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NEOG.OQ - Q4 2026 Neogen Corp Earnings Call

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PRESENTATION

Unidentified_1

Hello, everyone.

Thank you for joining us and welcome to the Neogen 4Q26 earnings call. After today's prepared remarks, we will host a question-and-answer session. If you would like to ask a question, please press *1 to raise your hand. To withdraw your question, press *1 again.

I will now hand the conference over to Scott Gleason. Scott, please go ahead.

Unidentified_2

Thank you for joining us this morning to discuss our fiscal fourth quarter and full year 2026 results. I will briefly cover our non-GAAP and forward-looking disclosures before turning the call over to our CEO, Mike Nassif, our CFO, Brian Rigsby, and our CCO, Joe Friels. Earlier this morning, we issued our fourth quarter and full year results and accompanying presentation, both of which are available in the Investor Relations section of our website.

During today's call, we will reference certain non-GAAP financial measures. That we believe provide useful insight into our performance. Reconciliations of historical non-GAAP measures are included in our earnings release and presentation. Please also refer to Slide 2 of the presentation which contains reminders regarding forward-looking statements under the Private Securities Litigation Reform Act. These statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied. These risks are described in our most recent annual report on Form 10-K and in other filings with the SEC. We undertake no obligation to update these forward-looking statements. With that, I'm pleased to turn the call over to Mike.

Unidentified_3

Thank you, Scott. Good morning and thank you for joining us.

We operate in a highly attractive market supported by strong growth drivers. Customers increasingly require a true industry leader who can innovate and solve complex challenges.

Food safety and security are critical in growing global priorities, and we believe Neogen is uniquely positioned to lead this industry.

We closed fiscal year '26 on a strong note.

Core growth improved sequentially across both our food safety and animal safety business units in the fourth quarter.

Our fiscal 2027 financial guidance reflects a measured outlook consistent with our historical approach.

While my confidence in the trajectory of our business entering the year is high, we believe our macro fundamental backdrop is improving, we have restored our product portfolio, and significant progress is underway in enhancing our commercial operations.

We exceeded our adjusted EBITDA guidance for the year. At the same time, we are intentionally investing in Neogen's future, and this will remain a key theme through fiscal year 2027. We're funding innovation. Technology solutions, enterprise systems, and marketing capabilities that are designed to meaningfully enhance the company's long-term growth trajectory.

We're prioritizing these investments to position Neogen to win while also driving profitable growth.

I would also highlight that Food Safety Core growth reached 5.8% in the quarter, the highest level since 2023 going back to the period immediately following the 3M acquisition.

In addition, our animal safety team successfully resolved the majority of the global supply issues, returned to a year-over-year positive core growth, and saw a 7% sequential growth from the third quarter.

I'm proud of our teams and want to thank our employees for their dedication to our mission and the effort that made this progress possible. This is a real turnaround from the negative core growth in fiscal year 2025, and we're just getting started. Our ambition is clear.

Build Neogen into the undisputed global food safety category leader. To accomplish this, we are focused on three major strategic initiatives.

First, commercial prowess. You'll hear from our Chief Commercial Officer, Joe Friels, on how we're enhancing our capabilities and building a best-in-class global commercial organization in the food safety channel.

Our teams are moving decisively from a defensive posture to offense with increased focus on share gain. This includes enhanced targeting and customer segmentation through our new go-to-market strategy, a shift towards selling solutions rather than products, and deeper, more strategic engagement with our most important global customers to partner in ways we haven't in the past.

Second, high-impact innovation.

Our largest area of investment for fiscal year '27 will be in our research and development team led by our Chief Scientific Officer, Jeremy Yarwood.

Beyond our previously announced PetriFilm line expansion, we're evaluating technology licensing deals to further solidify our market-leading position and solve customer pain points. Additionally, we have teams working on next-generation platforms in our most critical markets.

Our R&D efforts are fully anchored in customer needs, focused on developing solutions that directly address their most pressing challenges while clearly differentiating Neogen from our competition.

And finally, operational efficiency.

We're simplifying and fortifying our processes. As we look ahead to fiscal 27, our investments in innovation, technology, and commercial capabilities will be largely funded through disciplined cost management and enhanced operational efficiency across the organization.

We have clear plans in place to aggressively address key areas of value leakage, including inventory write-offs, sample collection margins. Purchase price variance, our global supplier network, and pricing execution.

Ultimately, these initiatives will drive profitable growth as we reinvest in the business.

