogen competitively and to fully leverage two of our core strengths, the breadth of our portfolio and our expanding commitment to innovation. We'll support these solutions with rigorous metric-based analysis and disciplined performance management.

Joe and Tammy continues our weekly meetings to evaluate our critical sales KPIs, such as total funnel size, funnel additions, and funnel wins. This process rigor has been the biggest contributor to our improved execution in food safety to date and still has significant room for further improvement.

Now for our second initiative, high-impact innovation. Our Chief Scientific Officer, Jeremy Yarwood, is leading a comprehensive assessment of our existing portfolio, opportunities for organic innovation, and areas where externally developed technologies could be licensed and applied within food safety.

The goal of this component of our transformation strategy is clear, to enhance our current offering, enable entry into attractive markets, and strengthen Neogen's competitive differentiation through unique technology solutions.

At the heart of our innovation strategy, we always consider our customer needs and requirements first. One area where we see a meaningful early opportunity is PetriFilm. We believe the applications for [PetriFilm] extend well beyond traditional food and beverage testing into additional consumer product categories like pharmaceuticals, cosmetics, nutraceuticals, and other consumer product categories.

In the future, with full control of our manufacturing process, we'll qualify and validate new custom SKUs within the established PetriFilm framework, something that wasn't possible historically. In prior years, several major customers approached us seeking custom SKUs tailored to their testing needs, but because we didn't have control of production, we couldn't respond. That constraint will soon be removed.

To accelerate this development, in the fourth quarter of fiscal year '26, we're investing in a research scale R&D line at our Minnesota research facility. This will allow us to rapidly prototype, test, and validate new SKUs without disrupting commercial production. As our new facility in Lansing becomes operational, it will support our current and future volumes utilizing highly automated production lines with a capacity of multiples of our current commercial volume.

As a result, in addition to the structural efficiencies gained from bringing manufacturing in-house, the contribution margin on incremental PetriFilm revenue is exceptionally high. Incremental volume growth can be a meaningful impact on our transformation and our ability to achieve our longer-term margin objectives.

We'll plan to share more details on our plans around innovation and customer technology solutions as we progress through the calendar year. But at a high level, beyond best-in-class sales and service, differentiated products and technologies remain the most critical drivers to position Neogen as the category leader in food safety.

Now let's turn to our third initiative, operational efficiency. Here's an update on our feature-film manufacturing transition and our core enterprise capabilities. We're right on schedule for the planned November 26 transition. I'm highly encouraged by the disciplined oversight from our operations and R&D teams and the significant momentum we continue to build. First, we've now completed full validation of 100% of the production equipment utilized in the Petri film manufacturing process.

Additionally, this quarter, we initiated the validation process for our current 17 SKUs, beginning with the highest volume and most technically challenging products. We are actively conducting both operational performance validation on multiple SKUs to ensure full manufacturing transition by this fall.

It's important for us to complete all of the product validations before commercial production and scale-up to ensure we have a robust process in place and to prevent commercial production from interfering with the validation process.

We continue to believe that the scale of investment required and the considerable technical complexity associated with reproducing this manufacturing process creates an almost insurmountable barrier to entry. Replicating the level of precision and quality achieved through our PetriFilm platform would be exceptionally challenging for any competitor, let alone a subscale provider.

In addition, we look forward to hosting two upcoming investor tours at our Lansing manufacturing facility in partnership with our covering analysts. These tours will give investors a first-hand view into the sophistication of the operation and the progress we are making.

From an inventory management and sales operations planning perspective, we continue to make meaningful progress, even as reported inventory levels remain flat sequentially. Our objective is to build an enterprise-level, end-to-end controlled supply chain. We believe these initiatives will drive lower cost of goods sold through increased automation and procurement optimization, enable faster and more reliable global fulfillment, and most importantly, enhance the overall customer experience.

