



Shared Vision

ANNUAL
REPORT
2017



ADVANCING THE SCIENCE OF FOOD SECURITY WORLDWIDE

The mission of
Neogen Corporation
is to be the leading company
in the development and marketing
of **solutions** for food and animal **safety**

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Financial Highlights

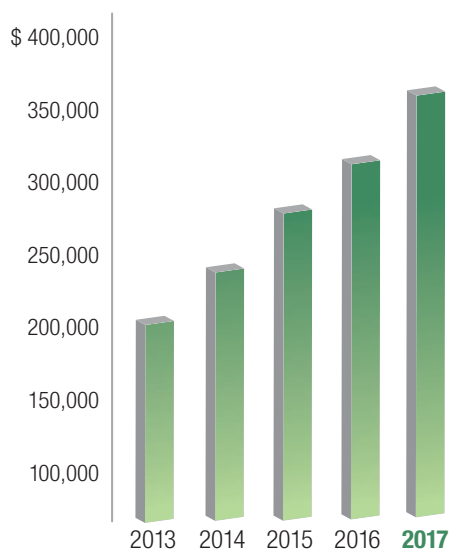
Amounts in thousands, except per share

Year Ended May 31	2017	2016	2015	2014	2013
Operations:					
Total Revenues	\$ 361,594	\$ 321,275	\$ 283,074	\$ 247,405	\$ 207,528
Food Safety Sales	171,325	146,421	131,479	116,290	106,158
Animal Safety Sales	190,269	174,854	151,595	131,115	101,370
Operating Income	64,945	56,386	53,118	43,391	40,706
Net Income Attributable to Neogen	\$ 43,793	\$ 36,564	\$ 33,526	\$ 28,158	\$ 27,190
Basic Net Income Per Share*	\$ 1.16	\$ 0.98	\$ 0.91	\$ 0.77	\$ 0.76
Diluted Net Income Per Share*	\$ 1.14	\$ 0.97	\$ 0.90	\$ 0.76	\$ 0.75
Average Diluted Shares Outstanding*	38,374	37,875	37,444	37,267	36,491

*Restated for 2013 due to stock split

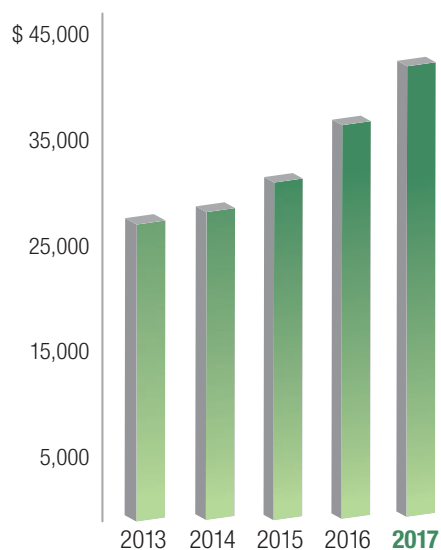
Total Revenues

Dollars in thousands



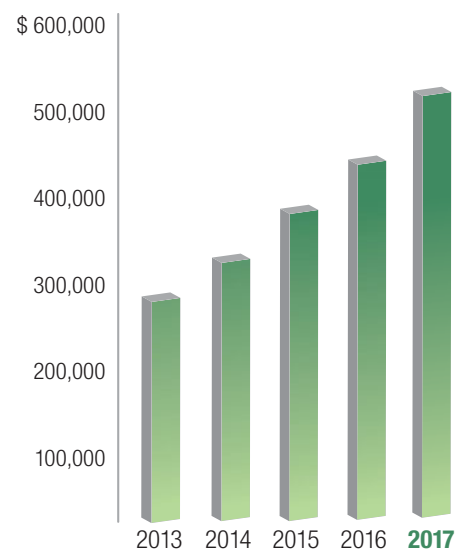
Net Income

Dollars in thousands



Total Assets

Dollars in thousands



In thousands

Year Ended May 31	2017	2016	2015	2014	2013
Financial Strength:					
Cash and Marketable Securities	\$ 143,635	\$ 107,796	\$ 114,164	\$ 76,496	\$ 85,369
Working Capital	256,959	219,628	205,739	163,779	150,728
Total Assets	528,409	449,940	392,181	345,301	290,558
Long-Term Debt	—	—	—	—	—
Equity	471,757	404,161	350,963	306,300	258,287



Message from Management

Shared Vision

To Our Stockholders, Employees and Friends:

Thirty five years ago we thought we could see big changes coming to food production and processing as a growing population would demand an increased quantity and quality of food, and a worldwide food logistics system would occur. At the same time we could see greater issues around safety of food and all the sciences around biotechnology available to protect food quality and improve animal protein. As the years ensued our vision became more widely shared. It was shared by prospects who became customers, new scientists who became employees, and investors that believed the vision would provide high share prices.

The growth of this vision has enabled Neogen to be the only company offering a true investment play carrying food safety and quality from back inside the farm gate all the way to the dinner plate. As the market expanded to embrace issues such as animals raised without antibiotics, growth of organic foods, food allergen labels, and assurance against drug residues, Neogen's vision has continued to propel the company's growth. Our last quarter marked the 101st of the past 106 quarters that Neogen reported revenue increases as compared with the previous year—a record now spanning over 26 years.

Neogen reports record 2017 results

Neogen's net income for the 2017 fiscal year increased 20% to \$43,793,000, or \$1.14 per share compared to the prior year's \$36,564,000, or \$0.97 per share. Revenues for fiscal 2017 increased 13% to \$361,594,000 from the prior year's \$321,275,000. This increase was achieved despite adverse top line currency adjustments of approximately \$7.2 million for the year that resulted from the strength of the U.S. dollar in Neogen's international market.

Our operating income of almost \$65 million in 2017 was 18% of sales compared to 17.6% a year earlier. Our balance sheet continues to be solid with nice asset growth; cash generation was strong. Shareholder equity improved by 17% compared to the beginning of the year. Neogen's market cap grew by 28% from the year's start to the end.

Neogen grows internationally through expansion and acquisitions

Because of Neogen's shared vision with its customers and worldwide food markets, we have been able to identify market niches and products within our mission that fit our organizational capabilities. For example, the vision identified the previously unfulfilled area of biosecurity for the animal protein market back inside the farm gate. Cleaners, disinfect-

tants, insecticides, and rodenticides protect animals and help produce higher quality milk, eggs, and meat.

We were already producing these products for U.S. locations and shipping many of them internationally. However, we got a step closer to the market in December when we acquired Quat-Chem, a well-established agriculture cleaner and disinfectant company located in central England. Later in the year we acquired Rogama, an insecticide and rodenticide company located in Brazil. These acquisitions augmented our worldwide biosecurity strategy, and furthered our international presence and growth. Both are bolted to strong management teams in Neogen Europe and Neogen do Brasil.

A few years back, our shared vision with the industry identified genomics as a key technology. Our Lincoln, Nebraska facility is the largest commercial animal genomics testing laboratory in the world. However, in April 2016 we expanded our reach through the acquisition of Deoxi, the leading animal genomics testing lab in Brazil. Also during the 2016 year we completed our genomic testing lab at our Neogen Europe operations in Ayr, Scotland to help service the EU market. Just as this annual report was going to print we announced the acquisition of the largest animal genomics laboratory in Australia. This gives us a worldwide string of four laboratories to aid in optimum animal selection and provide new cutting edge tools for the detection of harmful food pathogens.

In total, Neogen's international sales for the 2017 year were \$129.3 million or 35.8% of total revenues—up about 20% from the previous year.

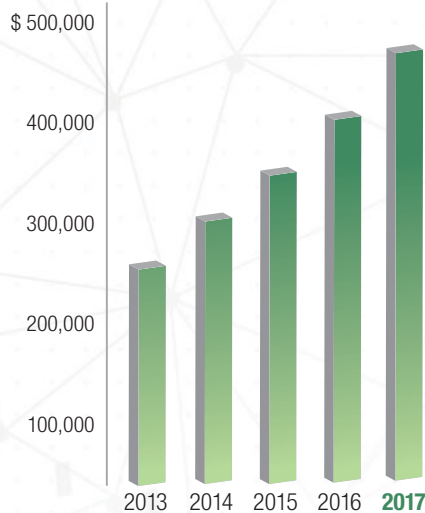
Neogen grows through research and development breakthroughs

Our team of over 75 scientists working in several of our locations produced numerous new products and services for both the food and animal safety market. Our genomics laboratory created a breakthrough in food safety testing. Our sequencing services for the food industry are enabling food companies to accurately identify all bacteria that might be in a sample. In the early part of the year we introduced genomic serotyping for pathogens to help food producers and processors better detect problems and isolate their sources.

A shared vision with customers around the world has always helped us in the quest for better diagnostic test products. We have made great strides in making these tests faster, easier to use and more affordable for the industry. One example is our new test for *Listeria* that is faster than anything in the industry and gives almost instant results.

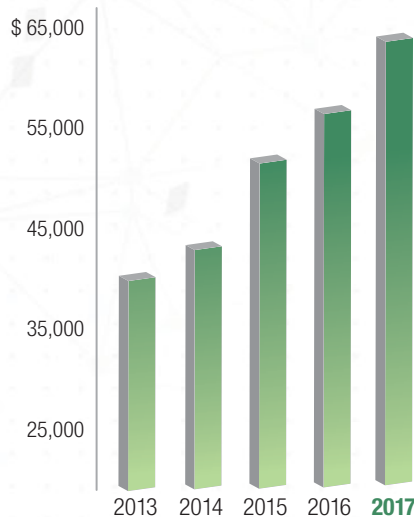
Equity

Dollars in thousands



Operating Income

Dollars in thousands



This allows producers to take action to prevent contaminated product from leaving the plant, and also quickly identifies where contamination might exist. In the past these tests required two or more days and did not enable rapid decisions.

Neogen strengthens top management

Neogen's shared vision with the worldwide markets, its customers and its own employees provides endless opportunities for strategic growth. Effective management and execution of these ideas are critical in maintaining our strong growth. In July we announced John Adent as the company's new Chief Executive Officer. Before joining Neogen, Adent served as CEO of a \$3.3 billion animal health distributor and one of Neogen's largest customers. Adent began his career with that company when it was much smaller and saw its revenues more than quadruple under his leadership over the past decade.

James Herbert, Neogen's CEO and only employee on June 1, 1982, has now passed on part of his role to Adent but will continue to serve in the capacity of Executive Chairman. It is not surprising that Adent and Herbert's visions for the future are similar since they both spent time in production agriculture, food processing, and strong sales and marketing management. Under Herbert's direction for the past 35 years, Neogen has grown to more than 1,500 employees with business in 114 countries and a market capitalization of over \$2.5 billion.