At the same time, our PetriFilm manufacturing transition remains on track to manufacture sellable product and begin a planned multi-quarter manufacturing transition beginning in November 2026.

We're close to completing full validation of our first PetriFilm SKU. Which we expect to complete in August, a major milestone for the company.

In parallel, we will be making a series of targeted transformation investments aimed at increasing productivity across the organization.

These initiatives are expected to deliver strong returns on invested capital. They're critical to achieve our long-term objective of approximately 30% adjusted EBITDA margins.

I've been very impressed with how our commercial teams have risen to the challenge and how they are accelerating and scaling our execution.

Our Chief Commercial Officer, Joe Friels, is here to share how we are building a world-class commercial engine.

Unidentified_4

Thanks, Mike.

It's truly an honor to lead the commercial organization at Neogen at this pivotal time. We believe we have significant competitive advantages in quality of our products, the breadth of our portfolio, and the strength of our technical expertise.

We're confident in our right to win in the global food safety market and the actions we're taking will position us to strengthen and expand our leadership across key channels.

I'll begin by emphasizing that the 6% core growth we delivered during the fourth quarter in food safety doesn't happen in a vacuum, but as rather the early evidence of a meaningful cultural transformation across our commercial organization.

This transformation is reshaping how we approach the market, how we compete, how we define and measure success, how we hold ourselves accountable, and ultimately, how we win.

Our ambition is clear, building a market leading position in the food safety industry as the category leader.

We believe the path to achieve that is to serve our customers better than anyone else, delivering best-in-class solutions. That meet their needs and having a world-class team to communicate our value proposition. Let me walk you through how we're executing against this at a tactical level.

First, we are repositioning our commercial organization to align more closely with our new go-to-market strategy, optimizing how we deploy resources across geographies, customer segments and product lines.

As part of this effort. We are reallocating investments toward the highest impact markets, product lines and customer segments that will best support our long-term growth objectives.

Entering the year, we have identified a focus set of 14 priority countries where we believe we can drive the greatest returns.

We're also bringing greater discipline to customer segmentation.

Historically. Our account base has been highly fragmented with a long tail of thousands of ordering customers globally and limited strategic prioritization. Going forward, we will concentrate our direct commercial efforts on high value accounts where we can drive meaningful share gains while simultaneously enhancing our ability to serve the broader customer base through technology enabled solutions.

In fiscal '27, we will invest in e-commerce and customer service automation capabilities, which we believe will significantly expand our reach across this long tail.

Today, approximately 40% of food safety revenue flows through e-commerce. However, that volume is concentrated among larger accounts due to current platform limitations. We see a clear opportunity to broaden access and increase penetration over time, expanding the reach of our teams.

In parallel, we've made the deliberate decision to transition certain markets to distribution partners or exit where we lack sufficient scale.

This allows us to deliver a high level of service and focus our resources in regions where we can achieve meaningful competitive advantage.

From a customer engagement perspective, we're fundamentally shifting how we approach key accounts.

In the past, we've operated at the site or plant level, which has limited our ability to sell enterprise-wide solutions and has created inefficiencies in our commercial model.

To address this, we are establishing a dedicated strategic account function designed to engage with senior decision makers.

This will enable us to more effectively position the full breadth of our solutions, including our Neogen Analytics platform, and support broader enterprise-wide implementation programs.

We're already seeing encouraging early results from this approach and look forward to discussing the impact in greater detail at our Investor Day this fall.

For the first time in years. We're entering fiscal '27 with a restored product portfolio.

Through the efforts of our R&D, manufacturing, and supply chain teams, we have resolved prior supply and quality challenges and significantly improved service levels.

This progress is reflected in a meaningful improvement in our full and on-time delivery performance over the course of the year.

With these operational improvements in place, we believe we are now well-positioned to take more aggressive actions focused on share gains.

We're also rolling out a global solutions-based sales operating model.

This represents a shift away from a product-centric approach toward a more integrated offering of solutions, services, and technology.

We believe this will drive increased product utilization. Deepen customer relationships and create higher barriers to entry from a competitive standpoint while also eliminating siloed selling behaviors.

Additionally, we have developed segment-specific strategic frameworks focused on the unique needs of key food production segments such as protein.

Each of these segments has distinct operational and regulatory requirements and this approach will enable our commercial teams to deliver more targeted and relevant solutions to our customers.

To drive accountability and measure progress, we're building a culture of operational rigor and discipline.