As part of this transformation, we are moving toward a centralized planning model supported by AI-enabled logistics and supply chain software tools to improve efficiency and decision-making. In parallel, we are strengthening supplier management with rigorous controls around cost, quality and performance, while also simplifying an overly complex warehousing and logistics footprint to reduce both cost and operational complexity.

We expect to complete the implementation of this new operating model by the end of the calendar year, and we believe it will have a lasting impact on both our cost structure and our ability to serve customers more effectively. Now I want to address the backorder challenges we experience in our animal safety business. The issues stem primarily from disruptions at our third-party suppliers. They're related to product documentation, raw material shortages, and delays tied to supplier manufacturing site transitions.

These are further compounded by supplier shifts driven by global tariff changes. Here's what we're doing about it. We're conducting a rigorous review of our supplier qualifications processes and strengthening the controls necessary to ensure we're consistently positioned to meet customer needs going forward and finally, as part of our operational efficiency, our fiscal 2027 budgeting and forecasting cycle is well underway.

I've asked our leaders to do two things. First, to scrutinize spending with a focus on value-creating activities. And second, to take a strategic view of where technological innovation, enhanced enterprise capabilities, and strengthened processes can drive meaningful long-term efficiencies. This will ultimately allow us to allocate more resources towards growth and innovation.

Today, about 56% of our operating expenses are tied to salaries and benefits. This level reflects underinvestment in process automation and modern technology solutions. Achieving sustainable efficiency gains will require a degree of near-term investment and transformation-related spending.

The longer-term returns from these initiatives are likely to exceed what we could achieve through acquisitions or even through internal product innovation alone. We are currently evaluating a number of areas for AI and technology implementation. These include customer service, finance process automation, sales operations and planning, research and development, and technical service applications.

Consistent with our historical practice, we expect this transformation-related spend to be excluded from our adjusted financials as we view it as a temporary requirement to build the foundation for a more scalable business. However, in any scenario, we believe the total magnitude of spend in these areas is positioned to decline going forward, and we continue to anticipate significant improvements in free cash flow next year.

Given the large number of initiatives we have ongoing pertaining to sales and marketing, our innovation strategy, and enhancing our operational efficiency, we are excited to host an Investor Day this fall to give investors a better sense of the impact our transformation is having than our long-term financial outlook.

Since the day I arrived, I've been convinced that our challenges are solvable, our industry's secular growth drivers are strong, and our ability to execute will ultimately drive our success. While there is still meaningful work ahead, we all know turnarounds are never linear. The progress underway is substantial.

And while our early wins aren't always immediately visible on our financial results, what is clear is this, our unwavering commitment to build a stronger, more innovative, and efficient company for all stakeholders. The impact of the changes we're implementing today will become increasingly evident as we enter the next fiscal year and beyond. And now I'll turn the call over to Brian.

Brian Rigsby - Neogen Corp - Chief Financial Officer

Thank you, Mike, and thanks to all of you participating in the call today. I'm pleased to provide an overview of our financial results and outlook for fiscal year 2026. We delivered third-quarter revenue of \$211.2 million, representing a 0.1% increase on a core basis.

As Mike noted, we saw continued strong core growth in our Food Safety segment, while supply chain disruptions within our Animal Safety segment had a significant impact on our results in the quarter. At the segment level, our Food Safety business delivered \$156.7 million in revenue for the quarter, representing 4% core growth, consistent with the second quarter and relatively in line with current market growth rates.

Performance was led by continued strength in our indicator testing and culture media products, which were up 11% and strong growth in pathogen test kits, which are included in bacteria and general sanitation from a macro standpoint, as the year started, market commentary from several major food producers was generally positive.

Many reported flat volumes, an improvement from the persistent declines observed over the past three years, and several guided to a return to volume growth in calendar year 2026. Recent public comments from companies like Conagra and General Mills show the operating environment has deteriorated with supply chain and logistics cost pressures mounting as a result of the war with Iran. Fuel and fertilizer costs are rising, which is having a meaningful impact on margins for our customers.

