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Neogen Corp. (NEOG)

Q3 2025 Earnings Call

CORPORATE PARTICIPANTS

Bill Waelke

Vice President-Investor Relations & Treasury, Neogen Corp.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

David H. Naemura

Chief Financial Officer, Neogen Corp.

OTHER PARTICIPANTS

Brandon Vazquez

Analyst, William Blair & Co. LLC

Subbu Nambi

Analyst, Guggenheim Securities LLC (Research)

Thomas DeBourcy

Analyst, Nephron Research LLC

David Westenberg

Analyst, Piper Sandler & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Neogen Corporation Third Quarter Fiscal Year 2025 Earnings Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] This call is being recorded on Wednesday, April 9, 2025.

I would now like to turn the conference over to Bill Waelke, Head of Investor Relations. Please go ahead.

Bill Waelke

Vice President-Investor Relations & Treasury, Neogen Corp.

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

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

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

Thanks, Bill. Good morning, everyone, and welcome to the earnings call for the third quarter of our 2025 fiscal year. You may have seen the press release issued earlier today announcing that I will be stepping down as CEO. It's been an honor to lead Neogen and I'm incredibly proud of the team we've built and everything we've accomplished, including making a significant amount of progress on the complex integration of a transformational acquisition. I would like to extend my sincere gratitude to the team for all their hard work and sacrifice over the last several years and firmly believe these efforts have put the company in a stronger position. I will remain in my role while the board conducts a search for my successor, and I'm fully committed to ensuring a smooth transition for our customers and employees. With that behind us, let's move into some color on the quarter.

Over the course of the third quarter, we saw the broad development of uncertainty primarily related to the goals and policies of the US government, most notably deregulation, government spending cuts, tariffs and global trade. As we've all seen, the administration is aiming to reduce federal spending and has made cuts across a number of government agencies, including those relevant to Food Safety like the FDA and the USDA. While these cuts could possibly affect the speed with which outbreaks of foodborne illness can be addressed or possibly delay or eliminate certain research spending, we don't currently see them as having a significant effect on Food Safety testing. This is still a developing environment, but the leaning out of these agencies could result in more testing being pushed to the plants, which is where the ultimate responsibility lies for safe food production.

Food quality, which by extension includes Food Safety, appears to be a priority for the administration and we believe it has the potential to be a tailwind over time. The administration's position on tariffs and the actions announced last week have added to this uncertain environment. Despite almost half of our revenue being generated outside of the US, a significant portion of our manufacturing is based in the US.

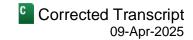
As it relates to our purchases, the situation is similar. Within our Food Safety business, approximately 75% of our direct purchase spend is in the US. In Animal Safety, the number is about two-thirds, with our needle and syringe products having initially been subjected to tariffs back in September of last year. While acknowledging the tariff landscape has been and could continue to be fluid, we believe that our domestic manufacturing footprint provides some level of insulation in this environment, particularly in our largest markets, the US. We have been exploring alternative sources for supply for certain items procured from outside the US and we'll continue to do so. Given our large domestic manufacturing footprint, we're closely monitoring responses from other countries and will consider those impacts as they become more clear.

With respect to the retaliatory tariffs announced by China last week, a small portion of our total revenue is generated there, roughly 2.5%, of that revenue, approximately 40%, is served by US manufacturing.

We believe that uncertainty increased as the quarter progressed and read through to our end markets, which contributed to our third quarter results being below our expectations. In the face of faltering consumer confidence, a lack of clarity with respect to global trade and concerns about the potential for recession, we saw both domestic and international distributors and customers being less willing to commit to inventory. This uncertainty was reflected in our proxy for global food production, which decelerated for the first time in six quarters.

Food Safety is typically a resilient end market that has historically been relatively insulated against periods of economic weakness. The unique combination of lingering inflation, which had been particularly acute in food and

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the current elevated macro uncertainty has resulted in an end market that's still growing, but we believe at a rate below normal levels.

Our performance in Food Safety has also impacted by the challenges we've discussed with our sample collection product line, which relocated from a former 3M facility to one of our own. It took longer than we had originally anticipated, but the relocated product lines are now producing at the prior levels. From this point forward, our immediate focus is on improving the production efficiency and catching up with our customers' demand. Outside of the specific challenges in sample collection, core revenue in our Food Safety business was up 7% in the quarter.

In our Animal Safety segment, we believe we continue to work through the cyclical trough of the market. Inventory levels in the distribution channel remain broadly stable, [ph] hence the deposit level (00:15:43) sales out of our products. Although it's a relatively small part of the business, we saw notable softness in China amidst the uncertain macro environment there, with many of our distributors being in a wait-and-see mode or in some cases opting for local supply. Outside of the declining Genomics, our Animal Safety core business was down just over 1% on a year-over-year basis.

For our Genomics business in total, third quarter core revenue was down mid-single-digits year-over-year. We believe the actions we took last quarter to focus and restructure this business were the right moves to make. We were focusing the business on our leading differentiated bovine product offering and have either stopped or wind down most of the rest of the business over the coming quarters. Although Genomics in total has been a headwind for the past seven quarters, our bovine business has performed better during this period, including many quarters of growth.