Key metrics we evaluate include funnel building funnel wins, and a focus on share gains. We believe this. Accountability based approach is critical to drive long-term success.

Last week, I had the privilege of attending our first global sales meeting in years.

We were able to unite our reps and leaders from across the globe as we work to roll out the major initiatives I've described.

I can say without a doubt, our teams are fired up.

We are more unified in our message and purpose than ever before and we're ready to deliver.

So with that, I'll turn it back over to you, Mike.

Unidentified_3

Thanks, Joe. We'll now turn to our focus on innovation.

We're stepping up our commitment to innovation as we enter fiscal year '27. We plan to increase R&D investment by about 50% next year and intend to continue scaling R&D at an accelerated pace with a long-term objective of approaching 5% of revenue.

We believe these investments will deliver attractive returns on invested capital.

They're focused on differentiated, industry-leading technologies that support our ambition to increase market leadership across our food safety channel.

We're also evaluating technology licensing opportunities. This is an important evolution in how we innovate. We're looking to bring differentiated technologies to solve real-world customer challenges.

Given the pace of innovation in adjacent markets such as human healthcare. We believe licensing offers a highly efficient and cost-effective way to accelerate technology adoption within food safety.

We're making real progress to expand our product platforms. At our Oakdale, Minnesota facility, we're standing up our new PetriFilm innovation line. All capital equipment is ordered, and we expect the line to be fully operational later this fiscal year. At that point, we will begin validating a pipeline of new SKUs targeting meaningful market opportunities. In parallel, we're evaluating partnership and co-development opportunities to further accelerate investment and broaden the scope of innovation within this platform.

We believe we will soon have the capability to deliver on two new Petrofilm SKUs per year.

Beyond product innovation, we're investing in our digital ecosystem. We're enhancing our Neogen analytics platform to improve connectivity, deliver more actionable insights to customers, and build a scalable data architecture.

Over time, we believe this data strategy can create meaningful network effects that strengthen our value proposition and deepen customer engagement.

We now have teams assessing next-generation platforms for core markets like pathogen detection and general sanitation.

Ultimately, our goal is to have differentiated market-leading solutions that match customer needs across all product lines.

Now our organic development cycles run 18 to 24 months from concept to commercialization. So we expect these investments to meaningfully contribute to revenue growth starting in fiscal year '29 and beyond.

We believe as we ramp up our R&D spending, we will be able to support two new Petrofilm SKU launches and up to five innovation projects simultaneously.

We look forward to providing additional details on our innovation strategy at our Investor Day this fall.

Now I want to highlight our ongoing efforts to drive operational efficiency, including the progress we are making on a Petri film manufacturing transition.

We're on track to manufacture sellable product and begin our planned multi-quarter manufacturing transition beginning in November of 2026.

We also anticipate having our first fully validated SKU in August, a major milestone demonstrating the capability our teams have built.

To date, we haven't encountered any major problems in the validation process.

This is a reflection of the rigor and quality of the planning and execution led by our operations and engineering teams.

We're making real progress in inventory management as we build our more integrated enterprise-wide supply chain. Since launching our first sales and operations planning process known as S&OP earlier this year, we're already seeing results.

This includes a reduction in actual inventory of more than 36 million year over year.

Despite our reduction in inventory levels, on time and full rate, which measures the percentage of time we fulfill an order completely and on time, has improved 40% since we initiated our S&OP process.

This metric is critical as we rebuild customer trust and look to drive share gain.

This progress is very encouraging.

And we're still focused on further opportunities to enhance efficiency, like strengthening vendor qualification processes, rationalizing our global logistics and supply footprint, executing on PPV savings initiatives, and reducing inventory waste.

Looking ahead to fiscal 2027, our teams are actively driving initiatives to improve profitability and reduce cost.

Key areas of focus include reducing inventory write-downs. Improving purchase price variance through more disciplined supply chain management, optimizing pricing and contracting strategies, and enhancing margins with our sample collection business. Together, we expect these initiatives to generate meaningful savings that help fund our ongoing investments in innovation and commercial growth.

We're also advancing technology and enterprise capability upgrades to improve efficiency and scalability.

Last quarter. We completed a comprehensive technology and systems assessment to identify key gaps.

Examples of this work include our AI-enabled John Gault demand planning software and our automation initiatives for key finance processes.

Based on this work, we plan to invest in transformation initiatives in fiscal year '27. We expect these investments to deliver highly attractive returns and significantly improve our long-term cost structure, exceeding the returns of our internal capital deployment opportunities.