Other signs of market disruptions include factory consolidations, increased focus on cost management initiatives, and restructuring across the food production landscape. Given these factors, we continue to maintain a measured view on the macro backdrop for our food safety customers.

Food safety continues to be a top priority for our customers and a clear area of competitive differentiation. As an example, Nestle recently highlighted that the latest infant formula recall is expected to result in approximately \$350 million in lost sales across 2025 and 2026, which does not include the additional financial cost associated with managing the recall itself.

At an industry level, recall activity is also increasing. The total number of food recalls rose by roughly 15% from 2024 to 2025, and more significantly, the volume of food recalls called by the FDA more than doubled year-over-year. These trends reinforce how essential reliable food safety solutions are for producers and the critical role we play in helping them maintain trust, compliance and brand protection.

Quarterly revenue in our Animal Safety segment totaled \$54.5 million with core revenue declining 8.7% compared to the prior year period. As mentioned earlier, supplier-related disruptions had a significant impact on the results in our animal safety business. If you exclude these impacts in the quarter, core growth in animal safety would have been more consistent with where we were in the second quarter of this fiscal year from a year-over-year growth perspective.

We are beginning to see some encouraging signs in the animal safety end markets. Although US production animal herd sizes remain near record lows, sustained strength in meat demand and pricing has materially improved producer profitability. In addition, USDA projections indicate that herd sizes may be nearing a cyclical bottom with growth expected beyond 2026 as ranchers reinvest to meet elevated global protein demand.

These trends support a more constructive outlook for the segment over the medium term. From a regional perspective, US revenue was 48% of total sales in the quarter and our international revenue was 52% importantly, US Food safety once again grew in the third quarter consistent with the second quarter.

We saw strong growth in both EMEA and Latin America in the quarter, and the supplier issues in animal safety disproportionately impacted the domestic business in the quarter, given sales are predominantly based in the US gross margin in the third quarter was 46.9% and adjusted gross margin was 51.7%. On a year-over-year basis, our gross margins, excluding one-time costs, were essentially flat.

This quarter, we did not make as much progress as planned on sample collection margin improvement, and it still generated a negative gross margin. We faced higher scrap rates on certain sample collection products due to a quality issue at a third-party supplier, which has now been addressed. We continue to be optimistic about our ability to drive improvement for sample collection margins through a combination of growth and potential automation investments in the upcoming fiscal year.

Adjusted EBITDA was \$48.2 million in the quarter, representing a margin of 22.8%, an improvement of almost 110 basis points on a sequential basis from the second quarter, despite lower revenue. This change is reflective of a decline in adjusted operating expenses, which were down 9% from second quarter levels, showing strong cost control of note, \$1 million of the sequential decline was due to non-recurring credits, which will not repeat in future periods.

Third quarter adjusted net income and adjusted earnings per share were \$19.4 million and \$0.09 per share, respectively. Turning to the balance sheet, we closed the quarter with \$800 million of gross debt, 68% of which is fixed rate, and a total cash balance of \$159.9 million.

We remain fully compliant with all debt covenants and believe we are well positioned to further strengthen our balance sheet as free cash flow continues to improve. As previously announced, we entered into an agreement to divest our genomics business unit, which generated approximately \$90 million in revenue in fiscal year 2025, and delivered adjusted EBITDA margins in the mid-teens.

The announced sale price for the business is \$160 million with expected net proceeds of approximately \$140 million after transaction costs and taxes. We expect the transaction to close in the second quarter of fiscal 2027. We intend to use net proceeds from the sale to reduce debt and we anticipate our net debt to adjusted EBITDA ratio will decline to below three times by the end of calendar 2026.

Free cash flow in the third quarter was \$11.1 million and is now positive for the year. We continue to expect improvements in cash flow trends going forward due to reduced CapEx following the completion of our Petrie film equipment and construction costs, as well as the elimination of duplicative manufacturing costs.

Turning to our guidance, we're raising our full-year fiscal 2026 revenue guidance to reflect our stronger-than-expected third-quarter results. We now anticipate full-year revenue to be in the range of \$857 million to \$860 million.