On the integration front, we continued to make progress in the quarter. With sample collection recovering to prior production levels, Petrifilm remains the last outstanding integration work stream. Construction of the new facility is complete, as is the installation of the first two Petrifilm production lines. The shipment of the second production line has landed in Lansing and is in the process of being staged and rigged for installation. And we remain on track for our goal of beginning initial test production in the fall of 2025.

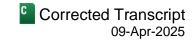
As we've mentioned on our prior earnings call, we're undertaking actions to accelerate the building of a more profitable, focused Neogen. We have made solid progress on this front with one potential portfolio action in the later stages and one that has started in marketing phase. These actions represent a step towards focusing our business on the highly attractive Food Safety end market and are expected to be accretive to margins, with net proceeds being prioritized for debt repayment.

Last week, we completed the refinancing of our Term Loan A, extending the maturity by close to three years and realizing 60 basis points of interest rate savings. Combined with the expected near-term debt repayment, this provides us with balance sheet flexibility as we continue to work to bring down our net leverage. In addition to future EBITDA growth, improving cash flow is a priority to contribute to the reduction of net leverage.

Some of the improvements in free cash flow is expected to come naturally as a result of integration CapEx reducing in fiscal year 2026 and then mostly tapering off in fiscal 2027. We expect to see additional improvement come from the significant opportunity we have to reduce working capital over time. We have seen some progress from our initial actions, but a larger opportunity remains mostly related to our inventory levels.

The evolution of our leadership team has continued with a number of changes recently made. We have a new Head of R&D. We have a new Head of our North America Commercial Organization and a new Commercial Head

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for North American Food Safety in place, as well as a new Chief Human Resources Officer who started this week. We continue to make good progress on the search for a Chief Commercial Officer, and we expect to fill the role in the first quarter of fiscal 2026.

The standing up of our own Petrifilm production is progressing well, but we nonetheless want to ensure that we are de-risking as much as possible. To that end, we have made additions to the operating team to enhance key areas of expertise and also expanded the existing project governance.

As it relates to our outlook for the full year, the current environment is very dynamic. With respect to the macro environment, it is not yet clear what the ultimate impact and duration might be from a rising level of uncertainty. We are updating our full year view based on the information we have today to reflect the third quarter being below our expectations and a fourth quarter that will likely not be as strong as we had previously anticipated, given the softening market backdrop and the uncertain impact of tariffs. We also plan to take further actions to ensure the cost base is more aligned with the current level of revenue and the macro environment, the full impact of which will be reflected in fiscal 2026. The sample collection production delays have improved. We have targeted commercial plans that we expect will return that product line to more normal revenue levels over the coming quarters.

In Genomics, we restructured a portion of the business in the second quarter and we'll continue to focus on a differentiated offering for the more attractive bovine market. We are taking actions to control what we can control to navigate the current situation and to de-risk the final piece of the 3M integration.

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

David H. Naemura

Chief Financial Officer, Neogen Corp.

Thank you, John, and welcome to everyone on the call today. Jumping into the results, our third quarter revenues were \$221 million. Core revenue growth, which excludes the impact of foreign currency, acquisitions and discontinued product lines, came in at 20 basis points for the quarter, while foreign currency was a headwind of 310 basis points compared to the prior year.

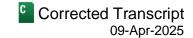
At the segment level, revenues in our Food Safety segment were \$153 million in the quarter, down 3.2% compared to the prior year, with core revenue growth of 1.5% offset by the negative impact of FX. The core growth was led by our biosecurity products and the bacterial and general sanitation product category, which benefited from strong growth in pathogen detection products.

In the indicator testing, culture media and other product category, solid growth in our food quality and Petrifilm product lines was partially offset by decline in sample collection as we continue the process of ramping up the relocated production in our facility. Excluding the headwinds of sample collection, core revenue in the Food Safety segment grew 7%, which we believe reflects a solid underlying business.

Quarterly revenues in the Animal Safety segment were \$68 million, which includes a core revenue decline of 2.6% compared to the prior year quarter. Within our animal care and other product category, solid growth was driven primarily by small animal supplements, with an increase in private label business. This growth was offset mainly by lower sales of vet instruments and disposables.



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Our global Genomics revenue was down mid-single-digits on a core basis. Core revenue growth in our differentiated bovine business was offset by declines in other areas and consistent with the focused restructuring we executed in Q2 of this year.

From a regional perspective, core revenue growth in the third quarter was mixed. Growth was again led by Latin America, which saw double-digit growth and a strong performance across most key product categories. Asia Pacific core revenue was up mid-single-digits on a year-over-year basis, with solid growth in Petrifilm and pathogen detection, partially offset by decline in sample collection.

Our business in Europe was down mid-single-digits on a core basis, with growth in cleaners and disinfectants and food quality and nutritional analysis offset by declines in Genomics, general sanitation and sample collection as well as Petrifilm, which came down after strong growth in Q2.