These upgrades strengthen core capabilities across our commercial organization, supply chain and logistics, and corporate functions.

Over time, we believe they will enable us to scale the business efficiently, with limited incremental headcount. Driving improvements in revenue per FTE and overall margin profile.

Finally, experience tells us that the key enabler to success of any transformation is the commitment of the team and the strength of the culture.

And we are seeing meaningful progress.

As part of our efforts, we're hosting regular company-wide listening sessions and tracking our progress through frequent engagement surveys, encouragingly. The percentage of employees who believe our transformation is working increase meaningfully with double-digit improvements in metrics on communication, transparency, and leadership responsiveness.

We are committed to building on this momentum.

I am exceptionally proud of the progress our team has made and the foundation we're building.

As we move into fiscal year '27, we're entering the next phase of our transformation.

One where we expect to operate and execute at a meaningfully higher level. And now I'll turn the call over to Brian.

Unidentified_5

Thank you, Mike, and thanks to all of you participating in this call today. I'm pleased to provide an overview of our financial results and outlook for fiscal year '27.

We delivered fourth quarter revenue of $225.3 million, representing a 4.3% increase on a core basis, by far our highest growth rate of the fiscal year. As Mike noted, we saw accelerated core growth in our food safety segment, reaching the highest level since 2023, and a sequential improvement in our animal safety segment following the resolution of the majority of our supply headwinds.

At the segment level, our food safety business delivered $166.8 million in revenue for the quarter, representing 5.8% core growth. Performance was led by continued strength in our indicator testing and culture media products, which were up 9%, and strong growth in our bacteria and general sanitation products, which grew 10%. We're carrying a significant amount of operating momentum into fiscal year '27, and we believe the commercial changes being implemented will further strengthen our commercial execution. We've also been reassured by commentary from food producers on recent earnings calls who have noted improving industry volume trends. Based on our analysis of public companies, volume growth turned positive in the first calendar quarter of 2026. After being flat in the fourth quarter and down for most of calendar year 2025. Despite positive commentary, many of our customers are still facing inflationary cost pressures as a result of the Iran war. Consequently, while we welcome the positive news, we maintain a tempered view on the impact it will have on our near-term trends. The other macro drivers of our industry remain robust.

Calendar year 2025 was an eight-year peak in the number of food safety recalls and the volume of food recalled. We also saw broad food safety reform regulations in China in 2025 similar to the end-to-end system control implemented as part of the Food Safety Modernization Act, which became law in the U.S. in 2011.

Furthermore, food safety litigation and class action lawsuits have increased 50% over the last five years, increasing the cost of recalls and poor compliance. Our animal safety business saw a significant recovery in the fourth quarter and grew a half a percent on a core basis year over year. Total revenue increased 7% sequentially as we resolved the majority of our supply-related challenges.

From a macro perspective, we are seeing 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. Our competitors have seen strong production animal growth and USDA is anticipating modest improvements in US herd sizes in coming years based upon meat prices supporting investment from ranchers.

I am also proud of the work that our animal safety team has been doing to help address the New World screwworm outbreak. We have two new topical aerosol products that have received authorization for sale in Texas and we are also able to sell these products in Florida. We would note that the path of the outbreak is unclear and other recent outbreaks have had limited scope.

Consequently, from a product perspective, we anticipate a modest contribution in the first quarter of '27 and are closely monitoring the situation. From a regional perspective, US revenue was 49% of total sales in the quarter and our international revenue was 51%. As anticipated, the positive impact of currency slowed in the quarter following the strengthening of the dollar index.

We saw double-digit growth in our LATAM business unit and food safety growth in every global division in the quarter. Gross margin in the fourth quarter was 47.8% and adjusted gross margin was 49.7%, which improved 330 basis points year over year. We did see some impact in the quarter due to higher freight and material cost due to cost pressures we noted on the last call.

Additionally, sample collection margin losses narrowed to their lowest point of the year in the fourth quarter and showed strong sequential improvement. We continue to have plans in place to drive further efficiency and plan to roll out our new automation line in fiscal year 2028, which will lead to a step function improvement in sample collection margins. Adjusted operating expenses in the quarter increased by approximately. Million on a year-over-year basis. The biggest factor driving the increase was a $6 million impact on a year-over-year basis for bonus accrual due to the lower level of cash bonuses in fiscal year '25 driven by poor company performance. In the absence of these changes, operating expenses would have declined on a year-over-year basis.