With respect to this guidance, it's important to consider the evolving foreign exchange environment. Following the sharp decline in the US dollar index last year and more recently the strengthening we have seen in the dollar, we expect the currency tailwinds that have supported non-core growth to diminish meaningfully beginning next quarter.

This dynamic will impact both reported growth rates and our full-year revenue outlook as a reminder, approximately 40% of our revenue is generated in non-US dollar currencies, and on a sequential basis, the current level of the dollar index represents a modest headwind to non-core growth.

In addition, we anticipate continued impact from certain supply-related challenges in our animal safety business that affected results this quarter. As Mike noted, we are also implementing several changes across the sales organization, including leadership transitions following our global talent review. Taken together, we believe it is prudent to take a more conservative view for the fourth quarter.

We have also received questions. Regarding the conflict involving Iran and the potential implications for our business. Revenue exposure to countries within the conflict zone is immaterial, totaling less than \$0.5 million annually.

As for the potential impact of higher energy and oil prices on plastic components, today we source approximately \$40 million annually in plastic OEM products, and we currently hold six to nine months of inventory for these components. As a result, the duration of elevated oil prices would need to be prolonged to meaningfully impact our cost structure.

It is important to note that raw material costs represent only one component of our suppliers' total cost base, alongside labor and overhead. And even under a more adverse scenario, we believe any impact would be manageable, and we would have the ability to partially offset increased costs through pricing actions if necessary.

Where we are seeing more tangible pressure is in global logistics and freight, given disruptions around key global transit routes, such as the Suez Canal and the impact of higher energy prices on transportation rates.

Currently, we are experiencing freight and transportation cost increases in the high single-digit to low double-digit range. At current rates, the aggregate impact equates to approximately \$1.5 million per quarter in incremental freight and transportation costs. In light of these headwinds, we are maintaining our adjusted EBITDA guidance of \$175 million for fiscal year 2026. I'll now hand the call back to Mike for some final thoughts.

Mikhael Nassif - Neogen Corp - President, Chief Executive Officer

Thanks, Brian. I'm really proud of our team, and I'd like to take this opportunity to thank our dedicated employees. We're committed to creating outstanding stakeholder and customer value as the clear market leader in food safety. Our industry is driven by powerful secular trends, and we offer the broadest and highest quality products.

Our primary barrier to unlocking our full potential has been operational execution and as you've just heard, we're making rapid and meaningful progress. We'll finish this year as a stronger, leaner, and more capable organization. This foundation will enable us to enter the next phase of our transformation, accelerating growth and leadership through technology and product innovation and with that, I'll now turn things. Over to the operator to begin the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

Subbu Nambi, Guggenheim.

Subbu Nambi - Guggenheim Securities LLC - Equity Analyst

Hey, guys. Good morning. Thank you for taking my questions. A couple of clean-up questions. The petrol and duplicative costs were expected to step up, and they did, but the tariff cost and the sample handling expenses did come as a surprise, which sample handling looks like it's stalled for. But could you walk us through what's driving those and what's your line of sight to further cost for 4Q?

Brian Rigsby - Neogen Corp - Chief Financial Officer

Yeah, thanks, Subbu. Yeah, I think we talked about a little bit on the call some of the issues that we had in sample collection during the quarter. We made some of those have resolved themselves. I would not expect it to step up from where we're at, and I would expect it to improve sequentially as we get to the fourth quarter.

Subbu Nambi - Guggenheim Securities LLC - Equity Analyst

And then. Just any of these like unexpected third-party supply issues that was tied. Once you have taken stock of the whole animal safety supplier issue, what gives you the confidence that you'll be able to move through this quickly, just given the history of these costs name on margins and concerns for the investors?

Mikhael Nassif - Neogen Corp - President, Chief Executive Officer

Yes, Subbu, I'll take that and thank you for that question. Yes, I mean, again, the challenges with the corridor on animal safety were supply side, not a demand issue. Our ordering patterns continue to be pretty encouraging.