In our US and Canada region, which has experienced the largest carryover impact from last year's shipping delays, core revenue was also down mid-single-digits compared to the prior year period. Solid growth in food quality and nutritional analysis was offset by declines in most other Food Safety product categories, including a larger impact in sample collection. In the Animal Safety segment, solid growth in the biosecurity and animal care products categories was offset by declines in Genomics and vet instruments.

Gross margin in the third quarter was 49.9%, representing a decrease of 120 basis points from 51.1% in the same quarter a year ago. Excluding integration and restructuring costs, as well as the reclassification of certain expenses in the prior year period gross margin, Q3 was down 30 basis points year-over -year, primarily due to lower revenues.

Adjusted EBITDA was \$49 million in the third quarter, representing a margin of 22%, roughly flat from Q2 on lower revenue. On a year-over-year basis, the decline in adjusted EBITDA margin was driven primarily by the lower revenue level.

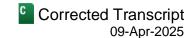
Third quarter adjusted net income and adjusted earnings per share were \$21 million and \$0.10, respectively, compared to \$26 million and \$0.12 in the prior year quarter, due primarily to the lower adjusted EBITDA and a nominally higher effective tax rate.

We ended the quarter with gross debt of \$900 million, 61% of which is at a fixed rate and a total cash position of \$128 million. Free cash flow in Q3 was an outflow of approximately \$14 million, representing an improvement of \$49 million compared to Q3 of fiscal year 2024.

Net working capital was a \$10 million source of cash in the quarter, reflecting some progress on our multi-year improvement journey. Capital expenditures in the quarter were elevated, driven in part by some acceleration of spending related to our new Petrifilm plant and production equipment.

As John mentioned earlier, last week, we completed the refinancing of the \$550 million remaining on our Term Loan A. We issued a new \$450 million Term Loan A with an upsized \$250 million revolving facility on which we've drawn \$100 million and obviously utilized those funds as part of the payoff of a previous \$550 million term loan. Further, this draw on the facility, which allows us to currently maintain the same \$150 million of available liquidity should be taken as indicative of a portion of our near-term expectations for the portfolio actions we've discussed. In addition to extending the maturity of our term loan by over two-and-a-half years, we were able to realize 60 basis points of interest rate savings.

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Moving to our outlook, the market environment softened as the third quarter progressed, and we believe the macroeconomic uncertainty has led to somewhat of a pause taken by many customers and channel partners. In addition to the uncertain trade environment, grocery inflation, in particular, has persisted and continues to affect the consumer, contributing to the move backwards that we saw in our proxy for global food production.

In Animal Safety, we see healthy channel inventory levels and positive sales out of the channel, but saw a slowdown of sales into some of our larger distributors. We expect these impacts that we saw in Q3 will continue through Q4, when we will also begin to see the impact of tariffs.

We are, therefore, updating our revenue outlook for the year to approximately \$895 million. We are accordingly also updating our outlook for adjusted EBITDA to approximately \$195 million. With a lower adjusted EBITDA and some acceleration of CapEx, which we now expect to be approximately \$100 million, our current view of free cash flow for the year is an outflow of approximately \$20 million. We would emphasize that the end market conditions are about as dynamic as we have seen, and we will focus on what is within our control, which includes the near-term actions John has highlighted.

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

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

Thanks, Dave. We view this as a critical period in Neogen's transformation and are focused entirely on improved execution. During this environment of rising macro uncertainty, this means taking decisive action to influence those things that we are within our control. In addition to FX, there have been two primary things weighing on our results over the last few quarters, Genomics and sample collection, and there are clear plans in place to address both. In the third quarter specifically, these areas were a headwind of over 400 basis points to our consolidated core revenue growth.

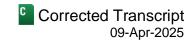
Through strategic alignment and substantial cost reductions, we're addressing our Genomics business, which has been a meaningful headwind for the better part of two years. For sample collection, we expect it will take a couple of quarters for the revenue to return to its prior run rate, but production has been restored to prior levels and is now undergoing intense operational scrutiny to ensure the efficiency is improved as quickly as possible.

As we've discussed, this leaves Petrifilm as the final integration work stream which continues to progress well. The establishment of our own Petrifilm production will be a more gradual transition than the other key integration work streams were, which have either been a lift and shift of production or a cutover from the 3M systems to our own.

Once test production and the performance of the equipment have been validated, a process we still expect will begin in the fall of this year, we'll start to ramp up our own production on a SKU-by-SKU basis. The Petrifilm product line consists of a total of 17 SKUs. Once we have a SKU fully validated and running on our own equipment, we will turn off production of that SKU at our transition manufacturing partner.

We plan to move through the entire product line that way very gradually one SKU at a time. This will result in some temporary duplicate manufacturing costs to begin to increase in fiscal 2026, which we will dimensionalize to provide for an orderly transition of Petrifilm production.

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Key members in the Petrifilm manufacturing engineering team who have done this before are part of the Neogen team, and we currently have employees undergoing advanced training in manufacturing testing in a current Petrifilm facility.