We also saw the impact of higher salaries and benefits on a sequential basis due to recent executive hires and as we began investment for fiscal year '27. Adjusted EBITDA was $45.4 million in the quarter, representing a margin of 20.2% and growth of 12% year-over-year. Fourth quarter adjusted net income and adjusted earnings per share were $18.7 million and $0.09, respectively.

Importantly, cash flow from operations was over $30 million in the quarter, our highest level of the fiscal year and free cash flow was over $26 million. Cash flow benefited from improvements in working capital, but also due to the timing of interest payments on our debt. Turning to the balance sheet, we closed the quarter with approximately $794 million of gross debt and a total cash balance of $185.5 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. We took advantage of our growing cash balances to pay down $20 million of our term loan in late June. We're also evaluating treasury opportunities to free up global cash to lower our required cash balances to operate the business and support further debt repayment.

As previously stated, the closing of the divestiture of the Genomics Business Unit is subject to certain regulatory approvals and customary closing conditions. The only outstanding regulatory approvals are those from the Australian Competition Authority and the New Zealand Competition Authority.

Both agencies have moved their review of the transaction into the second phase and we continue to work with Zoetis towards closing on the timeline as previously announced, which is by the end of the first half of fiscal year '27. We intend to use the $140 million in net proceeds following transaction costs and taxes to also pay down debt and to invest in the business.

As previously stated, we believe this would put us on track to end the calendar year below 3 times net leverage and end fiscal year 2027 close to our target net leverage range of 2.5 times. Now I'd like to discuss our guidance for fiscal year '27.

We are guiding toward total fiscal year '27 revenue of $880 to $885 million and adjusted EBITDA of $180 to $182 million. Let me discuss some of the assumptions underlying this guidance. First, the guidance includes an assumption of approximately $92 million of revenue and $13 million in adjusted EBITDA from our genomics business.

This is in line with the financials for genomics from fiscal year 2026. We plan to update the full year guidance following the closing of the genomics transaction. From a growth perspective, the guidance implies core growth of approximately 3%. As a reminder, Q1 of fiscal year '26 revenue included approximately $6 million of revenue from our cleaners and disinfectants business.

Additionally, we are assuming a negative 1% impact from currency in fiscal year '27 based upon current rates. On an adjusted EBITDA basis, our guidance implies an adjusted EBITDA margin of 20.5% at the midpoint of our guidance range, implying slight margin expansion relative to fiscal year '26.

We intend to invest in our business in 2027 with R&D spending increasing 50% and targeted investments in our commercial infrastructure to support higher long-term growth. However, as implied by our guidance, despite these investments, we still believe we will be able to expand adjusted EBITDA margins by improvements in areas such as inventory write-downs, purchase price variants, our price. Pricing strategy and other operational efficiency programs. As Mike previously highlighted, we're also anticipating continued investment and transformation initiatives to improve our enterprise capabilities and deploy technology solutions and automation across the organization. The total amount anticipated for transformation initiatives is $25 million in fiscal year '27, compared to approximately $22 million in fiscal year '26, and. Consistent with fiscal year '26, we will exclude these costs from our adjusted financials in order to allow for better visibility to the underlying operating performance of the business. We believe these investments will have an exceptionally high ROIC and support improvements to our earnings and cash flow over time. Despite these investments, we anticipate that both our GAAP cash flow from operations and our free cash flow will increase meaningfully on a year-over-year basis.

In addition to our full year outlook, I'd like to provide additional guidance for our first quarter. We're guiding toward first quarter '27 revenue of $207 million to $209 million and adjusted EBITDA of approximately $37 million. In addition to typical business seasonality, Q1 '27 will reflect the impact of the incremental business investments we discussed earlier on the call, such as our global sales meeting.

We expect that both revenue growth and EBITDA margins will improve throughout the year as we leverage our incremental investments and execute on key sales and operational efficiency initiatives. We ended the year with significant business momentum. Our guidance reflects our philosophy of setting targets as we focus on restoring investor credibility. I'll now hand the call back to Mike for some final thoughts.

Unidentified_3

Thanks, Brian. Our ambition is clear to build a company that will lead the food safety industry, grow consistently above market, and deliver industry-leading profitability. Fiscal year '26 was all about stabilization and foundation building. In fiscal year 27, the focus will be on accelerating profitable growth as we become experts in the fundamentals at scale.

We expect the operational progress and investments we make this year to position Neogen for even stronger future growth. And with that, I'll now turn things over to the operator to begin the Q&A.