So our focus is really on addressing the three supplier issues. The first has to do with the key instrument supplier transitioning manufacturing locations to reduce tariffs impact. So there's been some start-up challenges that they've had.

Second, we're all aware of the global vitamin A shortage, so that's affected several of our products and input some constraints. And third, a fairly substantial partner of ours in sodium bicarb is transitioning production and they're running into some issues. So we've strengthened on our side, our supplier management and making sure we're partnering and understanding so that we can do a better job at predicting.

In our forecast. I think we missed that a little bit in Q3. We were surprised by some of these supplier challenges, which we won't repeat again in Q4. Now in Q4, given the uncertainty and these things being out of our control, we have built that into the guide and we're really thinking along the lines of being meaningfully measured.

As we do that. I can't give you a specific number with regards to what we expect as recovery at this point in time. We're certainly working toward that, but we do expect the challenges to continue in Q4 as these suppliers are working through it.

Subbu Nambi - Guggenheim Securities LLC - Equity Analyst

Thank you for the additional detail, Mike. Super helpful. One cleanup question. On the slide deck, you see Patricone will be done November 2027. I feel you meant November fiscal year 2027, right?

Mikhael Nassif - Neogen Corp - President, Chief Executive Officer

Yeah. Yeah. Surprise. No. That's a hypo. It's November 2026. We're on track. Maybe what we were trying to say is that in addition to that. We continue our 3M agreement till August of 2027 as, a quote-unquote insurance policy for any disruption you may have.

Subbu Nambi - Guggenheim Securities LLC - Equity Analyst

Perfect. Thank you so much, Mike.

Operator

Robert Labick, CJS Securities.

Robert Labick - CJS Securities Inc - Analyst

Good morning. Congratulations on another strong quarter. Thanks for taking our questions.

Mikhael Nassif - Neogen Corp - President, Chief Executive Officer

Thanks, Bob. Thanks, Bob.

Robert Labick - CJS Securities Inc - Analyst

Okay, great. Just make sure you hear me. So, obviously, with this solid core growth for the second quarter in a row, 4% in foodservice, after one quarter, you weren't there yet. Are you in a position to say you're able to sustain top-line core growth in foodservice going forward? And how should we think about the core growth over the next 12 months? In terms of potential headwinds and tailwinds and any unusual comps that we should keep in mind?

Mikhael Nassif - Neogen Corp - President, Chief Executive Officer

Well, thank you for that question, Bob, and I'll give you some thoughts and let Brian jump in. First, let me address your second part. I mean, we're not prepared to give guidance for next year. At this point in time, we'll do that during our Investor Day. But to speak to food safety.

I think that, as I said on the earnings call, our focus on commercial execution and really driving the discipline and leveraging the breadth of our portfolio has enabled us to deliver another quarter in line with market growth on Food Safety.

Now, I expect that to continue as Tammy and Joe are working through the reorganization and looking at where we can reallocate resources to drive quicker, faster growth. We're looking at the optimization of our portfolio where we're looking to drive higher margin products, I think that we can expect there to be more upside as we go through to accelerate that growth.

And so I think the overall market, on the end market piece, we see the food safety continue to be fairly stable. I'll say it's in the lower single-digits at this point in time. We do hear food producers are reporting. That they see ballot volumes being flat versus declining historically. I think the tone of our customers is improving.

Of course, the current macroeconomic environment and Iran and oil and all those things are creating some cost pressures and unknowns for us. But we continue to be excited about food safety and our position as the only market leader with a broadest portfolio to meet customer needs.

So more to come on Investor Day, but we feel good, but certainly. We're happy, but not satisfied, and we're going to continue to push on our market leadership and food safety. And Brian, I don't know if there's anything else you want to add.