We feel good about where things stand today and we will continue to take all actions available to us to make this as seamless a transition as possible. We also have taken and will continue to take actions to maintain balance sheet flexibility. The refinancing of our term loan extended the maturity by close to three years and net proceeds we may realize from the portfolio actions we've discussed will be prioritized for debt paydown. Along with the reduced integration CapEx and the resulting improvement in free cash flow, we expect our balance sheet to continue to improve moving forward.

Following the completion of the 3M Food Safety transaction, we added substantial amount of cost to the business to both catch up legacy Neogen capabilities and accommodate the increased size of the business. For a number of reasons, including FX and market weakness and integration challenges, revenue is currently below the levels that were contemplated when these costs were being added. We took actions in the second quarter to address a portion of these costs, mainly in Genomics business. As mentioned, we will be taking additional actions in this area in Q4.

We've continued to make enhancements to the team to address key areas of the business that we believe put us in the best position to generate demand and capitalize on the opportunities we have in front of us. Two of these enhancements are in the customer-facing leadership roles in our largest region of North America, where we placed a particular emphasis on demand generation through targeted commercial initiatives. We expect these changes in combination, with the Chief Commercial Officer role that should be filled in Q1, to provide us with momentum in the market as we leverage our full portfolio of solutions.

It's too early to determine if customer conservatism for macro headwinds will be temporary or more sustained. We're staying attuned to the market and we'll provide additional perspective in the future on the expected duration as the trade landscape continues to change. However, we have a leading franchise in critical diagnostic solutions for Food Safety, which, while not immune to macro uncertainty, is an end market where we would expect to generally be resilient as it has been in the past during periods of turbulence.

We remain optimistic about the future trajectory of the business and believe the changes we're making will allow us not only to manage through the current uncertainty, but also position us to deliver on the long-term growth opportunity in front of us.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Your first question comes from Brandon Vazquez with William Blair. Your line is now open.

Brandon Vazquez

Analyst, William Blair & Co. LLC

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Hey. Good morning, everyone. Thanks for taking the question. First, I just wanted to talk a little bit about the guide and talk a little bit about macro and moving pieces there. So, can we just start by talking a little bit about how much of the lower guide is coming from macro specifically at this point? It sounds like, and correct me if I'm wrong, it's less of execution on maybe sample handling or any of those other integration. This is primarily a macro headwind. So, talk to us, one, about how much of it is macro and, two, a little bit more of like what volumes are you seeing in Food Safety even as macro worsens?

I think, in the past, we've always talked about this market as being kind of resilient but not immune. So, are there any numbers you can put on that to help us understand, is this a market that even if things get bad can stay positive growth, or is it something that should start to decline with Food Safety? So – sorry, a couple questions there, just all around macro guidance and what you guys are seeing?

David H. Naemura

Chief Financial Officer, Neogen Corp.



Yeah. Thanks, Brandon. Let me go first. This is Dave. And then I'll pass it to John. What we saw during the quarter, as we noted, was some broader softening as the quarter progressed. [ph] Hesitancy (00:34:07), I think, driven by some of the macro uncertainty, and we're assuming that that condition continues into the second – through the second half into the fourth quarter.

So, if we look at Q3, we probably came in about \$6 million below where we thought at the time. I'd say, a good \$4 million of that was clearly just uncertainty, \$2 million of that alone was China, and \$1 million of Genomics, which is timing of ramp down from some of the business we're getting away from, and then maybe roughly a \$1 million lighter in sample handling. Although we exited at the rates we had anticipated, I think the shape of the ramp through the quarter ended up being a little light, but predominantly macro.

Look, then as the global trade situation has developed, that'll have that – it dramatically heightens the uncertainty in my opinion, particularly on the Animal Safety side for us. And that's where we have the most exposure to some of the existing tariff activity that will obviously have some commercial efforts to offset. But the ability to do that, there'll be some level of uncertainty given the magnitude of the actions.

As far as the environment, let me turn it over to John to talk a little bit about we saw more specifically.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.



Yeah. Thanks, Dave. So, Brandon, like we have talked about in the past, we had – we follow a basket of companies and we had seen six quarters of kind of sequential improvement. And that really – for the ones that are closer to our reporting cycle, that reversed, where instead of seeing sequential improvement, we saw a 300 basis point to 400 basis point decline on a quarterly basis [ph] from – for their (00:35:47) report.

So, we did see the softening in the market. But like we talked about, even with that, excluding the sample handling, the Food Safety business in the US grew 7% for the quarter. And I will tell you, that disappointed me. Like, my expectation was double-digit growth. But when the market started to soften at the end of the quarter, I think that that's what really pulled it down. So, while you think about the underlining firmness of the business, I think there is the underlining firmness. I still think the market is growing, right? And I think there's – it just isn't as growing as robustly as it traditionally. Dave, you have anything else that you want to add with that.

David H. Naemura

Chief Financial Officer, Neogen Corp.

