

NEOGEN CORP
Form 10-Q
January 08, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 30, 2015.

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-17988

Neogen Corporation

(Exact name of registrant as specified in its charter)

Michigan
(State or other jurisdiction of
incorporation or organization)

38-2367843
(IRS Employer
Identification Number)

620 Leshar Place

Lansing, Michigan 48912

(Address of principal executive offices, including zip code)

(517) 372-9200

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (see definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): YES NO

As of November 30, 2015, there were 37,443,771 shares of Common Stock outstanding.

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NEOGEN CORPORATION AND SUBSIDIARIES

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	November 30, 2015 (Unaudited)	May 31, 2015 (Audited)
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 71,378	\$ 66,061
Marketable securities (at fair value, which approximates cost)	51,640	48,103
Accounts receivable, less allowance of \$1,400 and \$1,300	57,604	59,208
Inventories	61,485	51,601
Deferred income taxes	2,293	1,991
Prepaid expenses and other current assets	6,077	4,231
TOTAL CURRENT ASSETS	250,477	231,195
NET PROPERTY AND EQUIPMENT	51,865	44,473
OTHER ASSETS		
Goodwill	75,147	70,119
Other non-amortizable intangible assets	9,020	9,020
Customer based intangibles, net of accumulated amortization of \$15,069 and \$14,446 at November 30, 2015 and May 31, 2015	23,571	24,170
Other non-current assets, net of accumulated amortization of \$7,630 and \$7,191 at November 30, 2015 and May 31, 2015	15,703	13,204
	123,441	116,513
TOTAL ASSETS	\$ 425,783	\$ 392,181
<u>LIABILITIES AND EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 20,682	\$ 13,691
Accrued compensation	4,246	4,142
Income taxes	289	1,275
Other accruals	6,010	6,348

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TOTAL CURRENT LIABILITIES	31,227	25,456
DEFERRED INCOME TAXES	14,478	13,711
OTHER LONG-TERM LIABILITIES	2,176	2,051
	16,654	15,762
TOTAL LIABILITIES	47,881	41,218
COMMITMENTS AND CONTINGENCIES (note 7)	0	0
EQUITY		
Preferred stock, \$1.00 par value, 100,000 shares authorized, none issued and outstanding	0	0
Common stock, \$0.16 par value, 60,000,000 shares authorized 37,443,771 and 37,128,269 shares issued and outstanding at November 30, 2015 and May 31, 2015, respectively	5,991	5,941
Additional paid-in capital	141,371	131,906
Accumulated other comprehensive loss	(3,449)	(2,442)
Retained earnings	233,965	215,569
TOTAL NEOGEN CORPORATION STOCKHOLDERS EQUITY	377,878	350,974
Non-controlling interest	24	(11)
TOTAL EQUITY	377,902	350,963
TOTAL LIABILITIES AND EQUITY	\$ 425,783	\$ 392,181

See notes to interim consolidated financial statements

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NEOGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(In thousands, except per share amounts)

	Three Months Ended November 30,		Six Months Ended November 30,	
	2015	2014	2015	2014
REVENUES				
Product revenues	\$ 68,717	\$ 59,824	\$ 133,754	\$ 118,048
Service revenues	10,893	8,631	20,717	18,006
Total Revenues	79,610	68,455	154,471	136,054
COST OF REVENUES				
Cost of product revenues	34,006	29,258	64,637	57,234
Cost of service revenues	7,380	4,989	13,818	10,536
Total Cost of Revenues	41,386	34,247	78,455	67,770
GROSS MARGIN	38,224	34,208	76,016	68,284
OPERATING EXPENSES				
Sales and marketing	14,203	12,743	27,774	24,963
General and administrative	6,791	6,094	13,543	12,107
Research and development	2,618	2,474	5,192	4,878
	23,612	21,311	46,509	41,948
OPERATING INCOME	14,612	12,897	29,507	26,336
OTHER INCOME (EXPENSE)				
Interest income	51	47	119	92
Change in purchase consideration	0	(454)	0	(213)
Other expense	(471)	(64)	(995)	(80)
	(420)	(471)	(876)	(201)
INCOME BEFORE INCOME TAXES	14,192	12,426	28,631	26,135
INCOME TAXES	5,050	4,600	10,200	9,400
NET INCOME	9,142	7,826	18,431	16,735
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST	(69)	(20)	(35)	(46)
NET INCOME ATTRIBUTABLE TO NEOGEN CORPORATION	\$ 9,073	\$ 7,806	\$ 18,396	\$ 16,689