Unidentified_1

Thank you. We will now begin the question-and-answer session. Please limit yourself to one question and one follow-up. If you would like to ask a question, please press star one to raise your hand. To withdraw your question, press star one again. We ask that you pick up your handset when asking a question to allow for optimum sound quality. If you are muted locally, please remember to unmute your device. Your first question comes from the line of Subbu Nambi from Guggenheim. Subbu, you are online.

Unidentified_6

Hey, guys. Good morning. Thank you for taking my question. Congratulations on delivering a great quarter on food safety growth. I completely get your focus on growth, but I do want to touch on the EBITDA Guide. The EBITDA Guide X Genomics came in a bit below where the street was. Can you walk through the assumption for the underlying business apples to apples and why there may not be as much EBITDA expansion this year despite a stellar growth?

Unidentified_7

Yeah, thanks Subbu for the question. You're looking at the year over year number, but full year 27 versus full year 26. I think it's on a year over year basis, it's roughly flat. So slightly up on a year over year basis. And it's really driven by, as we highlighted earlier, some of the additional investments that we'll be making through the course of the year. We just will not see the type of more expansion in fiscal year '27.

Really sort of driven by some of the investments that we're making in the business. I think that would be, Mike, anything to add?

Unidentified_8

No, I mean, also with regards to our guide, I think that we just recall we finished 26 at 1.9% growth. We have a fairly new management team. Joe outlined all the work we're doing to enhance commercial organization.

It's important to note that our fiscal '27 guide is $30 million above street consensus, and most importantly, Brian and I, as we've discussed before, very much focused on rebuilding the credibility of Neogen and meeting and/or exceeding its commitments to investors.

Unidentified_2

And Subi, maybe just to clarify, I think you're the only analyst that didn't include genomics for the full year and your number for next year. All the other analysts did. And so when you look at the actual consensus, if you adjusted for that, it would increase it slightly, but we're still well above where consensus was for the year.

Unidentified_7

On an absolute dollar basis. And the other comment I would just make is that the numbers that we talked about, although we haven't really broken things out discretely in the past.

That the top-line and bottom line for genomics are roughly flat on a year-over-year basis, just in terms of how you might model that.

Unidentified_6

Thank you for clarifying all that. Super helpful. And, Mike, it's not lost on us that the company is now a very different company from a year ago, and the future looks very bright. As we look into 27 Guide.

As we look into 2017 guide, what is the split between core SS and food safety versus animal safety in the guide? And could you also walk us through the cadence of each relative to where you exited 4Q from a core growth perspective? Thank you so much.

Unidentified_7

Yeah, I mean, we haven't broken out food safety and animal safety, but I think the color that I would provide is that if you look at the.

Assumption for next year, we're guiding the core growth of about 3%. That includes when you get to the absolute number, there's about a 50 basis point headwind from the divestitures. So we had in Q1 of fiscal 26, we had the C&D business. We won't have that in the current year. And then there's about 100 basis points headwind from foreign exchange on a year-over-year basis. So those are the two things. That's the reconciliation. Between a core growth of 3% and a top-line guidance of about 1.5%. Is that what you were looking for?

Unidentified_6

Brian, so would it be fair to assume food safety roughly 3% and animal safety roughly 50 dips? Would that be far off from what you're assuming? And you're not providing a split, but just like a guidepost.

Unidentified_2

Yeah, we're not giving specific guidance for each of the segments. As we look to next year, as we talked about on the call, we are seeing an improving macro fundamental backdrop for the animal safety business. So I don't think it's necessarily safe to assume that the growth rates will be the same for next year. But we're not providing segment-specific guidance.

Unidentified_7

I think the only thing I would add is just that food safety grows faster than animal safety. So as you think about the average at 3% core growth, you'd have food safety above that. And animal safety below that.

Unidentified_6

Perfect. Thank you so much, Chris.

Unidentified_7

You're welcome.

Unidentified_1

Our next question comes from the line of David Westenberg with Piper Sandler. David, your line is open.

Unidentified_9

Hi. Thank you for taking the question. So, we had some of the tougher questions, so I don't want to take it away from the fact that you had a great quarter and doing a great job here.

Let's just maybe get into the Q1 EBITDA guide. Are you already starting some of the investments already into Q1? I'm just I did notice that the EBITDA guide for Q1 is a little bit below street. And, saying that, do you think net of these investments you really are seeing some of that good operating leverage? And again, we just kind of wanted to get kind of see where we're at from this place.