Neogen's vision is bigger and broader

Though Neogen's vision of 35 years ago has become bigger and broader than we might have imagined, our growth strategy remains the same. As the markets for our products continue to grow we continue to find ways to capture bigger shares of those growing markets. Our seasoned

research and development teams continue to find opportunities for new products or improvements to our current product lines. Though we have done 50 acquisitions throughout our history, we are still finding synergistic and affordable acquisitions that bolt on to our current operations and utilize our outstanding management teams. We continue to improve our position in important countries around the world to keep the international growth going.

As we begin our 2018 fiscal year we once again thank our stockholders, employees, customers, and friends for sharing our vision. We are still having fun managing this growth, and certainly have the best and strongest organization in our history.

James L. Herbert
Executive Chairman

John E. Adent
CEO

All successful relationships rely upon a shared vision. In business, these relationships include a company's relationships with its investors, customers, employees, and local communities.

Since its founding in 1982, Neogen's success has been driven by its ability to share its vision with all those who have had, and will continue to have, successful relationships with the company.

Neogen was founded when senior officials at Michigan State University approached Ted Doan, a former CEO at Dow Chemical, who was building a venture capital fund for investment in mid-America. The officials shared a vision with Mr. Doan of using the new biotechnologies that were being practiced at Michigan State to create an entrepreneurial company.

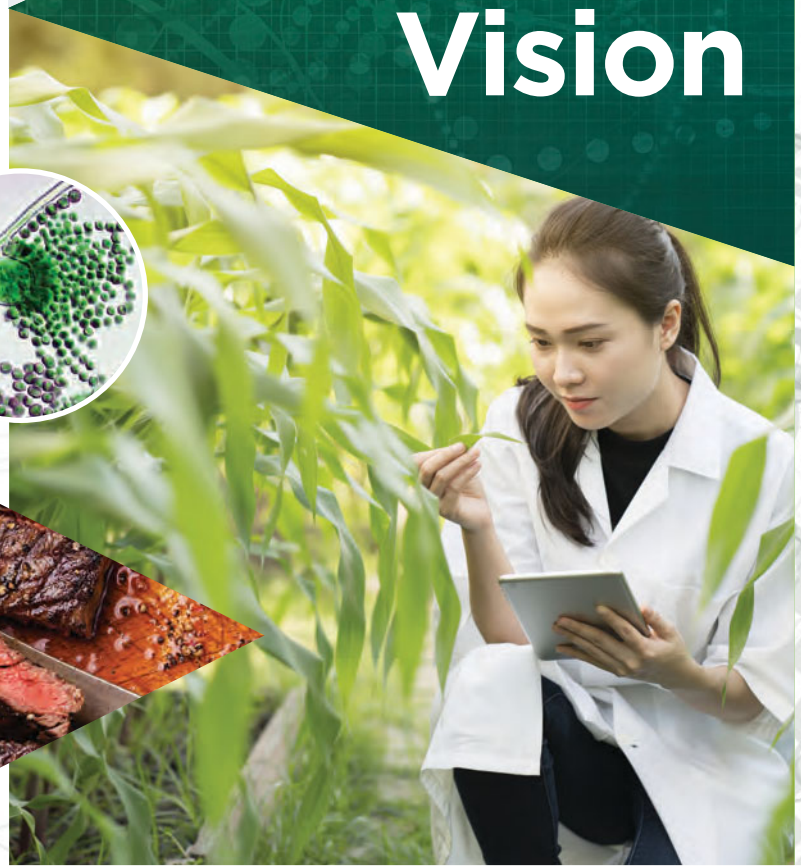
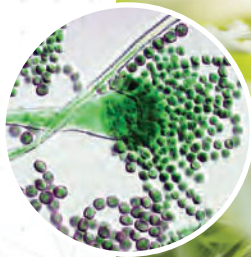
Mr. Doan thought the vision for the new company could work and approached businessman James Herbert to become Neogen's first CEO, and drive the company forward. Mr. Herbert, too, shared the vision of the new company, and in June 1982 Neogen was in business.

Since its founding, Neogen has successfully shared its vision with numerous investors who have provided the company the capital required to turn innovative ideas into marketable products. Neogen's vision has also attracted and retained a solid core of researchers and business professionals who have created, and continue to efficiently operate a modern, innovative, global biotechnology company.

Critically, Neogen has been able to develop successful relationships with its customers in the various Food Safety and Animal Safety markets it serves. Neogen's ability to develop these relationships has been due to the company's ability to create a shared vision with its customers — a vision of using Neogen's products, services and expertise to produce the best and safest products possible.



Shared Vision



Neogen's animal genomics business shares the vision of livestock producers to choose only their best animals.



Using genomics to produce the best, healthiest animals

In 2017, livestock ranchers and farmers around the world operate with very little margin for error. Choosing the best animals for breeding programs is critical to producing a profit from modern livestock operations. Choosing well can result in animal populations that are safer, healthier and more environmentally and financially efficient to manage.

Neogen's animal genomics business, including GeneSeek and Igenity, shares the vision of livestock producers to choose only their best animals. Neogen's state-of-the-art genomics and bioinformatics, plus its work with leading scientists, drive the company's world leadership as it has become the world's largest animal genomics testing lab.

For example from a small piece of tissue or hair, Neogen can provide a cattle producer with test results that can predict that animal's performance in the herd on such traits as the ability to gain weight, muscling and tenderness of its offspring, pregnancy rate, calving ease,

and susceptibility to disease. Neogen provides veterinary genomic solutions for cattle, both beef and dairy, swine, sheep and poultry, as well as companion animals, such as dogs, cats, and horses.

Neogen's expanding, and fully integrated, animal genomics laboratories in United States, Scotland, Australia, and Brazil provide livestock producers and companion animal breeders with easy access to world-class genomics solutions and expertise, wherever they may be.

Using biosecurity solutions to stop the spread of disease...

Operators of even the best livestock operations know that all their biosecurity efforts can be threatened by something as seemingly uncontrollable as the flyover of migratory birds or whatever a truck's tires may have rolled over on its way to the farm. Once a deadly pathogen, such as avian flu or porcine epidemic diarrhea virus, somehow finds its way onto a farm, its consequences can devastate a livestock operation.

Neogen has a shared vision with the poultry producer who is seeking to produce a premium product through the use of superior biosecurity products and practices.



Neogen's biosecurity experts literally share a vision with livestock operators of all possible routes of disease transmission within a livestock operation, including birds, vehicles, equipment, rodents, insects, and farm employees and visitors. Using Neogen's comprehensive array of biosecurity solutions, its experts can help stop the spread of a devastating disease before it can start.

The company's biosecurity products include rodenticides that contain a variety of potent formulations to target a range of rodents; insecticides developed to effectively control flying and crawling insects of nearly endless variation; and cleaners and disinfectants with formulations that range from those necessary to clean and disinfect the most challenging of agricultural environments, to those needed to disinfect water supplies.

In Neogen's 2017 fiscal year, the company solidified its foundation as an important global developer and supplier of biosecurity expertise and products with the acquisitions of England-based Quat-Chem and Brazil-based Rogama. These companies' product development activities and manufacturing capabilities provide a complementary fit to Neogen's expanding biosecurity business.

... and support the poultry industry's raised without antibiotics initiative

Nowhere is the need to follow stringent biosecurity measures more critical than with the suppliers of major food restaurants and retailers

who are increasingly demanding poultry products that are certified to be from chickens that were raised without antibiotics. Just one biosecurity breach can force poultry producers to treat their flocks with antibiotics, and sell their birds at a reduced cost to an alternative buyer.

Neogen has a shared vision with the poultry producer who is seeking to produce a premium product through the use of superior biosecurity products and practices.

Providing effective and cost-efficient animal care

Veterinarians and other animal care providers depend upon quality instruments to provide effective, affordable care to their animals.

Since the company acquired Ideal Instruments in 1985, Neogen has stood with animal care providers to develop and offer products they can afford — and that actually work in fields and barns. Neogen now offers veterinary instruments, pharmaceuticals, supplements, wound care, vaccines, topicals, and diagnostic products to help ensure the health of the animals. Healthy animals require less medication and are more resistant to disease.

Neogen's products and services also include safety solutions for performance and companion animals. The company manufactures and markets pharmaceuticals, vaccines, and diagnostic products for these animals. Neogen's equine health line includes EqStim®, a proven, safe immunostimulant, which boosts the immune response

of horses to help combat respiratory ailments. The company's BotVax® B vaccine has protected millions of horses against *Clostridium botulinum* type B. Neogen also produces a number of products to treat or protect cats and dogs.

Using quick and accurate tests to protect and detect...

The safety and quality of the global food supply is challenged by contaminants on every step of its journey from inside the farm gate to the dinner plate. Contamination can occur in a farmer's field, such as sprouts being contaminated with *E. coli* or corn with a mycotoxin, or anywhere in the processing, distribution or retail process, such as with *Listeria* or a food allergen in a production environment. Regardless of how the contamination occurs, food companies and consumers face potentially severe consequences should the contaminated product ever reach a dinner plate.

Whether food products originate from a ranch, farm, field, orchard, sea, or other location, Neogen's testing products and services continue to help enhance their quantity, quality and safety throughout their processing — whether that process is minimal or extensive.

Neogen's shared vision with the food industry has produced a comprehensive line of simple and quick food diagnostic tests to ensure the continuing safety and quality of food products throughout processing and distribution.

...food allergens

While the well-being of most consumers would be unaffected by the presence of an unintentional, unlabeled food allergen residue in a product, millions of food allergic people worldwide face dire consequences should they accidentally ingest the food allergen.

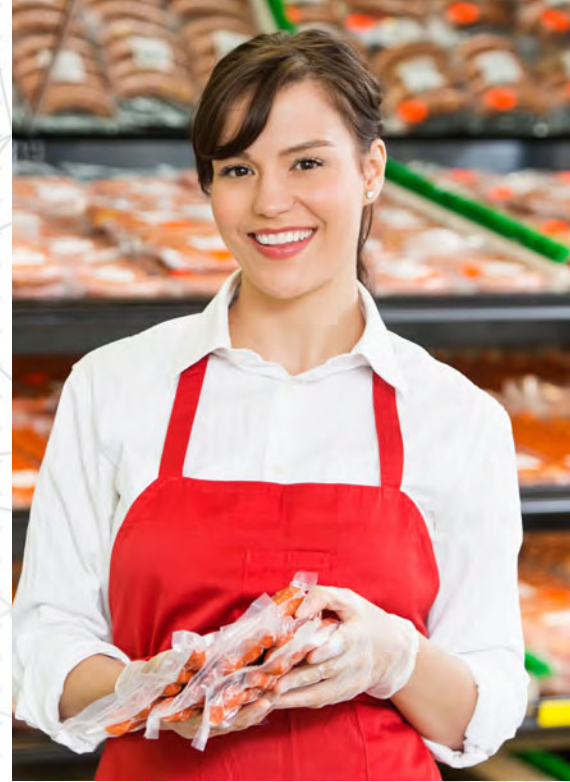
Since 1998, Neogen has worked with the food industry and researchers at the University of Nebraska's Food Allergen Research and Resource Program (FARRP) to develop quick and accurate tests to detect unintentional food allergens in food products and facilities. Neogen's rapid tests for food allergens have set the world-wide standard for simple and quick detection of these potentially dangerous residues.