Yeah. Just specifically, Brandon, we've talked to you before about our production proxy that we track. That had been coming – it was frankly coming towards even after the six quarters of improvement, eight quarters of negative numbers, it was approaching kind of par, and it moved backwards 70 basis points to 80 basis points in total across the 15 companies that we track.

We have a couple folks that we watch that share a year end with us, and that's where we saw more recent reporting that would show that getting worse and kind of [ph] 300-ish (00:37:04) basis point type moves to the negative. So, we think it's consistent with what we saw in the marketplace. And again, I think it's worth emphasizing, sample collection aside, 7% as a core growth for our Food Safety business, felt pretty good, albeit on an easier compare. So, still growing consistent with what you said, a rather durable end market, but not growing at the rates we've seen historically.

Brandon Vazquez

Analyst, William Blair & Co. LLC

Okay. And following up, switching a little bit to tariff headwinds, one, kind of a clarification and, two, just an operational question. But when you guys talk about tariff headwinds, just to be clear, are we talking mostly here that the tariff headwinds is going to be from margins because, obviously, your COGS will go up? Or is part of the tariff headwind here that you guys are expecting you're going to lose some sales, because your products are going to become more expensive and you could potentially lose some share through that?

And then the follow-up kind of on the operational side of tariffs is, what can you do – I think in the past – it's been a while since we've discussed this, but in the past, we discussed that this is actually a very sticky business and that you probably have some ability to push price. You maybe also have some operational efficiencies you can do to offset some tariff headwinds. So, what can you do over the coming months if these tariffs actually stay a little sticky to kind of offset some of these headwinds?

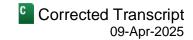
John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

Yeah. Brandon, I'll start and then I'll turn it over to Dave. I mean, the analysis we're doing is a market-by-market analysis, right? And it really depends. For example, China is a different dynamic, right, than kind of the rest of the world and some of the other markets. And when we look at it, yes, China, for example, we – and the products we sell to China, 40% on the Animal Safety side come from the US, the rest is not. So, we look at how do we mitigate those because we have manufacturing in Europe. So, our European product is going in there and it's not affected.

So, it's really market-by-market and it is extremely dynamic. I mean, since yesterday, it's gone up, what, 100%, 50%, I mean, it's – things were moving very quickly on. So, understanding that and then as anything coming out of China on the buy/sell nature is having an impact. We have to recognize, China is about 2.5% of the total

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business. So, while, yes, that is a very dynamic, it's a smaller piece. It is not the kind of this tariff market overall. And I know Dave's got better specifics, but I just want – I think the key is that it is a market-by-market analysis.

David H. Naemura

Chief Financial Officer, Neogen Corp.

Yeah. I think that's right. And Brandon, just to frame it up for you a little bit, I think thinking about this in two buckets. So, tariff impacts around US imports, based on what we know today as current as with what was enacted yesterday, just from the analysis without any mitigating actions, and you just took kind of a last 12 months' run rate and straight up applying tariffs to that based on country of origin, you'd probably be around \$30 million, close to it, \$29 million. And of that, two-thirds of it roughly would be China. We import a lot from China and this is predominantly Animal Safety. And so we have to look at that [ph] buy/resell (00:40:37) business and how that will be impacted.

You asked a very specific question, how much of it will be just impact to the bottom line versus impact to volume? And I think there'll be some of each. And so, again, it's very dynamic, but we'll see what happens in the coming weeks, but that's what we're preparing for.

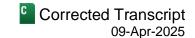
And to John's point, China is about 2.5 points, roughly \$24 million, \$25 million of sales in. About 40% of that comes from the US, roughly \$10 million. And again, we have to look at that dynamic and our ability to compete locally. And so, we did see more headwind there in the third quarter.

So, we think net-net, it's a headwind, some impact to the top line. And it's the uncertainty that we called out. I mean, we've updated the guide. We've got seven weeks left. We've seen March. March has been consistent with, I think, what we saw coming through the third quarter, but uncertainty continues to creep up. So, we're monitoring it closely.

And just to point out, again, the tariff impact would be before we're able to mitigate anything with price and, obviously, there will be some of that. And we've had some products that have - this is the incremental amount. We've had some products in the needles and syringes space, again, Animal Safety, that has been tariffed since last September. And we were able to pass a decent amount of that through. And then we also have to look at the competition and we're looking at that. And some people aren't that disadvantaged where - in some of our larger markets where we're advantaged, but some people – it is a headwind for some others. So, we'll look to play offense where it's applicable as well. I hope that helps.