Brian Rigsby - Neogen Corp - Chief Financial Officer

No, I think we've seen nice for a few quarters now, nice growth on the food safety side. As Mike mentioned earlier, I'm not going to get beyond Q4, but we expect the animal safety. Issues to not fully resolve during the quarter. I think it doesn't impact the core growth number

that we report, but the only thing I would just highlight is that is the commentary around FX becoming a headwind versus a tailwind that we've seen. So that will impact the reported numbers.

Robert Labick - CJS Securities Inc - Analyst

Okay, great. And then just I guess my follow-up, another question. You mentioned. In the prepared and work, certainly driving innovation. And then you also mentioned a research line for PetriFilm, which sounds like a wonderful idea to keep production going. Can you talk about kind of a CapEx for that? And I think you said you expect free cash flow to grow in fiscal '27. Maybe kind of tie all of those things together for us, please.

Brian Rigsby - Neogen Corp - Chief Financial Officer

Yeah, I would say the CapEx will be in our FY26. CapEx number, we do expect the CapEx to step down next year as we get past the projects, the larger PetriFilm manufacturing facility ramps up. And given that we're at a positive free cash flow level now for the year, year-to-date, we would expect that to step up next year as profitability continues to improve and as CapEx ramps down.

Robert Labick - CJS Securities Inc - Analyst

Okay, great. So the research line is not a major investment, it's just an opportunity to, continue.

Brian Rigsby - Neogen Corp - Chief Financial Officer

Yeah, it's just it's just incremental, not it's not a material change to what we had talked about before.

Mikhael Nassif - Neogen Corp - President, Chief Executive Officer

But it has a significant impact on accelerating future film innovation, and we believe that -- that's extremely important for the future growth of our food safety portfolio.

Robert Labick - CJS Securities Inc - Analyst

Yes, okay, super. Alright, I'll jump back into you. Thank you.

Mikhael Nassif - Neogen Corp - President, Chief Executive Officer

Thanks, Bob.

Operator

Brandon Vazquez.

Brandon Vazquez - William Blair Capital Partners - Analyst

Hey, everyone. Thanks for taking the question. Mike, maybe can I start with you? And I wanted to start a little bit higher level. You've been in the seat about six or seven months now. Just reflect a little bit on what things within the organization have changed that are.

Kind of working, like what things are allowing you to execute a little bit better than we've seen historically from Neogen, and then spend a minute to on like what's left. You're talking a little bit about go-to-market strategy, evaluation, things like that. What work is left to be done still? Just spend a little bit of time around that first.

Mikhael Nassif - Neogen Corp - President, Chief Executive Officer

Sure, Brandon. Thanks for the question. I would say that, seven months in I continue to believe, based on everything that I've learned so far, that purely our challenges are operational. They're internally related. And from the start, and having been in other turnarounds, I discussed sort of the approach on driving the top-line to create oxygen to allow us to run a more efficient organization and kick off more cash. And we are implementing that strategy. I spoke a little bit today around commercial prowess, operational efficiency and really focusing on innovation.

So as we are strengthening our commercial acumen and becoming more focused on higher growth markets, managing better in our operating expenses, we need to start now to think about innovation to accelerate growth in '28, '29, and '30, and beyond.

So I think where we've been able to really push hard. You're seeing the results of that. So I think the second quarter of solid growth in food safety is representative. But I would say we're just getting started. Tammy and Joe are really digging in. They're optimizing the commercial organization. We're looking to flex the portfolio.

Again, you guys know this. Neogen has got the broadest portfolio in food safety. We have the ability to provide end-to-end solutions. I'm not sure we always flex that portfolio the way that we should.

And so we are very much focused on doing that and changing how we go to market. And all of those things are remaining to be done and so I would say what I would quote-unquote say quick wins, I think we've kind of captured those.

And now we're in a part of taking those best practices and just back to basics and scaling them. And as scaling takes some time. And I think we're in that phase now. And so no turnaround is linear, but we're going to continue to focus on those areas and scaling them across the organization in the various regions.

Brandon Vazquez - William Blair Capital Partners - Analyst

Okay, and Brian, on your on for you. As I look at the implied guidance on adjusted EBITDA, you had talked a lot of moving pieces in Q4, whether it's the OpEx line or maybe some margin headwinds, things like that.