From a very clear standpoint and then kind of assess how much the new investments are kind of making the return. So anyway.

Unidentified_7

Thanks, Dave. I think the challenge with looking quarter to quarter, quite frankly, is just that the business moves around through the year. So when you look at Q1, it's a seasonally weaker quarter. If you look at it on a year-over-year basis, it's up 80 basis points as compared to the same fiscal quarter last year. We are starting some of the investments, but I don't know that. I would characterize that as what's impacting the sequential view of the EBITDA. It's more just the seasonality of the business. We are seeing real operating leverage, though, and improvement in the process.

Unidentified_9

Great. Thank you very much. And a lot of this might come at Investor Day, so sorry for getting ahead of it here. But as we think about the reorg and e-commerce and all some of that kind of stuff that you're doing here, do you see this as an opportunity to get ahead of competitors or do you think this is kind of maybe a catch up to where the kind of competitors are already at?

Unidentified_8

Yeah, Joe, you want to take that?

Unidentified_9

Yeah, so thanks for that question, David. When we think about how we're structuring ourselves, I would think about it more of just realigning resources where we believe we can deliver the greatest.

Unidentified_4

Return, while at the same time investing in some.

Back office infrastructure that allows us to expand our reach. So when we talk about things like e-commerce, ensuring that we just become a little more easy to do business with for our customers from a self-serve perspective, particularly as you get toward the greater number of smaller customers. So we feel like we're well positioned.

To carry our growth and accelerate throughout the future.

Unidentified_7

I would just add, I think there's some areas obviously where we have capability that should have been there. And so we've got some catch up, a little bit of catch up to do. But I would say that a lot of what we're talking about here is in the way we think about it is we're going to be the leader in this space. And so what are the investments and the capabilities that we need to have in place in order to really drive that and not concern ourselves. With where the competition is, but we set the market.

Unidentified_8

Well said, brian. I think the other two things as category leaders, which we're very much focused on and we discussed a lot as a team, there's two other areas where joe and team are definitely going to be focused on 27. I believe we brought this up before, but really a much bigger focus on strategic accounts.

So we talked about very much Neogen would look at strategic accounts at the plant level, at the local level. We're changing that completely. We're going more top to top now with a very clear list of those strategic accounts and partnerships. I think the second change in how we're thinking about the market is Neogen historically very much looked at product by product. And we believe that as the category leader with the greatest portfolio in food safety, we have the opportunity to deliver solutions to our customers, which means that we are switching our go-to-market from product to segment level. When you do that, you open up much bigger opportunities to solve your customer problems. So those are all things that we're also putting into place.

Unidentified_9

Got it. I'll stop there. I'm looking forward to asking more of these on the Investor Day in the fall, so thank you.

Unidentified_1

Our next question comes from the line of Bob Labick with CJS Securities.

Bob, your line is open.

Unidentified_10

Thanks. Good morning and congratulations on the quarter year and the outlook.

Unidentified_9

Thank you.

Unidentified_10

Great. So I wanted to start with TeaTreeFilm, obviously some exciting progress there with first SKU to be fully validated, I guess, by the end of next month, we're almost in August.

Could you talk a little bit more about the kind of P&L impact as we go through the product transfer, I guess higher DNA. Lower labor costs maybe, higher margins, I don't know. Give us a sense of the product transfer over the next, I guess it's over the next year, right? And how that's going to roll out, impact the P&L and what you're looking at to continue to be on track for that?

Unidentified_8

Yeah, thanks, Bob. And I'll just kind of speak to the thinking around the transition and then Brian can help discuss the financial impact.

I think as we said in our earnings statement, we're making very good progress against our plan.

We're very excited about the new the first SKU to be fully validated. That's one of the most complicated ones to actually manufacture. And i think it speaks to the.

The team and our capabilities, and we see it as a major de-risking event for this entire program, which I think is really important to call out.

If something like this, with this complexity and scale, naturally is going to require multi-quarter transition. So this is pretty much standard practice for large transfers like this. So we're looking at a lot of things as we make certain decisions. So you think about.

Product readiness, you talk about managing inventory levels, minimizing write-offs, coordinating with suppliers, ensuring uninterrupted supply, so all of those things happening across 17 SKUs.

Is quite complex, but we feel like we have a very solid plan in place as we start this transition.

So maybe as we do that, maybe Brian, you can shed some light on that.