Brandon Vazquez Analyst, William Blair & Co. LLC	Q
Yeah. Okay. Thanks, guys. I'll let someone else hop in.	
John E. Adent President, Chief Executive Officer & Director, Neogen Corp.	A
Thanks, Brandon.	
Operator: Your next question comes from Subbu Nambi with Guggenheim. Your line is now	v open.
Subbu Nambi Analyst Guddenheim Securities LLC (Research)	Q

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Hey, guys. Thank you for taking my question. I kind of want to ask a similar question to Brandon, and I'm now more confused by all the answers that you gave. Maybe I'm missing something. But it seems like you're largely insulated on tariffs, maybe a little bit on China, but otherwise largely insulated, even insulated on policy. Sample production is done. Petrifilm is on track. So, that leaves us with all the guide cuts related to either less than expected growth for, so Food Safety and softer Animal business. Is that the right conclusion?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

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Yeah. Subbu, I think, you're really close, right? Like, we talked about. So, while we had 7% growth – core growth in the quarter, our expectation was to be better than that. And what happened is we saw the Food Safety market soften a bit at the end of the quarter and like we had just talked about, right? The other thing that we saw was we are in the trough for the Animal Safety. So, the Animal Safety is in the trough. With that, it has not been a growing market.

So, I think you're right on with that is that those are the two things that impacted. This was not – we improved our – we hit the goal we wanted on sample handling with production of reaching the 3M rates. Now, again, we have to exceed that. We're working hard to drive those volumes up, because we have to – being at those rates does not help us knock out the back orders. So, we have to execute in the fourth to continue to grow to – to start chewing into some of the back order piece. But I think the big takeaway was kind of with this uncertainty too is this softening that we see within the baskets of our customers that were coming in really later in the quarter. And while I'm happy with the 7% growth, I wanted better.

Subbu Nambi

Analyst, Guggenheim Securities LLC (Research)

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Okay. I just wanted to make sure that I was understanding it right. Thank you for that. The distributors who were less willing to commit to inventory, were they largely concentrated in the US or was it all over global?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

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Yeah. So, our distribution is – we use multichannel distribution around the world. So, when we talk about distributors unwilling, it really is thinking about it across the worldwide basis, right? And with uncertainty, especially around tariffs and others, nobody wants to get hung with high tariff inventory or other things. So, we just saw that it was an environment where inventories weren't reduced, but it wasn't an aggressive where anybody was going to really step up and we saw – we didn't see a lot of movement from the distributors. However, normally, at this time of year heading into spring, you expect to see a little bit better uptake on distributor inventories.

Subbu Nambi

Analyst, Guggenheim Securities LLC (Research)

Okay Bacause some of your coll

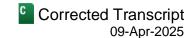
Okay. Because some of your colleagues have called out pull forward because of all the tariff dynamics, but maybe you didn't see that. My last question is, halfway through the year, we're looking at a ramp for a couple of different catalysts, which would fall in place [ph] for near June (00:45:54) to turn the corner. With one quarter left, what is the mission-critical objective here that will deem the year a success for you guys?

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

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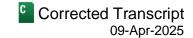
Yeah. I think it's – I don't know if it's one. I mean, we talked about this. We have plans on the specific things we need to do around the business and it's driving to those critical areas, Petrifilm manufacturing, right? We continue to talk about de-risking the Petrifilm manufacturing, the things we're doing around that. We continue to execute on that plan. We are on track to begin test production in the fall of this year, which puts us – gives us two years to move away from our contract manufacturing business. We know we're going to do it significantly faster than that two-year period.

So, being on track with that, sample handling, we have to that was a \$25 million headwind for the year. We have to be able to continue to grow the manufacturing output to eat into the back order to allow us to continue to make that a growth driver for the company, and that will tremendously improve the growth rates for the organization as we're going forward.

The other thing is, we contemplated being at a certain revenue level. And with us not being at that certain revenue level, then we are looking at how are we going to make sure that the cost structure fits the new revenue level. And we're being very active and aggressive looking at what is the exit run rate for the quarters to make sure that we're aligning the business from a cost perspective that fits that revenue drive. I know Dave's got a couple of thoughts on this, too.

David H. Naemura Chief Financial Officer, Neogen Corp.	A
Yeah. The one I would add, John, is around portfolio as well. I think we've advanced efforts there. I would anticipate a certain environment aside, a anticipate being able to come back, and I think that's an important dema we're looking to make solid progress on, Subbu.	ssuming things happens with – as we
Subbu Nambi Analyst, Guggenheim Securities LLC (Research)	Q
Thank you for that, guys.	
John E. Adent President, Chief Executive Officer & Director, Neogen Corp.	A
Thank you.	
Operator: Your next question comes from Thomas DeBourcy with Nep	hron Research. Your line is now open.
Thomas DeBourcy Analyst, Nephron Research LLC	Q
Hi, guys.	
John E. Adent President, Chief Executive Officer & Director, Neogen Corp.	A
Hey, Tom.	
Thomas DeBourcy Analyst. Nephron Research LLC	Q

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Just a couple – hi, guys. Thank you. So, just one question, I guess maybe first on Animal Safety. So, I know you don't break out US versus OUS Animal Safety, but, I guess, USDA estimates, I guess, have protein same as last year, I guess, expecting roughly 1% growth. And so I guess I'm a little confused, your comments in terms of, A, I guess the weakness and sort of being in line with the market, or it seems like you're growing below market in Animal Safety?

David H. Naemura

Chief Financial Officer, Neogen Corp.