I want to ask it a little bit more direct. I know you're not going to give us '27 on this call, but I think a lot of us are going to start building our model off of the Q4 EBITDA line, right? So like just maybe like walk us through, help us think of like what things impacting the Q4.

Profitability implied in guidance are transient, which ones are going to linger into fiscal '27, so we can understand to what degree this Q4 EBITDA number is like a good jumping point we should use as we build our model going forward into fiscal '27?

Brian Rigsby - Neogen Corp - Chief Financial Officer

Yes, thanks for the question. I think a few things that I would highlight, I think, first of all. When you look at it, we talked about it on the call, the one-time credit that we had in the quarter, that was about a million dollars. We talked about the freight and transportation step-up that we're seeing. We characterize that as about a million and a half dollars.

We had a partial, because of the way the quarter straddles the months, our merit impact will have some incremental impact from some of our employee cost in the quarter. Given the fact that we had two months of it in the last quarter, we'll have an incremental month, so that's a bit of a headwind.

And then we finally have finished building out the lead team, and so we have a little bit of incremental costs related to that. But I think the sum of those things is probably what reconciles it for you relative to kind of where you were before in terms of Q4, that's at least a few million dollars there, and that's the way that I would probably think about it, if that's helpful.

Brandon Vazquez - William Blair Capital Partners - Analyst

And maybe I'll sneak one last one in. Mike, as you talk about kind of go-to-market strategy evaluation, I'm kind of curious, what might that entail? Like, I guess part of the question that I'm asking is it possible, in the next quarter or two that there's some bigger commercial changes that might be made to the organization that may take a little time to take root? Thanks, guys.

Mikhael Nassif - Neogen Corp - President, Chief Executive Officer

Yeah, no, so I don't see the changes we're making as disruptive. As much as they are more additive, and sort of accelerating where we see opportunities. So the overall strategy of our go-to-market is pretty simple. It's identifying the markets where we see significant market opportunity, evaluating our presence, adding resources to capture or exceed market growth, looking at markets where maybe the market opportunity is not as substantial, evaluating our cost structure in those markets and saying, is our cost structure aligned with the market opportunity?

And then third, looking at markets where the market opportunity is not great and maybe our revenue is not there, but a cost structure is too high, how do we transition that to a partner, reallocate those savings and put it in the markets where we see accelerated growth. So I don't see it as disruption as really just realigning and reinforcing the markets where we see accelerated growth. Does that help, Brandon?

Operator

Thomas DeBourcy, Nephron Research.

Thomas DeBourcy - Nephron Research LLC - Equity Analyst

Thanks, guys, for taking the questions. I'll just ask two up front. So first, just an adjusted gross margin. It seems like clear sequential trajectory upwards, and the question there is really. Even with, I guess, integration or some disruptions, your ability to sustain, I guess, even above 50% adjusted gross margins. And then the second question, just on the sale of the genomics business, it looks like it may be actually accretive on an earnings basis, given the cost of debt, but just whether that's the case, and is there additional portfolio rationalization in animal safety products, whether through divestiture or through just, I guess, end-of-life thing, low-margin products? Thanks.

Brian Rigsby - Neogen Corp - Chief Financial Officer

Yes, thanks, Tom. I'll start. I guess to your first question around the adjusted gross margin, we were very pleased with the performance. I think you're thinking about it the right way too in terms of sustaining above 50% because we're going to have fluctuation from quarter to quarter.

So I wouldn't focus so much on that as I would on the fact that sustaining it at that higher level, I think that's the right way to think about it. Because if you look at the current quarter, we probably have some favorable mix in there given.

The food safety growth, that's a higher margin business relative to the animal safety business, which was down in the quarter. So I think that's the first question. And then I think the short answer on your second question around the genomic sale is, yes, accretive and positive impact from that divestiture.