Neogen's shared vision with the food industry has produced a comprehensive line of simple and quick food diagnostic tests to ensure the continuing safety and quality of food products.



Neogen's screening and quantitative food allergen tests can detect residues of peanuts, egg, gluten, milk, shellfish, soy, almond, tree nut and other residues. The company's simplest food allergen tests screen samples and detect the presence of allergens in the parts per million in mere minutes.



...mycotoxins

Mycotoxins are naturally occurring toxins produced by molds or fungi in grain while in the field or during storage. Typically triggered by weather extremes, these toxins can cause severe adverse effects on people and livestock who consume them. One mycotoxin, aflatoxin, is considered the world's most potent organic carcinogen and is strictly regulated in most developed countries in the world.

In 1985, Neogen developed its first rapid test for aflatoxin, and has since worked with global grain experts to develop the quickest, and most accurate and useful tests available. Neogen's comprehensive line of tests for mycotoxins in grains and animal feeds helps protect the health of poultry, swine, and dairy cattle — and the quality and safety of the food products for human consumption derived from numerous commodity grains.

The company offers tests for six mycotoxins in several different formats, including incredibly easy tests that function like home pregnancy stick tests, and can deliver definitive, easy-to-interpret results in as few as two minutes. The almost immediate results mean that grain elevator staff, and quality control personnel in the food and feed industries, can obtain results in minutes, and reject contaminated ingredients before they can even enter the food chain.

...foodborne pathogens

Because of the severe consequences they can cause, protecting consumers from the presence of foodborne pathogens, including *Salmonella*, *Listeria* and *E. coli*, is a critical mission for the food industry.

Neogen has worked with the food industry for more than 20 years honing pathogen test technology and procedures to produce superior pathogen tests. The company's ANSR® test system is the quickest and easiest testing method to definitively detect pathogen DNA in food and environmental samples — providing results in as few as 20 minutes. Neogen's simple Reveal® line of pathogen tests are easy to use and interpret.

In July 2017, Neogen launched the groundbreaking *Listeria* Right Now™ test system, which detects *Listeria* in environmental samples in under 60 minutes — without the need to enrich samples. The advanced technology in *Listeria* Right Now truly changes everything about testing the environment for *Listeria*. Contamination of *Listeria* in the environment can now be determined, and quickly cleaned as necessary, before food production begins and the quality and safety of a food product is compromised.

In June 2017, Neogen launched a new NeoSeek™ next generation sequencing service for the food industry, which will enable food



companies to accurately identify all bacteria in a sample with a single genomic test. The new service utilizes a novel application of 16s metagenomics to determine all bacteria in a sample, without introducing biases from culture media, and without the need to generate a bacterial isolate for each possible microbe in a sample.

...spoilage organisms

While products contaminated with spoilage organisms, such as yeast and mold, do not carry consequences of the severity of pathogen contamination, spoilage organisms can drastically shorten product shelf-lives, and produce a variety of unwanted effects in food products (e.g., an "off" taste or an unsightly film).



Neogen's vision of food safety starting back inside the farm gate and going all the way to the dinner plate is now shared worldwide.



Neogen's Soleris® and BioLumix® technology is used by the world's largest food and nutraceutical manufacturers to detect spoilage organisms in a fraction of the time needed for traditional testing methods. For example, testers using Soleris can measure a sample's yeast and mold count in as few as 48 hours, compared to five days for conventional methods.

...sanitation issues

The food industry's work to produce the safest, highest quality products can be undone by contamination of the products by residue that remains after an incomplete cleaning and disinfection effort.

Neogen's shared vision with the food industry has led to the company's AccuPoint® Advanced ATP (adenosine triphosphate) Sanitation Verification System. The system is a valuable tool throughout the food industry, including at food service providers, caterers and grocery delis, and manufacturers of soft drinks and bottled water, to ensure effective sanitation programs.

In May 2017, Neogen launched its NeoNet™ cloud-based software platform, an innovative software system that allows food safety directors immediate access to their facilities' AccuPoint Advanced sanitation test results — no matter the number, or where in the world their facilities may be. Especially for organizations that have multiple, far-flung facilities, the challenge has been to efficiently collect and interpret that data company-wide in a timely fashion. NeoNet greatly simplifies that process by easily presenting the collected data graphically without having to conduct extensive data analysis.

...drug residues

Health officials around the world have increasingly highlighted the many adverse effects that drug residues in meat products can have on human health, while reducing the ongoing effectiveness of existing antibiotics, and consumers are increasingly demanding meat

products that are proven to be drug-free. But, livestock producers often have no other alternative than to use antibiotics to quickly and effectively treat disease (e.g., using a beta-lactam antibiotic to treat mastitis in dairy cattle).

Neogen shares the vision of health officials, consumers and livestock producers for meat and milk products to be proven to be drug-free before they reach the dinner plate. Neogen's drug residue tests provide the food industry with verification tools for raised without antibiotics (RWA), certified responsible antibiotic use, or other drug-free programs. The company also offers a full suite of testing products for beta-lactam antibiotic testing in milk to ensure supplies are safe for human consumption.

Since its founding in 1982, Neogen's vision has gotten bigger, brighter and broader, but it's the same as it was in the beginning: to provide solutions for food and animal safety. That vision has been successfully shared by thousands of employees, investors and customers.

Neogen has completed 46 acquisitions and counting — each of which fits its vision and has shared in its growth. The products, employees and market opportunities that these acquisitions brought have continued to help drive the company's growth.

Neogen's vision of food safety starting back inside the farm gate and going all the way to the dinner plate is now shared worldwide — and it is clear that it is the right vision to continue to provide safe, high quality food for the world's rapidly growing population.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The information in this Management's Discussion and Analysis of Financial Condition and Results of Operations contains both historical financial information and forward-looking statements. Neogen Corporation management does not provide forecasts of future financial performance. While management is optimistic about the Company's long-term prospects, historical financial information may not be indicative of future financial results.

Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements. There are a number of important factors, including competition, recruitment and dependence on key employees, impact of weather on agriculture and food production, identification and integration of acquisitions, research and development risks, patent and trade secret protection, government regulation and other risks detailed from time to time in the Company's reports on file at the Securities and Exchange Commission, that could cause Neogen Corporation's results to differ materially from those indicated by such forward-looking statements, including those detailed in this "Management's Discussion and Analysis of Financial Condition and Results of Operations."

In addition, any forward-looking statements represent management's views only as of the day this Report on Form 10-K was first filed with the Securities and Exchange Commission and should not be relied upon as representing management's views as of any subsequent date. While management may elect to update forward-looking statements at some point in the future, it specifically disclaims any obligation to do so, even if its views change.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of the Company's financial condition and results of operations are based on the consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that management make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates the estimates, including but not limited to, those related to receivable allowances, inventories and intangible assets. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The following critical accounting policies reflect management's more significant judgments and estimates used in the preparation of the consolidated financial statements.

Revenue Recognition

Revenue from products and services is recognized when the product has been shipped or the service performed, the sales price is fixed and determinable, and collection of any receivable is probable. To the extent that customer payment has been received before all recognition criteria are met, these revenues are initially deferred and later recognized in the period that all recognition criteria have been met. Customer credits for sales returns, pricing and other disputes, and other related matters (including volume rebates offered to certain distributors as marketing support) represent approximately 3% of reported net revenue for each period presented.

Accounts Receivable Allowance

Management attempts to minimize credit risk by reviewing customers' credit history before extending credit and by monitoring credit exposure on a regular basis. An allowance for doubtful accounts receivable is established based upon factors surrounding the credit risk of specific customers, historical trends and other information. Collateral or other security is generally not required for accounts receivable. Once a receivable balance has been determined to be uncollectible, that amount is charged against the allowance for doubtful accounts.

Inventory

A reserve for obsolete and slow moving inventory has been established and is reviewed at least quarterly based on an analysis of the inventory, taking into account the current condition of the asset as well as other known facts and future plans. The reserve required to record inventory at lower of cost or market may be adjusted as conditions change. Product obsolescence may be caused by shelf-life expiration, discontinuance of a product line, replacement products in the marketplace or other competitive situations.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over fair value of tangible net assets of acquired businesses after amounts are allocated to other identifiable intangible assets. Other intangible assets include customer relationships, trademarks, licenses, trade names, covenants not-to-compete and patents. Amortizable intangible assets are amortized on either an accelerated or a straight-line basis, generally over 5 to 25 years. The Company reviews the carrying amounts of goodwill and other non-amortizable intangible assets annually, or when indications of impairment exist, to determine if such assets may be impaired by performing a quantitative assessment. If the carrying amounts of these assets are deemed to be less than fair value based upon a discounted cash flow analysis and comparison to comparable EBITDA multiples of peer companies, such assets are reduced to their estimated fair value and a charge is made to operations.

Long-lived Assets

Management reviews the carrying values of its long-lived assets to be held and used, including definite-lived intangible assets, for possible impairment whenever events or changes in business conditions warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated separately identifiable undiscounted cash flows over the remaining useful life of the asset indicate that the carrying amount of the asset may not be recoverable. In such an event, fair value is determined using discounted cash flows and, if lower than the carrying value, impairment is recognized through a charge to operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Equity Compensation Plans

Share options awarded to employees and shares of stock awarded to employees under certain stock purchase plans are recognized as compensation expense based on their fair value at grant date. The fair market value of options granted under the Company's stock option plans was estimated on the date of grant using the Black-Scholes option-pricing model using assumptions for inputs such as interest rates, expected dividends, volatility measures and specific employee exercise behavior patterns based on statistical data. Some of the inputs used are not market-observable and have to be estimated or derived from available data. Use of different estimates would produce different option values, which in turn would result in higher or lower compensation expense recognized.

To value options, several recognized valuation models exist. None of these models can be singled out as being the best or most correct one. The model applied by the Company is able to handle most of the specific features included in the options granted, which is the reason for its use. If a different model were used, the option values could differ despite using the same inputs. Accordingly, using different assumptions coupled with using a different valuation model could have a significant impact on the fair value of employee stock options. Fair value could be either higher or lower than the number provided by the model applied and the inputs used. Further information on the Company's equity compensation plans, including inputs used to determine the fair value of options, is disclosed in Notes 1 and 5 to the consolidated financial statements.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and for tax credit carry forwards and are measured using the enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred income tax expense represents the change in net deferred income tax assets and liabilities during the year.