A

Well, Tom, one point is, as we look at particularly in the US, our large distributors, I think our sales out of those channels remains positive in the low-single-digits. So, I think, we continue to kind of bounce along the trough. The timing at which large distributors take inventory varies dramatically. You may or may not recall, a year-and-a-half ago, we were talking about the rebalancing of the inventories into those distributors. And today, now we've been operating in a situation where I think inventories have come into balance. So, I think it jives okay.

Thomas DeBourcy

Analyst, Nephron Research LLC

Okay. And then I guess just one other question on the, I guess, global Genomics business. So, we're kind of in the finishing the second year of a reset of the Genomics business. So, is there a kind of annual run rate that we should think about in maybe the \$80 million, \$85 million range that, I guess, sort of would represent, I guess, the go-forward business, given that, I guess, we've had kind of incremental decline?

David H. Naemura



Chief Financial Officer, Neogen Corp.

Yeah. Tom, I don't have the exact numbers in front of me, but let me try to dimensionalize that for you. I'd say we globally entered the year with roughly a \$90-ish million dollar global genomics business that included serving a lot of end markets. Within that, our more differentiated bovine business that's, [ph] call it, in the 50s (00:50:38). That's really the business that we're trying our restructuring is aimed at focusing around. And I would say that even though Genomics was down mid-single-digits this last quarter and for this year, we've seen growth in bovine. Bovine grew low-single-digits here in this last quarter and is a pretty strong global business for us.

So, as we work through some of the back office companion work and some of the other kind of protein categories and specialty categories that we're kind of moving away from over time, we would get down to that bovine business in that kind of 50s range, if that helps.

Thomas DeBourcy
Analyst, Nephron Research LLC

Okay. Yeah. Great. Thank you. That was it for me. Appreciate it.

John E. Adent
President, Chief Executive Officer & Director, Neogen Corp.

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Thanks, Tom.

Operator: Your next question comes from David Westenberg with Piper Sandler. Your line is now open.

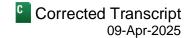
Operator. Four flext question comes from David Westerberg with Filper Sandier. Four fille is now oper

David Westenberg

Analyst, Piper Sandler & Co.

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Hi. Thank you for taking the question. So, on the destocking commentary, can you just maybe talk about the size, timing and kind of quantification of that if you possibly can? I know you said it's global. And the reason why I'm getting – trying to get a hold of that is essentially that should see a bounce back. I mean, when people have like an understanding of the tariffs, maybe even wanting to like buy ahead of new tariffs, that kind of thing. So, the quantification of that would probably help us understand if there is going to be potentially a snapback that we could see in the future.

David H. Naemura

Chief Financial Officer, Neogen Corp.

A

Yeah. David, I don't think we characterize it as destocking. I think what we saw was people hesitancy to take inventory, so a little bit of a pause, which I think is different than a longer term destocking cycle. I think in the quarter, I said we were probably came in about \$6 million below where we thought we would, \$1 million of Genomics, \$1 million of the timing of the ramp of sample collection and about \$4 million other. I think, in total the \$6 million was included both Food Safety and Animal Safety, maybe a little biased towards Animal Safety. But of the \$4 million that was kind of broader, \$2 million of that was China. And I think that is just a unique dynamic. When you spread the rest around the world, I think it felt more like just not seeing the uptake and kind of the uncertainty reading through. So, I don't – and we'll see how the fourth develops, but I think it feels to us uncertainty potentially increasing here with the additional tariff actions from when we ended the quarter to where we're at today. So, I – does that help?

David Westenberg

Analyst, Piper Sandler & Co.

Q

Yeah. No, no problem. And just in terms of like the tariff impacts, I mean, obviously, this is probably something going on in April and May. And when you contemplated the guidance for the year, I mean, how do you – how did you quantify the unquantifiable, which – I know it's a really challenging question, but just – anyway, I'll stop there.

David H. Naemura

Chief Financial Officer, Neogen Corp.

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Yeah.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

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Yeah.

David H. Naemura

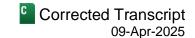
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Chief Financial Officer, Neogen Corp.

Look, I think we weren't – our timing here today is rough because the events of the last 24 hours and 48 hours have been pretty dramatic, but I think that's why you heard us emphasize the uncertainty. We didn't give you a range we kind of set about, because I think we recognize that there's a level of uncertainty that we can't quantify. Having said that, we've got March under our belts. That felt a lot like how we kind of felt coming through February.

So, what we tried – kind of what we've assumed is an environment reasonably consistent with probably some incremental headwind to EBITDA at minimum from tariffs. And maybe that's kind of roughly \$5 million in there, which if you take kind of that \$30 million exposure that I talked about and kind of broke it down by weeks, that probably comes pretty close. But I think you're making a very good point, which is the level of uncertainty heightened. Look, even with that, we felt it was important to update our guide even given that as opposed to [ph]

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not (00:54:50) with seven weeks left, but I think your point is a good one and we would like to – we agree with it. It's very difficult at this stage.