Scott Gleason - Neogen Corp - Investor Relations

Yes, Tom. Just when you look at the margin structure for the genomics business, we've talked about both the gross margin and operating margins for that business, an operating margin basis, the adjusted operating margins being in the mid-teens.

So that's obviously below the corporate average. And then as we look at from the total expense standpoint, there is some allocated corporate overhead that goes away with that as well. And so that's really what drives the accretion.

Operator

(Operator Instructions).

David Westenberg, Piper Sandler.

David Westenberg - Piper Jaffray Inc - Analyst

All right. Thank you for taking the question, and congrats on another nice beat here. So you raised the guide by a little bit more than -- then the BEAT implying maybe that animal safety issue might be resolved in the next quarter or so. Is that a great way to read it? And then also, with kind of the BEAT, I know you mentioned kind of the freight costs and some of the other stuff, one-time items. Is there any other reasons why you wouldn't get more operating leverage with revenue going up there in Q4?

Brian Rigsby - Neogen Corp - Chief Financial Officer

Yes, I think the implied guide is a slight increase from Q3 to Q4 in terms of the top-line revenue. So there will be some leverage that you should get, you should see there, but it's not a meaningful step up in terms of the revenue. I think that the guidance really implies continued food safety.

Growth around the levels where we are currently. And we don't expect the full benefit of the Animal Safety resolution in the current quarter is the way we think about it. And then as I noted as well, the fact that we've started to turn from an FX tailwind to a headwind is also a thing that we thought about as we looked at where we're going to land the year.

David Westenberg - Piper Jaffray Inc - Analyst

Gotcha. Well, you guys, I mean, on Brandon's question, you talked a lot about kind of some of the margin headwinds in Q4. Can you talk about, as we're building 2027, to thinking about the margin expansion opportunities? I mean, I know Petrefilm's now getting in-house or transitioning to you. Is there any other ways of thinking about margin expansion opportunities in '27?

Brian Rigsby - Neogen Corp - Chief Financial Officer

Yeah, I mean, I think that a couple of things. First of all, from a gross margin perspective, I think that we should be getting past the issues that we've had with sample collection. We should see Petri film, we've said that should be margin expansive once we've insourced that.

So those are helpful. And then on the OpEx side, we continue to evaluate the cost structure there. I think one of the things is we saw the impact of the restructuring that we did back in the fall, with part of the part of that was, we were looking at taking out, I think it was around twenty-five million, but also with some, add-backs for areas where we thought we had gaps, and so you started to see some of that sort of flow through as well.

In terms of the investments that we've made. But I think in terms of the go-to-market strategy that Mike has talked about earlier, that's obviously a more efficient way of operating in a lot of places, given the fact that you may go through distributor versus going direct, that sort of thing. So I think we have opportunity remaining on the OpEx side.

Mikhael Nassif - Neogen Corp - President, Chief Executive Officer

Yeah, I would add a couple of other things. That are also extremely important and we're focused on and we've talked a little bit about it. I would say more on a purchase price variance. So we're really digging into that and looking at our supplier base and trying to understand how can we improve that -- that's a huge focus now as we think about '27. I think another big one is inventory.

So we've definitely talked about inventory and the challenges we've had. I think the write-offs are obviously very visible and we're aware of those and we're working through them. But I think the way that I would see that in '27, is there's certainly been a lot of legacy raw materials that have been a big part of our inventory, and as those make it the finished goods and we start to calibrate our production to reduce inventory in '27, we should start to see.

The benefits of those. It's hard to see them right now because they're currently in progress. But as we transition into '27, we should start to see a meaningful decline in a finished goods inventory, which will manifest itself in an improved margin. So those are two other areas I would add that we're taking through for next year.

David Westenberg - Piper Jaffray Inc - Analyst

Thank you very much.

Operator

There are no further questions at this time. I will now turn the call over to Scott Gleason for closing remarks.

Scott Gleason - Neogen Corp - Investor Relations

Thank you. Thank you for joining us today, and we look forward to following up with a lot of you after the call here. Have a great day.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.

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