The Company's wholly-owned foreign subsidiaries are comprised of Neogen Europe, Lab M Holdings, Quat-Chem, Neogen do Brasil, Neogen Bio-Scientific Technology Co (Shanghai), Neogen Food and Animal Security (India), Neogen Canada, Acumedia do Brasil, Deoxi Biotecnologia Ltda, and Rogama Industria e Comercio, Ltda; Neogen owns 90% of Neogen Latinoamérica. Based on historical experience, as well as the Company's future plans, earnings from these subsidiaries are expected to be re-invested indefinitely for future expansion and working capital needs. Furthermore, the Company's domestic operations have historically produced sufficient operating cash flow to mitigate the need to remit foreign earnings. On an annual basis, the Company evaluates the current business environment and whether any new events or other external changes might require a re-evaluation of the decision to indefinitely re-invest foreign earnings. At May 31, 2017, unremitted earnings of the foreign subsidiaries were \$35,281,000.

RESULTS OF OPERATIONS

Executive Overview

Total consolidated revenue for Neogen Corporation in fiscal 2017 was \$361.6 million, an increase of 13% compared to revenue of \$321.3 million in fiscal 2016. Net income attributable to Neogen rose 20% to \$43.8 million, or \$1.14 per fully diluted share, compared to \$36.6 million, or \$0.97 per fully diluted share, in fiscal 2016. Cash flow from operations for fiscal 2017 was \$60.3 million compared to \$35.3 million in fiscal 2016.

The Company's Food Safety segment revenues were \$171.3 million in fiscal 2017, an increase of 17%, and Animal Safety segment revenues were \$190.3 million, an increase of 9%, each compared to the prior fiscal year. Recent acquisitions of Lab M (August 2015), Virbac (December 2015), Deoxi (April 2016), Preserve (May 2016), Quat-Chem (December 2016) and Rogama (December 2016) contributed \$27.7 million of revenue in fiscal 2017; overall organic sales growth was 4%.

International sales were \$129.3 million in fiscal 2017, or 35.8% of total revenues, compared to \$107.7 million, or 33.5% of total revenues, in the prior year. The increase in international sales as a percentage of total sales was due to recent international acquisitions and strength in the pre-existing international operations. For the year, revenues at Neogen Europe increased 13% (32% increase in local currency) due primarily to strong sales of deoxynivalenol (DON) test kits resulting from outbreaks of contaminated corn crops in western Europe, and increases in genomics revenues resulting from strong demand for these services in Europe and the addition of an in-house genomics lab in Ayr. Neogen do Brasil revenues increased 65% for the year (46% increase in local currency), with sales of forensic and diagnostic test kits leading the growth. Revenues at Neogen Latinoamérica declined by 7% (6% increase in local currency) due to adverse currency translations and the termination of a distribution agreement for certain of its cleaners and disinfectants in the 4th quarter of fiscal 2017. Neogen China revenues rose 24% (32% increase in local currency) and Neogen India sales increased 67% (70% increase in local currency), each off of small bases.

Service revenue was \$55.1 million in fiscal 2017, an increase of \$7.4 million, or 15%, compared to fiscal 2016. The increase was primarily due to higher genomics revenues due to continued market penetration in U.S. beef and dairy cattle markets, strong demand in Europe and additional genomics capacity resulting from laboratory facilities constructed at our Scotland-based operation, and incremental ongoing business with a large customer in the poultry industry. Revenues were also enhanced, to a lesser extent, by the April 2016 acquisition of Deoxi Laboratories, an agricultural genomics lab in Brazil.

Gross margin was 47.6% in both fiscal years 2017 and 2016. In the current year, acquisitions of businesses with gross margins which are lower than the Company's historical average, and the adverse margin impact resulting from currency translation, were entirely offset by favorable product mix shifts on existing products and higher genomics margins, resulting in gross margins that were flat compared to the prior year.

Sales and marketing expenses were \$62.4 million, an increase of \$4.8 million, or 8%, compared to the prior fiscal year. Increases in this category were primarily the result of increased personnel related costs such as salaries, commissions and travel; shipping and royalty expenses also rose due to the increased volume. General and administrative expenses were \$34.2 million, an increase of \$5.0 million, or 17%. Incremental ongoing operating expenses from the most recent four acquisitions, which continued to operate from their existing locations, and related amortization expense accounted for \$2.6 million of the increase. Other increases in this category resulted from investments in information technology personnel and infrastructure and increased salary and benefit expenses

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across the organization. Research and development expenses increased 5% to \$10.4 million, primarily due to increased personnel related expenses and new product development activities, partially offset by lower contracted outside services.

Operating margin in fiscal 2017 was 18.0% compared to 17.6% in the prior fiscal year. The improvement in operating margin resulted from the revenue increases, flat gross margins, and growth in operating expenses which was less than the rate of the revenue increase.

Other income of \$1.7 million in fiscal 2017 included \$838,000 of net interest income, a \$660,000 gain recorded as the result of the settlement of a licensing agreement, \$171,000 of royalty income, and a loss of \$40,000 from currency translations. Fiscal 2016 other expense of \$873,000 included a \$1,338,000 loss from currency translations, partially offset by interest income of \$322,000 and royalty income of \$217,000.

The effective income tax rate for fiscal 2017 was 34.0%, compared to 34.2% in the prior fiscal year.

REVENUES

(Dollars in thousands)	Year Ended				
	May 31, 2017	Increase/ (Decrease)	May 31, 2016	Increase/ (Decrease)	May 31, 2015
Food Safety:					
Natural Toxins, Allergens & Drug Residues	\$ 70,926	12%	\$ 63,269	4%	\$ 60,561
Bacterial & General Sanitation	34,706	2%	33,899	15%	29,492
Dehydrated Culture Media & Other	40,658	9%	37,285	27%	29,423
Rodenticides, Insecticides & Disinfectants	13,620	223%	4,213	(8%)	4,568
Genomics Services	11,415	47%	7,755	4%	7,435
	171,325	17%	146,421	11%	131,479
Animal Safety:					
Life Sciences	9,704	24%	7,815	(10%)	8,715
Veterinary Instruments & Disposables	41,693	(1%)	42,028	1%	41,740
Animal Care & Other	29,495	(19%)	36,494	32%	27,606
Rodenticides, Insecticides & Disinfectants	69,825	31%	53,490	17%	45,857
Genomics Services	39,552	13%	35,027	27%	27,677
	190,269	9%	174,854	15%	151,595
Total Revenue	\$ 361,594	13%	\$ 321,275	13%	\$ 283,074

Year Ended May 31, 2017 Compared to Year Ended May 31, 2016

The Company's Food Safety segment revenues in fiscal 2017 were \$171.3 million compared to \$146.4 million in fiscal 2016, an increase of 17%. Organic growth for the segment was 9%, with the acquisitions of Lab M (August 2015), Deoxi (April 2016), Quat-Chem (December 2016) and Rogama (December 2016) contributing the remainder of the growth. Adverse currency conditions, resulting from the strength of the U.S. dollar, reduced overall growth and organic growth within the segment for the comparative period. In a neutral currency environment, overall Food Safety growth for the year was 22% and organic growth was 14%.

Natural Toxins, Allergens & Drug Residues sales increased by 12% to \$70.9 million in fiscal 2017. Within this category, sales of natural toxin test kits increased 19%, led by sales of test kits and related equipment to detect the mycotoxin deoxynivalenol (DON), due to outbreaks of DON in corn crops in the midwest U.S., Canada and western Europe. Allergen test kit revenues rose 16% for the year, as increases in product recalls relating to allergenic contamination of food continued to expand the market. The largest increases in this product line were test kits to detect milk, gliadin, tree nut, hazelnut and peanut contamination. Partially offsetting these increases, sales of test kits to detect drug residues were down 4%, due primarily to market losses in Europe caused by delays in the launch of new products, and, to a lesser extent, currency translations, as this product is sold in euros, which declined 2% against the dollar in fiscal 2017. A number of new and improved drug residue detection products are expected to be available for sale in the first half of fiscal 2018.

Bacterial & General Sanitation revenues rose 2%, compared to the prior fiscal year, led by a 4% increase in sales of the Company's line of automated equipment and consumable vials to detect spoilage microorganisms (e.g. yeast and mold), and an 11% increase in sales of *Salmonella* test kits for the year as the Company gained market share with its ANSR product line. These increases were partially offset by lower sales of a distributed product that the Company discontinued in fiscal 2017. The Company's line of AccuPoint readers and samplers to monitor environmental sanitation rose 4% for the year, with samplers increasing 7%, while equipment was flat compared to fiscal 2016. Dehydrated Culture Media & Other sales increased 9% in fiscal 2017, aided in part by the acquisition of Lab M; organic sales in this category increased 6%. Within this category, there was a significant increase in sales of forensic test kits through the Company's Brazilian subsidiary. Demand for these kits from commercial labs located in Brazil has increased dramatically due to a new requirement for drug testing of commercial truck drivers. Partially offsetting this increase was an 11% decrease in sales of the Company's Acumedia line of dehydrated culture media sold into traditional domestic markets; the first half of fiscal 2016 had strong sales resulting from a research project, which did not recur.

Rodenticides, Insecticides & Disinfectants sales into the Company's Food Safety segment increased 223%, almost entirely due to the acquisitions of Rogama (Brazil), which reports through Neogen do Brasil, and Quat-Chem (U.K.), which reports through Neogen Europe; each was purchased in December 2016. Excluding these acquisitions, growth in this category was 3%, primarily from rodenticide and disinfectant sales into Mexico and Central America by the Company's Mexican subsidiary. Genomics revenues into Food Safety increased 47%, primarily due to strong demand of genomics testing in Europe and expanded capabilities at the Company's operation in Ayr, Scotland to better serve the growing European market; the Deoxi acquisition in April 2016 also contributed to the growth.

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Revenues for the Company's Animal Safety segment were \$190.3 million in fiscal 2017, an increase of 9% compared to prior year revenues of \$174.9 million. The revenue growth resulted from the acquisitions of Virbac (December 2015) and Preserve (May 2016). In the first quarter of fiscal 2017, the Company lost the ability to sell its popular canine thyroid replacement product after the FDA approved a new drug application for a competitor, which gave the competitor exclusive marketing rights to the product. The Company will be unable to sell this product, which had sales of \$6.2 million in fiscal 2016, in the U.S. until similar regulatory approval is granted; this approval is currently expected to occur in fiscal 2019. Additionally, in January 2017, the Company's agreement to distribute certain cleaners and disinfectants was canceled, resulting in the loss of \$1.3 million of sales in the 4th quarter of fiscal 2017. Excluding these products, this segment had overall organic growth of 5% for the year. Currency translations had minimal effect on revenues in this segment.