David Westenberg Analyst, Piper Sandler & Co. Yeah. I guess, and again, I'm sorry to hammer on to this point. But like, right now, I mean, it's like — and you're right, you have unfortunate timing. I mean, this is really happening in April and you have, what, eight days of visibility since Liberation Day to kind of understand what the impacts are in the business. I mean, I don't really know if I guess I'm belaboring the point here. But the different buckets, the USDA, the FDA, the increase — decreases in spend you're expected to see, but you have not necessarily seen yet. I don't know if you could

visibility since Liberation Day to kind of understand what the impacts are in the business. I mean, I don't really know if I guess I'm belaboring the point here. But the different buckets, the USDA, the FDA, the increase — decreases in spend you're expected to see, but you have not necessarily seen yet. I don't know if you could quantify that. And then I don't know if you could quantify some of the, like what you're saying in terms of deregulation. And I guess you've already kind of said the tariff impacts was \$5 million-ish. But again, I know like you can't — I know the timing is hard, but for us, like we want to understand this guidance and kind of like what's happening in this — until that April — August close, like what all went in it? And I know it's extremely hard for you. So, I'm sorry to ask that question, but...

John E. Adent	Λ
we're trying to get to it.	
David Westenberg Analyst, Piper Sandler & Co.	C
That's all right.	
John E. Adent President, Chief Executive Officer & Director, Neogen Corp.	A

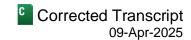
Oh, David, so, look – totally understand, makes sense. Look, what we were pointing out on the FDA and the USDA was while they are leaning out those agencies, it is – everyone remembers, they're not – not all manufacturing facilities have [ph] FDA inspectors in (00:56:36), actually most do not. And so, we feel this will continue to push food safety testing to the plant where it should be done, right, because that's what food safety is.

So, while the inspection services may have less inspectors, what I was trying to portray was that it is not the inspectors that are doing the tests, it is the companies that are doing the tests. So, I was trying to portray that there is a overall firmness there, even though there may be a leaning out of those sorts of agencies.

David Westenberg Analyst, Piper Sandler & Co.	Q
Got it. Okay.	
John E. Adent President, Chief Executive Officer & Director, Neogen Corp.	A
Right?	
David Westenberg Analyst, Piper Sandler & Co.	Q
Yeah.	

President, Chief Executive Officer & Director, Neogen Corp.

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John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

The other thing regarding the – some of things we're doing around cost is, as Dave talked about, we did already in the Genomics business execute on a – in the second and third quarter, a pretty significant restructuring of that – [ph] I don't mean restructuring (00:57:26), but realigning that business and doing it also on the cost side, right? So, we have that under our belt. And then we continue to look at where we are overall as a company to say are the costs aligned? And I think, look, I think that's where if you go and you look at the quarter, the EBITDA percentage hung in there at a much lower volume level, which, if you look traditionally at Neogen, would be very, very challenging for us pre kind of where we are at this stage of the company.

David Westenberg

Analyst, Piper Sandler & Co.

Got you. I'll take the rest offline, because I mean, I feel like I'm hitting the same like guidance and like for the next like five months kind of comments. Anyway, good. Thank you. You've been great.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

Yeah. Thanks, David.

Operator: Your next question comes from Brandon Vazquez with William Blair. Your line is now open.

Brandon Vazquez

Analyst, William Blair & Co. LLC

Hey. Thanks for the follow-up question. Just one real quick. So, now that we're in a public setting, I think, Dave, as we start to look towards fiscal 2026, I'll be the guy to ask it. I appreciate we're not going to get any numbers here. But just in a public setting here, anything that we should be keeping in mind, puts and takes just for the model as we start to update our forward year numbers as well? Thanks, guys.

David H. Naemura

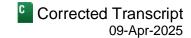
Chief Financial Officer, Neogen Corp.

Yeah. Look, I think the actions that we laid out that John's highlighted will all have implications to that. I think we're looking at some cost actions here that we hope to impact the exit rate with. We've added costs over a period of time and I think we're operating at a level that we recognize is below what was anticipated even a year ago. And as a result, we need to readdress some of those costs.

Portfolio, obviously, will have an impact both to kind of incrementals moving forward as we begin to refine our end market exposures as a result of those actions. And then, we talked earlier about how hard it is to call the next seven weeks. So, with that caveat, Brandon, progress on key integration items and seeing the focus areas around sample handling and those things come back will be kind of the big levers. As you know, the financial model here and the model – you guys have modeled is significantly revenue-driven and that'll be a big part of our focus. So, more to come and we look forward to providing some guidance there.

The other thing that John noted in his comments was we'll dimensionalize some costs that will be duplicative costs as we stand up the new Petrifilm facility, and those will be driven by the timeline as we get into that. So, more to come on that, but look forward to having a broader conversation around that this summer.

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Operator: [Operator Instructions] There are no further questions at this time. I will now turn the call over to John for closing remarks.

John E. Adent

President, Chief Executive Officer & Director, Neogen Corp.

All right. Thank you. Thank you, everybody, for being here with us today. And we look forward to talking to you again in July.

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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