Unidentified_7

Yeah, I think with respect to the margin profile, certainly as we go through the year, we'll expect to have.

Less duplicative cost overtime as we complete the transition. We've talked about 200 to 300 basis points of gross margin expansion as we fully ramp up the line.

I would expect that we would start to see that benefit.

Coming online in the following fiscal year. So probably because it'll take us through the course of the year to complete the transition, and then we would start to see the benefit as we optimize through FY28. And then beyond that, we would expect to see that significant margin contribution. That's kind of the way I would think about how it plays out over time.

Unidentified_10

Okay, super. Really exciting, and it's great to be.

Continue on track and getting close to the transfer itself. And then for my follow-up, Mike, did you say R&D, I mean, obviously increasing 50% or so this year, but like with a goal of 5% of sales, because I think you're at like two and change right now. So obviously that's a multi-year goal, but that's a significant increase. And maybe just kind of dig in on that a little bit more and the areas of focus?

Unidentified_8

Yeah, absolutely. So last year, we were around two, we're increasing 50%. In the beginning, when I joined this organization, I've been very open about the huge innovation opportunities that we have with this business.

And Neogen has not historically invested a lot in organic innovation and really driving some of these market-leading portfolios. And so we feel that we have significant opportunity when it comes to PetriFilm, pathogens, general sanitation, and in fact, a lot of our investments. We're making this year are really focused on building that early innovation discovery engine, so making sure that we get the funnel in place, working with customers, identifying the needs. We're also looking at digital and instrumentation, so digital connectivity data is becoming very important with traceability and what have you. And then the last one is to really accelerate.

Things around PetriFilm, for example, we're investing in molecular and microbiology resources. And just to go back to PetriFilm, I think I've shared before that one of the uncapped. Opportunities we have with our new manufacturing site in Lansing is that it is able to produce multiples of our current demand. And the opportunity we have in front of us is that historically Neogen has not been able to innovate on PetriFilm because it's been difficult to work with our supplier to get line time and all those types of things. This is very normal. And so last quarter, we leaned in and I shared that we went ahead and invested in a pilot line.

It's a small coder line that we're putting in our Oakdale facility. Accelerate innovation on PetriFilm. So that one is paid for, it's being installed. By the end of this year, we'll start to run product through it. And as the manufacturing side of Lansing stands up, the transition time, we're talking about a few months to take a product that's been validated on the pilot line to full scalability. And this is where we really believe that this investment, the pilot line and the investment that we're making this year enables us to launch two new PetriFilm SKUs per year and have at a minimum five in the hopper that we are working on. So this is just within PetriFilm, but you think about pathogens.

And other parts of our portfolio, there is a lot of opportunity there through either organic or licensing technologies. So we'll share a lot more with a bit more granularity on our thinking at our Investor Day. I don't want to give you all the things now because I want you to come and be excited to hear from us. So more to come on that.

But that's sort of the direction and the opportunity you have in front.

Unidentified_7

And maybe the only thing I would add, Mike, is just and maybe as a follow-up to Subbu's question earlier around the margins is just the fact that we can't wait to make these investments two years, three years from now if we want to see the benefit. So we're making the investment in R&D at the same time that we're working on initiatives to lower cost in other areas of the business. So there's a bit of a transition here where we're bringing forward some of these investments. Before we actually see the benefit from some of the operating efficiencies that we'll see in areas like finance and other areas where we can get more automated.

So that's probably a way to think about the margin impact. We're trying to manage it all at the same time that over time we think we have the opportunity to get to 30%. We just want to change the mix of where we spend dollars.

Unidentified_8

That's a very good add, Brian. I think the other thing to note is as we're thinking about innovation, we can't wait until we feel ready to do innovation. Because the innovation cycle on some of these products is 18 to 24 months, maybe some 36 if it's not instrument. So in order for us to really realize any new product introduction in let's say late 2029, we have to start now.

And given the balance of short-term and long-term, this is how we're thinking about and this is how we're allocating the investment.

Unidentified_10

Okay, that sounds great. That sounds exciting. Don't worry, I'm already excited, but I'll be even more excited for the Analyst Day. So thank you.

Unidentified_8

Okay, Bob, thanks.

Unidentified_1

We have reached the end of the Q&A session. I will now pass the call back to Scott Gleason for closing remarks.

Unidentified_2

Yeah, we want to thank everybody for joining us today. Please feel free to reach out with any questions, and that's the end of our call.

Unidentified_1

This concludes today's call.

Thank you for attending. You may now.