Life Sciences sales increased 24% in fiscal 2017, compared to the prior year. This growth was primarily due to increased volume to U.S. commercial labs to meet new requirements for drug testing of commercial truck drivers in Brazil. Veterinary Instruments & Disposables revenues decreased 1%, due to lower sales of disposable syringes, which had increased sales in the prior year due to a competitor's backorder situation, and marking products. Partially offsetting this were gains in the sales of the Company's proprietary detectable needles and durable speed needles, with both gains due to strong demand from customers. Animal Care & Other sales decreased 19% due to the loss of the ability to sell the Company's popular thyroid replacement product, mentioned above. Partially offsetting this was an increase in revenues for vitamin injectable products due to increased market share and price increases.

Rodenticides, Insecticides & Disinfectants revenues increased 31% for the current fiscal year, due to the acquisitions of Virbac (December 2015) and Preserve (May 2016); organic sales in this category were flat. The Preserve acquisition added \$15.5 million of revenue in fiscal 2017, primarily to the domestic swine, poultry, dairy and food processing markets. Rodenticide sales increased 1% with strong sales in the custom solutions, retail and distribution markets offset by lower sales in the northwest U.S. after the prior year rodent outbreak subsided. Cleaners and disinfectant sales were 8% lower on an organic basis, due to the early termination of a distribution agreement for certain cleaners and disinfectants in the second half of the fiscal year; it is expected that there will be some offset of these lost revenues in fiscal 2018 by substitution of similar products from the planned transition to the Preserve product line.

Genomics Services revenues reported within the Animal Safety segment increased 13% in fiscal 2017, compared to fiscal 2016. The increase was due primarily to increased market share in the beef and dairy markets from new product offerings and focused sales efforts in these markets; also contributing to the increase was expanded business with a large customer in the poultry market.

Year Ended May 31, 2016 Compared to Year Ended May 31, 2015

The Company's Food Safety segment revenues were \$146.4 million in fiscal 2016, an 11% increase compared to the prior year. The increase, predominantly volume related, from organic sales was 6%, with revenues from the BioLumix (October 2014), Lab M (August 2015) and Deoxi (April 2016) acquisitions contributing the remainder of the growth. Sales of Natural Toxins, Allergens & Drug Residues increased 4% in fiscal year 2016 compared to fiscal 2015. Natural toxin sales were flat with a 10% increase in aflatoxin sales offset by a 3% decrease in DON sales, due to outbreaks in the prior year which were not repeated in fiscal 2016. Allergen sales increased 20%, as increased consumer awareness continued to grow demand for these products, while sales of drug residue test kits decreased 5%, caused by currency conversions, as the majority of these sales are invoiced in euros.

Bacterial & General Sanitation revenues increased 15% in fiscal 2016, aided by \$1.9 million in sales from the October 2014 BioLumix acquisition. Excluding BioLumix sales, the organic increase in these products was 9% over the prior year. The AccuPoint sanitation monitoring product line recorded an increase of 18% due to the continued successful introduction of an improved, next generation product line. Sales of the Soleris and BioLumix product lines, which detect spoilage organisms, increased 23% for the year (5% organic growth), with revenue increases in both equipment and disposable vials. Pathogen sales increased 4% in fiscal 2016 as compared to the prior year, primarily due to an increase in sales of *Listeria* test kits to the commercial lab market.

Dehydrated Culture Media & Other sales increased 27% in fiscal 2016. This category includes \$4.8 million of Lab M revenues, a business which was acquired in August 2015; excluding the impact of these revenues, the organic increase was 10%. Sales of Acumedia products into the food safety market increased 10% while sales into traditional domestic media markets increased 16%. Rodenticides, Insecticides & Disinfectants revenues decreased 8% in U.S. dollars, due to the strength of the dollar, poor economic conditions in a number of international markets and order timing from large distributors. Genomics service revenues in the Company's international operations increased 4%.

The Company's Animal Safety segment revenues were \$174.9 million in fiscal 2016, a 15% increase, predominantly volume related, over fiscal 2015. Life Sciences sales decreased 10% in fiscal 2016 after a strong 16% increase in 2015. Sales of forensic kits to commercial labs declined as new testing requirements in Brazil for commercial drivers, originally anticipated to go into effect in late fiscal 2015, were delayed until the 4th quarter of fiscal 2016. Veterinary Instruments & Disposables increased 1%, as market share gains in disposable syringes, up 25%, and animal marking products, up 14%, were almost entirely offset by an 8% decrease in detectable needles, due to large orders in the prior year which did not recur, and an 11% decline in hoof and leg products, due to lower sales of these products to customers in the retail market.

Animal Care & Other product sales rose 32% in fiscal 2016, with the increase primarily the result of a new distribution agreement with a large manufacturer and supplier of dairy equipment, and strong sales of the Company's line of thyroid replacement therapy for companion animals. Also contributing to growth in the Animal Care product category were increased sales of wound care products, as a key active ingredient which had been on backorder for much of fiscal 2015, became available in fiscal 2016, and veterinary antibiotics, due to a competitor exiting the business. During the fourth quarter of fiscal 2016, the Company was notified that a competitor had been granted approval on a new drug application for a competitive thyroid replacement product, effectively giving them exclusive rights to sell the product. As a result, the Company is unable to sell its product into the domestic market effective July 2016, until it is granted similar regulatory approval; this approval is expected in fiscal 2019. Sales of this product in fiscal 2016 were \$6.2 million.

The Company's line of Rodenticides, Insecticides & Disinfectants rose 17% in fiscal 2016, compared to the prior year, led by a 58% increase in sales of rodenticides. This increase was in large part the result of an expansion of the Company's contract manufacturing business with a large marketer of rodenticides to

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the commercial and residential markets. Additionally, the Company successfully introduced a number of new products into the retail agricultural market, and also benefitted from the continued vole outbreak in the northwestern U.S. Cleaners and disinfectant revenues declined 9% compared to fiscal 2015, primarily due to lower sales to international customers as the strength of the U.S. dollar made the Company's products less competitive internationally; poor economic conditions in a number of the Company's key international markets also adversely impacted sales. The Company's line of insecticides rose 3% in fiscal 2016, as incremental revenues from new product launches were almost entirely offset by lower sales of existing products due to timing of orders and backorders caused by a vendor issue.

Genomics Services revenues increased 27% in fiscal 2016 compared to the same period in the prior year. Incremental business with a large poultry producer, earned in fiscal 2015, was the primary driver of the growth. The Company also continued to gain market share in fiscal 2016 with its proprietary chip technology, primarily to cattle and pig producers, and grew sample volume particularly with its largest customers. In addition, the canine testing service business grew 17% as the Company successfully commercialized new service offerings, developed in the prior fiscal year.

Cost of Revenues

<i>(Dollars in thousands)</i>	2017	Increase	2016	Increase	2015
Cost of Revenues	\$ 189,626	13%	\$ 168,211	17%	\$ 143,389

Cost of revenues increased 13% in fiscal 2017 and 17% in fiscal 2016 in comparison with the prior years. This compares with revenue increases of 13% in both fiscal years. Expressed as a percentage of revenues, cost of revenues was 52.4%, 52.4% and 50.7% in fiscal years 2017, 2016 and 2015, respectively. In fiscal 2017, improvements in Animal Safety gross margins, resulting from lower raw material costs in the genomics business and increased higher margin forensic kit sales into the commercial laboratory market, and strong growth in sales of higher margin mycotoxin and allergen test kits in the Food Safety segment, overcame the lower gross margins resulting from the Quat-Chem and Rogama acquisitions, and the continued strength of the U.S. dollar, which negatively impacted both top line revenue and gross margins. For fiscal 2016, the strength of the U.S. dollar, which adversely impacted revenue with no corresponding decline in product cost, had the largest impact on the decline in gross margins compared to fiscal 2015. In addition, shifts in product mix within the Food Safety segment, in part the result of acquisitions completed in fiscal years 2015 and 2016, towards products which have lower gross margins than the segment average, and a shift in the proportion of Animal Safety revenues to the overall revenue of the Company, resulted in the decline in gross margins.

Food Safety gross margins were 55.3%, 56.7% and 59.7% in fiscal years 2017, 2016 and 2015, respectively. During fiscal 2017, the Company purchased the Quat-Chem and Rogama businesses, which generated gross margins lower than historical averages for this segment. These acquisitions, and the full year impact of the prior year acquisitions of Lab M and Deoxi resulted in a 140 basis point decline in Food Safety gross margins. In addition, gross margins were also negatively impacted by the strength of the U.S. dollar relative to the international currencies in which the Company operates, primarily in Europe and Mexico, where the pound and peso declined in value against the U.S. dollar by 14% and 12%, respectively. These international operations report in through the Food Safety segment. Partially offsetting these negative impacts to gross margins were favorable shifts in product mix towards higher margin diagnostic test kits for mycotoxins and allergens. In fiscal 2016, lower gross margins resulted primarily from the strength in the U.S. dollar, which resulted in lower revenues and gross margins when international sales were converted from local currencies to the dollar. All currencies the Company operates in weakened against the dollar in fiscal 2016, pressuring margins in this segment. Additionally, revenues from the acquisition of Lab M, which were at lower average gross margins than the rest of the segment, standard cost adjustments at Neogen Latinoamerica, and other product mix shifts within the segment, negatively impacted gross margins in Food Safety.

Animal Safety gross margins were 40.6%, 40.1% and 40.4% in fiscal years 2017, 2016 and 2015, respectively. For fiscal 2017, improvements in raw material costs and favorable product mix in the genomics business and strong sales of forensic kits to commercial labs in the U.S. more than offset the loss of high margin revenues from the thyroid replacement product for companion animals which the Company was required to stop selling at the end of fiscal 2016. For fiscal 2016, improved gross margins from the 58% increase in sales of rodenticides, which have higher than average gross margins within the segment, were somewhat offset by lower gross margins on revenues from the dairy distribution business initiated in August 2015, lower gross margins at GeneSeek due to the significant increase in poultry business, which has lower than average gross margins within the genomics product line, and other product mix shifts within the segment.