NET INCOME ATTRIBUTABLE TO NEOGEN
CORPORATION PER SHARE

Basic	\$ 0.24	\$ 0.21	\$ 0.49	\$ 0.45
Diluted	\$ 0.24	\$ 0.21	\$ 0.49	\$ 0.45

See notes to interim consolidated financial statements

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NEOGEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In thousands)

	Three Months Ended		Six Months Ended	
	November 30,		November 30,	
	2015	2014	2015	2014
Net Income	\$ 9,142	\$ 7,826	\$ 18,431	\$ 16,735
Other Comprehensive Loss, Net of Tax: Currency Translation Adjustments	(294)	(1,638)	(1,007)	(1,857)
Comprehensive Income	8,848	6,188	17,424	14,878
Comprehensive Income attributable to non-controlling interest	(69)	(20)	(35)	(46)
Comprehensive Income attributable to Neogen Corporation	\$ 8,779	\$ 6,168	\$ 17,389	\$ 14,832

See notes to interim consolidated financial statements

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NEOGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EQUITY (UNAUDITED)

(In thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-controlling Interest	Total
	Shares	Amount					
Balance, May 31, 2015	37,128	\$ 5,941	\$ 131,906	\$ (2,442)	\$ 215,569	\$ (11)	\$ 350,963
Issuance of shares of common stock under equity compensation plans, and share based compensation	307	49	9,106				9,155
Issuance of shares under employee stock purchase plan	9	1	359				360
Comprehensive income:							
Net income for the six months ended November 30, 2015					18,396	35	18,431
Other comprehensive loss				(1,007)			(1,007)
Balance, November 30, 2015	37,444	\$ 5,991	\$ 141,371	\$ (3,449)	\$ 233,965	\$ 24	\$ 377,902

See notes to interim consolidated financial statements

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NEOGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Six Months Ended November 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 18,431	\$ 16,735
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,680	5,170
Share based compensation	2,545	1,959
Excess income tax benefit from the exercise of stock options	(2,443)	(1,132)
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	2,514	(91)
Inventories	(8,784)	(2,066)
Prepaid expenses and other current assets	(1,858)	3,368
Accounts payable, accruals and other	4,776	(576)
NET CASH FROM OPERATING ACTIVITIES	20,861	23,367
CASH FLOWS FOR INVESTING ACTIVITIES:		
Purchases of property and equipment and other noncurrent assets	(7,815)	(4,705)
Proceeds from the sale of marketable securities	80,379	42,342
Purchases of marketable securities	(83,916)	(51,768)
Business acquisitions, net of cash required	(13,554)	(4,514)
NET CASH FOR INVESTING ACTIVITIES	(24,906)	(18,645)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Exercise of stock options	6,611	3,248
Excess income tax benefit from the exercise of stock options	2,443	1,132
Increase in other long-term liabilities	0	0
NET CASH FROM FINANCING ACTIVITIES	9,054	4,380
EFFECT OF EXCHANGE RATE ON CASH	308	(719)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,317	8,383
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	66,061	40,675
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 71,378	\$ 49,058

See notes to interim consolidated financial statements

Table of Contents**NEOGEN CORPORATION AND SUBSIDIARIES****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****1. BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three and six month periods ended November 30, 2015 are not necessarily indicative of the results to be expected for the fiscal year ending May 31, 2016. For more complete financial information, these consolidated financial statements should be read in conjunction with the May 31, 2015 audited consolidated financial statements and the notes thereto included in the Company's annual report on Form 10-K for the year ended May 31, 2015.

2. INVENTORIES

Inventories are stated at the lower of cost, determined on the first-in, first-out method, or market. The components of inventories follow:

	November 30, 2015	May 31, 2015
	<i>(In thousands)</i>	
Raw Materials	\$ 26,574	\$ 21,605
Work-in-process	4,219	3,972
Finished and purchased goods	30,692	26,024