Operating Expenses

<i>(Dollars in thousands)</i>	2017	Increase	2016	Increase	2015
Sales and Marketing	\$ 62,424	8%	\$ 57,599	11%	\$ 51,757
General and Administrative	34,214	17%	29,189	16%	25,233
Research and Development	10,385	5%	9,890	3%	9,577
Total Operating Expense	\$ 107,023	11%	96,678	12%	86,567

Overall operating expenses increased by 11% in fiscal 2017 and 12% in fiscal 2016, each compared to the prior year. These increases compare to revenue increases of 13% in each comparative period. Sales and marketing expenses increased by 8% in fiscal 2017 and 11% in fiscal 2016, each compared with the prior year. As a percentage of sales, sales and marketing expense was 17.3%, 17.9% and 18.3% in fiscal years 2017, 2016 and 2015, respectively. For fiscal 2017, salaries and commissions within the sales and marketing function, which is also comprised of technical service, customer service and product management personnel, rose 10%, primarily due to increased staffing and the increase in revenue, while travel expenses rose 7%. Other significant expense increases were domestic shipping expense, up 11% and in line with the revenue increase, and royalty expense, which rose 35% due to increased sales in fiscal 2017 and a one-time credit in the prior year resulting from a retroactive rate reduction on a royalty agreement. Of the \$4.8 million increase in expenses,

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approximately \$2.2 million resulted from the Company's recent acquisitions. For fiscal 2016, salaries, commissions and travel expenses rose 13%, primarily on increases in staffing and higher revenue. Other significant expense increases were sales promotions and allowances, based on higher levels of sales to the Company's largest distributors, shipping expense, up 13% and in line with the revenue increase, and shows and exhibits, which rose 22% on increased Company participation in trade shows.

General and administrative expenses rose 17% in fiscal 2017 compared to fiscal 2016 and by 16% in fiscal 2016 compared to fiscal 2015. The increases in fiscal years 2017 and 2016, respectively, are primarily the result of higher salaries, due to additional headcount as well as compensation increases. Higher legal and professional fees and additional amortization of intangible assets, due to the Company's recent acquisitions, also contributed to the increase in each comparative period.

Research and development expenses increased 5% in fiscal 2017 and 3% in fiscal 2016, each compared to the prior year. Higher salaries expense in each fiscal year, resulting from increased headcount, was partially offset by lower levels of consulting and other outside services. As a percentage of revenue, these expenses were 2.9% in fiscal year 2017, 3.1% in fiscal year 2016 and 3.4% in fiscal year 2015; the Company expects to spend 3% to 4% of total revenue on research and development annually.

Operating Income

<i>(Dollars in thousands)</i>	2017	Increase	2016	Increase	2015
Operating Income	\$ 64,945	15%	\$ 56,386	6%	\$ 53,118

The Company's operating income increased by 15% in fiscal 2017 compared to fiscal 2016, and by 6% in fiscal 2016 compared to fiscal 2015. Expressed as a percentage of revenues, it was 18.0%, 17.6% and 18.8% in fiscal years 2017, 2016 and 2015, respectively.

The 15% increase in operating income for 2017 was due to the 13% increase in revenues and operating expense increases which were less than the revenue growth rate, combined with gross margins which, at 47.6% of sales, were the same as the prior year.

The 6% increase in operating income in fiscal 2016 was due primarily to the 13% increase in revenues and lower rates of increases in operating expenses, partially offset by the 170 basis point reduction in gross margin expressed as a percentage of revenues. The Company controlled its expense growth while incurring additional amortization and other expenses relating to its recent acquisitions.

Other Income (Expense)

<i>(Dollars in thousands)</i>	2017	Increase	2016	Increase	2015
Other Income (Expense)	\$ 1,728	n/a	\$ (873)	n/a	\$ (1,042)

Other Income (Expense) consists principally of royalty income, interest income from investing the Company's excess cash balances, the impact of foreign currency transactions, adjustments to contingent consideration liabilities relating to acquisitions, and other miscellaneous items.

Other Income of \$1,728,000 in fiscal 2017 primarily consisted of net interest income of \$838,000, a \$660,000 gain recorded as the result of the settlement of a licensing agreement, \$171,000 of royalty income, a net gain of \$18,000 resulting from contingent consideration payments made during the year for prior year acquisitions, and a loss of \$40,000 on foreign currency translations.

In fiscal 2016, Other Expense primarily consisted of losses on foreign currency translations of \$1,338,000, the result of all foreign currencies in which we operate devaluing against the U.S. dollar. In addition, the Company recognized interest income of \$322,000, and royalty income of \$217,000.

In fiscal 2015, Other Income (Expense) primarily consisted of losses on foreign currency translations of \$1,124,000, the result of the stronger U.S. dollar during the year. In addition, the Company recognized interest income of \$228,000, royalty income of \$150,000 and net expense of \$297,000 resulting from contingent consideration payments made during the year for prior year acquisitions. The contingent consideration adjustments consisted of \$241,000 of income for SyrVet, \$454,000 of expense for Prima Tech, and \$84,000 of expense for Chem-Tech; these adjustments were the difference between the liability recorded at the initial purchase of each business and the actual payment made to the former owners, and were based on the achievement of sales goals for the first 12 months of the Company's ownership.

Provision for Income Taxes

<i>(Dollars in thousands)</i>	2017	Increase	2016	Increase	2015
Provision for Income Taxes	\$ 22,700	20%	\$ 18,975	3%	\$ 18,500

The effective tax rate was 34.0% of pretax income in fiscal 2017, 34.2% in fiscal 2016 and 35.5% in fiscal 2015. Differences in the tax rate from the 35% U.S. statutory corporate rate were primarily due to increases from international taxes and the provision for state taxes, offset by tax deductions related to domestic manufacturing and credits related to research and development activities. The fiscal 2017 effective tax rate of 34.0% includes benefit from research and development credits, the Company's domestic manufacturing deduction and reversal of a valuation allowance against net operating losses in Brazil, which the Company is utilizing. The Company is currently under audit by the Internal Revenue Service for fiscal years 2014–2016.

The effective tax rate declined in fiscal 2016 due primarily to amendments filed for the fiscal 2012, 2013 and 2014 federal income tax returns and an adjustment for fiscal 2015 relating to credits claimed for research and development activities. The Company engaged a third party in fiscal 2016 to perform a study of its research and development activities, and credits originally claimed thereon, for these prior annual periods. Based on the results of the study, the Company revised its calculations for its research and development activities for those periods, resulting in higher tax credits.

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Net Income and Income Per Share

<i>(Dollars in thousands—except per share data)</i>	2017	Increase	2016	Increase	2015
Net Income Attributable to Neogen	\$ 43,793	20%	\$ 36,564	9%	\$ 33,526
Net Income Per Share—Basic	1.16		0.98		0.91
Net Income Per Share—Diluted	1.14		0.97		0.90

Net income increased by 20% in fiscal 2017 and increased by 9% in fiscal 2016, each compared to the prior year. As a percentage of revenue, net income was 12.1% in fiscal 2017, 11.4% in fiscal 2016 and 11.8% in fiscal 2015.

Future Operating Results

Neogen Corporation's future operating results involve a number of risks and uncertainties. Actual events or results may differ materially from those discussed in this report. Factors that could cause or contribute to such differences include, but are not limited to, the factors discussed below as well as those discussed elsewhere in this report. Management's ability to grow the business in the future depends upon its ability to successfully implement various strategies, including:

- developing, manufacturing and marketing new products with new features and capabilities;
- expanding the Company's markets by fostering increased use of Company products by customers;
- maintaining or increasing gross and net operating margins in changing cost environments;
- strengthening sales and marketing activities in geographies outside of the U.S.;
- developing and implementing new technology development strategies; and
- identifying and completing acquisitions that enhance existing product categories or create new products or services.

FINANCIAL CONDITION AND LIQUIDITY

On May 31, 2017, the Company had \$77.6 million in cash and cash equivalents, \$66.1 million in marketable securities and working capital of \$257.0 million. For the year ended May 31, 2017, cash generated from operating activities was \$60.3 million, compared to \$35.3 million generated in fiscal 2016; proceeds from stock option exercises provided an additional \$21.1 million of cash. For the same period, additions to property and equipment and business acquisitions used cash of \$14.6 million and \$34.0 million, respectively. The Company has a financing agreement with a bank providing for an unsecured revolving line of credit of \$15.0 million, which expires on September 30, 2019. There were no advances against this line of credit during fiscal years 2017, 2016 and 2015, and no balance outstanding at May 31, 2017 and 2016. The Company does have an outstanding borrowing of \$1.2 million at its pesticide business in Brazil, which originated prior to the Company's purchase of the business. The terms of the borrowing allow for repayment of the principal only upon export shipment of the associated inventory, which the Company believes will occur in the 2018 fiscal year.

Accounts receivable at May 31, 2017 were \$68.6 million, compared to \$67.6 million at May 31, 2016, primarily due to the increase in revenues. Days sales outstanding, a measurement of the time it takes to collect receivables, decreased from 61 days at May 31, 2016 to 60 days at May 31, 2017. All customer accounts are actively managed and no losses in excess of amounts reserved are currently expected.

Inventory balances were \$73.1 million at May 31, 2017, an increase of \$8.7 million, or 14%, compared to \$64.4 million at May 31, 2016. Approximately \$2.2 million of the increase was from the acquisitions of Quat-Chem and Rogama, completed during fiscal 2017. The Company also increased inventory levels at a number of its other operations to support the revenue growth and to ensure adequate safety stocks to minimize backorders. The Company continues to identify and rationalize redundant product offerings resulting from recent acquisitions.

Neogen has been consistently profitable and has generated strong cash flow from operations during fiscal years 2015, 2016 and 2017. However, the Company's cash on hand and current borrowing capacity may not be sufficient to meet the Company's cash requirements to commercialize products currently under development or its potential plans to acquire additional businesses, technology and products that fit within the Company's strategic plan. Accordingly, the Company may be required, or may choose, to issue equity securities or enter into other financing arrangements for a portion of its future capital needs.

The Company is subject to certain legal and other proceedings in the normal course of business that have not had, and, in the opinion of management, are not expected to have, a material effect on its results of operations or financial position.

Contractual Obligations

The Company has the following contractual obligations due by period:

<i>(In thousands)</i>	Total	Less than one year	1–3 years	3–5 years	More than 5 years
Long-Term Debt	\$ 1,195	\$ 1,195	\$ —	\$ —	\$ —
Operating Leases	1,150	591	381	155	23
Unconditional Purchase Obligations (1)	48,831	43,402	5,429	—	—
	\$ 51,176	\$ 45,188	\$ 5,810	\$ 155	\$ 23

(1) Unconditional purchase obligations are primarily purchase orders for future inventory and capital equipment purchases.

New Accounting Pronouncements

See discussion of any New Accounting Pronouncements in Note 1 to Consolidated Financial Statements.

Neogen Corporation and Subsidiaries: Consolidated Balance Sheets

Assets <i>(In thousands)</i>	May 31	
	2017	2016
Current Assets		
Cash and cash equivalents	\$ 77,567	\$ 55,257
Marketable securities	66,068	52,539
Accounts receivable, less allowance of \$2,000 and \$1,500 at May 31, 2017 and 2016, respectively	68,576	67,652
Inventories	73,144	64,371
Prepaid expenses and other current assets	7,606	8,407
Total Current Assets	292,961	248,226
Property and Equipment		
Land and improvements	3,094	2,659
Buildings and improvements	37,917	33,417
Machinery and equipment	64,867	56,470
Furniture and fixtures	3,333	3,068
Construction in progress	2,290	1,057
	111,501	96,671
Less accumulated depreciation	49,753	41,988
Net Property and Equipment	61,748	54,683
Other Assets		
Goodwill	104,759	88,506
Other non-amortizable intangible assets	14,323	9,170
Amortizable customer-based intangible assets, net of accumulated amortization of \$20,846 and \$17,277 at May 31, 2017 and 2016, respectively	35,983	30,909
Other non-current assets, net of accumulated amortization of \$9,931 and \$7,530 at May 31, 2017 and 2016, respectively	18,635	18,446
Total Other Assets	173,700	147,031
	\$ 528,409	\$ 449,940

Liabilities and Equity <i>(In thousands, except share and per share)</i>	May 31	
	2017	2016
Current Liabilities		
Accounts payable	\$ 16,244	\$ 15,800
Accruals		
Accrued compensation	5,002	4,986
Income taxes	936	–
Other accruals	13,820	7,812
Total Current Liabilities	36,002	28,598
Deferred Income Taxes	17,048	14,758
Other Non-Current Liabilities	3,602	2,423
Total Liabilities	56,652	45,779
Commitments and Contingencies (Note 7)		
Equity		
Preferred stock, \$1.00 par value – shares authorized 100,000; none issued and outstanding	–	–
Common stock, \$0.16 par value – shares authorized 60,000,000; 38,199,367 and 37,567,689 shares issued and outstanding at May 31, 2017 and 2016, respectively	6,112	6,011
Additional paid-in capital	176,779	150,000
Accumulated other comprehensive loss	(7,203)	(3,946)
Retained earnings	295,926	252,133
Total Neogen Corporation and Subsidiaries Stockholders' Equity	471,614	404,198
Non-controlling interest	143	(37)
Total Equity	471,757	404,161
	\$ 528,409	\$ 449,940

See accompanying notes to consolidated financial statements.

Neogen Corporation and Subsidiaries: Consolidated Statements of Income

	Year ended May 31		
<i>(In thousands, except per share)</i>	2017	2016	2015
Revenues			
Product revenues	\$ 306,512	\$ 273,570	\$ 243,909
Service revenues	55,082	47,705	39,165
Total Revenues	361,594	321,275	283,074
Cost of Revenues			
Cost of product revenues	156,568	137,766	120,377
Cost of service revenues	33,058	30,445	23,012
Total Cost of Revenues	189,626	168,211	143,389
Gross Margin	171,968	153,064	139,685
Operating Expenses			
Sales and marketing	62,424	57,599	51,757
General and administrative	34,214	29,189	25,233
Research and development	10,385	9,890	9,577
Total Operating Expenses	107,023	96,678	86,567
Operating Income	64,945	56,386	53,118
Other Income (Expense)			
Interest income	838	322	228
Royalty income	171	217	150
Change in purchase consideration	18	—	(297)
Other, net	701	(1,412)	(1,123)
Total Other Income (Expense)	1,728	(873)	(1,042)
Income Before Income Taxes	66,673	55,513	52,076
Provision for Income Taxes	22,700	18,975	18,500
Net Income	43,973	36,538	33,576
Net (Income) Loss Attributable to Non-controlling Interest	(180)	26	(50)
Net Income Attributable to Neogen	\$ 43,793	\$ 36,564	\$ 33,526
Net Income Attributable to Neogen per Share			
Basic	\$ 1.16	\$ 0.98	\$ 0.91
Diluted	\$ 1.14	\$ 0.97	\$ 0.90

See accompanying notes to consolidated financial statements.

Neogen Corporation and Subsidiaries: Consolidated Statements of Comprehensive Income

	Year ended May 31		
<i>(In thousands)</i>	2017	2016	2015
Net income	\$ 43,973	\$ 36,538	\$ 33,576
Other comprehensive income (loss), net of tax: currency translation adjustments	(3,257)	(1,504)	(2,813)
Comprehensive income	40,716	35,034	30,763
Comprehensive (income) loss attributable to non-controlling interest	(180)	26	(50)
Comprehensive income attributable to Neogen	\$ 40,536	\$ 35,060	\$ 30,713

See accompanying notes to consolidated financial statements.

Neogen Corporation and Subsidiaries: Consolidated Statements of Equity

<i>(In thousands, except shares)</i>	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-controlling Interest	Total Equity
	Shares	Amount					
Balance, May 31, 2014	36,732,313	\$ 5,877	\$ 118,070	\$ 371	\$ 182,043	\$ (61)	\$ 306,300
Exercise of options, share based compensation and \$2,475 income tax benefit	376,364	61	13,115				13,176
Issuance of shares under employee stock purchase plan	19,592	3	721				724
Net income (loss) for 2015					33,526	50	33,576
Other comprehensive income (loss)				(2,813)			(2,813)
Balance, May 31, 2015	37,128,269	5,941	131,906	(2,442)	215,569	\$ (11)	350,963
Exercise of options, share based compensation and \$2,945 income tax benefit	421,143	67	17,311				17,378
Issuance of shares under employee stock purchase plan	18,277	3	783				786
Net income (loss) for 2016					36,564	(26)	36,538
Other comprehensive income (loss)				(1,504)			(1,504)
Balance, May 31, 2016	37,567,689	6,011	150,000	(3,946)	252,133	\$ (37)	404,161
Exercise of options, share based compensation and \$3,922 income tax benefit	612,963	98	26,621				26,719
Issuance of shares under employee stock purchase plan	18,715	3	922				925
Purchase of minority interest			(764)				(764)
Net income (loss) for 2017					43,793	180	43,973
Other comprehensive income (loss)				(3,257)			(3,257)
Balance, May 31, 2017	38,199,367	\$ 6,112	\$ 176,779	\$ (7,203)	\$ 295,926	\$ 143	\$ 471,757

See accompanying notes to consolidated financial statements.

Neogen Corporation and Subsidiaries: Consolidated Statements of Cash Flows

<i>(In thousands)</i>	Year ended May 31		
	2017	2016	2015
Cash Flows From Operating Activities			
Net income	\$ 43,973	\$ 36,538	\$ 33,576
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization	14,691	12,181	10,649
Deferred income taxes	(292)	1,906	496
Share-based compensation	5,261	5,468	4,450
Excess income tax benefit from the exercise of stock options	(3,922)	(2,945)	(2,475)
Changes in operating assets and liabilities, net of business acquisitions:			
Accounts receivable	5,035	(6,002)	(7,252)
Inventories	(6,970)	(9,427)	319
Prepaid expenses and other assets	812	(3,836)	3,264
Accounts payable	(1,691)	704	412
Accruals and other changes	3,377	744	353
Net Cash From Operating Activities	60,274	35,331	43,792
Cash Flows Used In Investing Activities			
Purchases of property, equipment and other non-current intangible assets	(14,578)	(14,222)	(9,619)
Proceeds from the sale of marketable securities	149,226	147,189	93,662
Purchases of marketable securities	(162,755)	(151,625)	(105,944)
Business acquisitions, net of cash acquired	(34,029)	(42,491)	(6,554)
Net Cash Used In Investing Activities	(62,136)	(61,149)	(28,455)
Cash Flows From Financing Activities			
Exercise of stock options	21,148	12,363	8,558
Excess income tax benefit from the exercise of stock options	3,922	2,945	2,475
Net Cash From Financing Activities	25,070	15,308	11,033
Effect of Exchange Rate on Cash	(898)	(294)	(984)
Net Increase (Decrease) In Cash and Cash Equivalents	22,310	(10,804)	25,386
Cash And Cash Equivalents, Beginning of Year	55,257	66,061	40,675
Cash And Cash Equivalents, End of Year	\$ 77,567	\$ 55,257	\$ 66,061
Supplementary Cash Flow Information			
Income taxes paid, net of refunds	\$ 13,865	\$ 13,413	\$ 10,454

See accompanying notes to consolidated financial statements.

Neogen Corporation and Subsidiaries: Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Neogen Corporation develops, manufactures and markets a diverse line of products and services dedicated to food and animal safety.

Basis of Consolidation

The consolidated financial statements include the accounts of Neogen Corporation and its subsidiaries (collectively, the Company), all of which are wholly owned as of May 31, 2017, with the exception of Neogen Latinoamérica. Neogen Latinoamérica was 90% owned as of May 31, 2017 and 2016. The Company made an additional capital contribution on December 31, 2013 which increased its ownership interest in Neogen Latinoamérica from 60% to 90%. Neogen do Brasil was 100% and 90% owned as of May 31, 2017 and 2016, respectively. The Company purchased all shares owned by the two minority interest owners on February 28, 2017, which increased its ownership interest in Neogen do Brasil to 100%. Non-controlling interest represents the non-controlling owner's proportionate share in the equity of these subsidiaries; the non-controlling owner's proportionate share in the income or losses of the subsidiaries is subtracted from, or added to, Company net income to calculate the net income attributable to Neogen Corporation.

All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Significant estimates impacting the accompanying consolidated financial statements include the allowance for uncollectible accounts receivable, inventory valuation and intangible assets.

Comprehensive Income

Comprehensive income represents net income and any revenues, expenses, gains and losses that, under U.S. generally accepted accounting principles, are excluded from net income and recognized directly as a component of equity. Accumulated other comprehensive income (loss) consists solely of foreign currency translation adjustments.

Accounts Receivable and Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of accounts receivable. Management attempts to minimize credit risk by reviewing customers' credit history before extending credit and by monitoring credit exposure on a regular basis. An allowance for doubtful accounts on accounts receivable is established based upon factors surrounding the credit risk of specific customers, historical trends and other information. Collateral or other security is generally not required for accounts receivable. Once a receivable balance has been determined to be uncollectible, that amount is charged against the allowance for doubtful accounts. No customer accounted for more than 10% of accounts receivable at May 31, 2017 or 2016, respectively. The activity in the allowance for doubtful accounts was as follows:

<i>(In thousands)</i>	Year ended May 31		
	2017	2016	2015
Beginning Balance	\$ 1,500	\$ 1,300	\$ 1,200
Provision	645	305	337
Recoveries	25	90	92
Write-offs	(170)	(195)	(329)
Ending Balance	\$ 2,000	\$ 1,500	\$ 1,300

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments other than cash equivalents and marketable securities, which include accounts receivable and accounts payable, approximate fair value based on either their short maturity or current terms for similar instruments.

Fair Value Measurements

Fair value measurements are determined based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants exclusive of any transaction costs. The Company utilizes a fair value hierarchy based upon the observability of inputs used in valuation techniques as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Cash and Cash Equivalents

Cash and cash equivalents consist of bank demand accounts, savings deposits, certificates of deposit and commercial paper with original maturities of 90 days or less. Cash and cash equivalents were \$77,567,000 and \$55,257,000 at May 31, 2017 and 2016, respectively. The carrying value of these assets approximates fair value due to the short maturity of these instruments and meet the Level 1 criteria. Cash held by foreign subsidiaries was \$8,132,000 and \$5,320,000 at May 31, 2017 and 2016, respectively.

Neogen Corporation and Subsidiaries: Notes to Consolidated Financial Statements

Marketable Securities

The Company has marketable securities held by banks or broker-dealers at May 31, 2017, consisting of short-term domestic certificates of deposit of \$25,355,000 and commercial paper rated at least A-2/P-2 with maturities between 91 days and one year of \$40,713,000. Total outstanding marketable securities at May 31, 2017 were \$66,068,000; there were \$52,539,000 in marketable securities outstanding at May 31, 2016. These securities are classified as available for sale. The primary objective of the Company's short-term investment activity is to preserve capital for the purpose of funding operations, capital expenditures and business acquisitions; short-term investments are not entered into for trading or speculative purposes. These securities are recorded at fair value (that approximates cost) based on recent trades or pricing models and therefore meet the Level 2 criteria. Interest income on these investments is recorded within Other Income on the income statement.

Inventories

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

<i>(In thousands)</i>	Year ended May 31	
	2017	2016
Raw materials	\$ 33,190	\$ 29,501
Work-in-process	4,831	4,498
Finished goods	35,123	30,372
	\$ 73,144	\$ 64,371

The Company's inventories are analyzed for slow moving, expired and obsolete items no less frequently than quarterly and the valuation allowance is adjusted as required. The valuation allowance for inventory was \$2,000,000 and \$1,550,000 at May 31, 2017 and 2016, respectively.

Property and Equipment

Property and equipment is stated at cost. Expenditures for major improvements are capitalized while repairs and maintenance are charged to expense. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets, which are generally seven to 39 years for buildings and improvements and three to ten years for furniture, fixtures, machinery and equipment. Depreciation expense was \$8,783,000, \$7,452,000 and \$6,318,000 in fiscal years 2017, 2016 and 2015, respectively.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over fair value of tangible net assets of acquired businesses after amounts are allocated to other identifiable intangible assets. Other intangible assets include customer relationships, trademarks, licenses, trade names, covenants not-to-compete and patents. Amortizable intangible assets are amortized on either an accelerated or a straight-line basis, generally over 5 to 25 years. The Company reviews the carrying amounts of goodwill and other non-amortizable intangible assets annually, or when indications of impairment exist, to determine if such assets may be impaired by performing a quantitative assessment. If the carrying amounts of these assets are deemed to be less than fair value based upon a discounted cash flow analysis and comparison to comparable earnings multiples of peer companies, such assets are reduced to their estimated fair value and a charge is made to operations. The remaining weighted-average amortization period for customer-based intangibles and other intangibles are 11 and 12 years, respectively, at May 31, 2017 and May 31, 2016.

Long-lived Assets

Management reviews the carrying values of its long-lived assets to be held and used, including definite-lived intangible assets, for possible impairment whenever events or changes in business conditions warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated separately identifiable undiscounted cash flows over the remaining useful life of the asset are less than the carrying value of the asset. In such an event, fair value is determined using discounted cash flows and if lower than the carrying value, impairment is recognized through a charge to operations.

Reclassifications

Certain amounts in the fiscal 2016 and 2015 financial statements have been reclassified to conform to the fiscal 2017 presentation.

See the Company's discussion on Accounting Standards Update 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, below for information on reclassifications related to the adoption of this standard as of May 31, 2017.

Stock Options

At May 31, 2017, the Company had stock option plans which are described more fully in Note 5.

The weighted-average fair value per share of stock options granted during fiscal years 2017, 2016 and 2015, estimated on the date of grant using the Black-Scholes option pricing model, was \$15.86, \$13.11 and \$11.91, respectively. The fair value of stock options granted was estimated using the following weighted-average assumptions:

	Year ended May 31		
	2017	2016	2015
Risk-free interest rate	1.2%	1.2%	1.2%
Expected dividend yield	0.0%	0.0%	0.0%
Expected stock volatility	35.2%	33.3%	36.2%
Expected option life	4.0 years	4.0 years	4.0 years

Neogen Corporation and Subsidiaries: Notes to Consolidated Financial Statements

The risk-free interest rate for periods within the expected life of options granted is based on the United States Treasury yield curve in effect at the time of grant. Expected stock price volatility is based on historical volatility of the Company's stock. The expected option life, representing the period of time that options granted are expected to be outstanding, is based on historical option exercise and employee termination data. The Company recognizes the fair value of stock options using the accelerated method over their requisite service periods which the Company has determined to be the vesting periods.

Revenue Recognition

Revenue from products and services is recognized when the product has been shipped or the service performed, the sales price is fixed and determinable, and collection of any receivable is probable. To the extent that customer payment has been received before all recognition criteria are met, these revenues are initially deferred and later recognized in the period that all recognition criteria have been met. Customer credits for sales returns, pricing and other disputes, and other related matters (including volume rebates offered to certain distributors as marketing support) represent approximately 3% of reported net revenue in fiscal years 2017, 2016 and 2015.

Shipping and Handling Costs

Shipping and handling costs that are charged to and reimbursed by the customer are recognized as revenues, while the related expenses incurred by the Company are recorded in sales and marketing expense; these expenses totaled \$10,185,000, \$9,734,000 and \$8,648,000 in fiscal years 2017, 2016 and 2015, respectively.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and for tax credit carry forwards and are measured using the enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred income tax expense represents the change in net deferred income tax assets and liabilities during the year.

The Company's wholly-owned foreign subsidiaries are comprised of Neogen Europe, Lab M Holdings, Quat-Chem, Neogen do Brasil, Neogen Bio-Scientific Technology Co (Shanghai), Neogen Food and Animal Security (India), Neogen Canada, Acumedia do Brasil, Deoxi Biotecnologia Ltda, and Rogama Industria e Comercio, Ltda; Neogen owns 90% of Neogen Latinoamérica. Based on historical experience, as well as the Company's future plans, earnings from these subsidiaries are expected to be re-invested indefinitely for future expansion and working capital needs. Furthermore, the Company's domestic operations have historically produced sufficient operating cash flow to mitigate the need to remit foreign earnings. On an annual basis, the Company evaluates the current business environment and whether any new events or other external changes might require a re-evaluation of the decision to indefinitely re-invest foreign earnings. At May 31, 2017, unremitted earnings of the foreign subsidiaries were \$35,281,000.

Research and Development Costs

Research and development costs, which consist primarily of compensation costs, administrative expenses and new product development, among other items, are expensed as incurred.

Advertising Costs

Advertising costs are expensed as incurred and totaled \$1,643,000, \$1,463,000 and \$1,371,000 in fiscal years 2017, 2016 and 2015, respectively.

Net Income Attributable to Neogen per Share

Basic net income per share is based on the weighted average number of common shares outstanding during each year. Diluted earnings per share are based on the weighted average number of common shares and dilutive potential common shares outstanding. The Company's dilutive potential common shares outstanding during the years result entirely from dilutive stock options. The following table presents the net income per share calculations:

<i>(In thousands, except per share)</i>	Year ended May 31		
	2017	2016	2015
Numerator for basic and diluted net income per share – Net income attributable to Neogen	\$ 43,793	\$ 36,564	\$ 33,526
Denominator for basic net income per share – Weighted average shares	37,908	37,402	36,953
Effect of dilutive stock options	466	473	491
Denominator for diluted net income per share	38,374	37,875	37,444
Net income attributable to Neogen per share			
Basic	\$ 1.16	\$ 0.98	\$ 0.91
Diluted	\$ 1.14	\$ 0.97	\$ 0.90

At May 31, 2017, 2016 and 2015, the market price of the common stock exceeded the option exercise price for all outstanding options; therefore, no shares were excluded from the diluted net income per share computation.

New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09—Revenue from Contracts with Customers. The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue to depict the transfer of promised goods or services

Neogen Corporation and Subsidiaries: Notes to Consolidated Financial Statements

to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is designed to create greater comparability for financial statement users across industries and jurisdictions and also requires enhanced disclosures. In April 2016, the FASB issued Accounting Standards Update No. 2016-10—Revenue from Contracts with Customers (Topic 606), which amends and adds clarity to certain aspects of the guidance set forth in ASU 2014-09 related to identifying performance obligations and licensing. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The guidance permits two methods of adoption; a full retrospective method to each prior reporting period presented or a modified retrospective approach with the cumulative effect of initially applying the guidance recognized at the date of initial application. The Company has formed a team to evaluate the impact of the adoption of this standard on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11—Inventory: Simplifying the Measurement of Inventory. The update requires inventory not measured using either the last in, first out (LIFO) or the retail inventory methods to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The update is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. The Company will adopt this standard on June 1, 2017 and does not expect the adoption will have a material impact on its consolidated financial condition and results of operations.

In September 2015, the FASB issued ASU 2015-16—Simplifying the Accounting for Measurement—Period Adjustments. Changes to the accounting for measurement-period adjustments relate to business combinations. Currently, an acquiring entity is required to retrospectively adjust the balance sheet amounts of the acquiree recognized at the acquisition date with a corresponding adjustment to goodwill as a result of changes made to the balance sheet amounts of the acquiree. The measurement period is the period after the acquisition date during which the acquirer may adjust the balance sheet amounts recognized for a business combination (generally up to one year from the date of acquisition). The changes eliminate the requirement to make such retrospective adjustments, and instead require the acquiring entity to record these adjustments in the reporting period they are determined. The new standard is effective for public companies for fiscal years beginning after December 15, 2015. The Company has adopted this standard; the adoption has not had a material impact on its consolidated financial condition and results of operations.

The FASB issued ASU No. 2015-17—Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes as part of its Simplification Initiative. The amendments eliminate the guidance in Topic 740, Income Taxes, that required an entity to separate deferred tax assets and liabilities between current and non-current amounts in a classified balance sheet. Rather, deferred taxes will be presented as non-current under the new standard. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016 for public companies. Early adoption is permitted. The Company retrospectively adopted ASU 2015-17 as of May 31, 2017. On the May 31, 2016 balance sheet, the Company reclassified \$1,775,000 of current deferred tax assets to Deferred Income Taxes, within Non-current Liabilities. Total assets and total liabilities decreased by \$1,775,000.

In February 2016, the FASB issued ASU No. 2016-02—Leases to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessor have not significantly changed from previous U.S. GAAP. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. Modified retrospective application is permitted with certain practical expedients. Early adoption is permitted. The Company is in the process of evaluating its lessee and lessor arrangements to determine the impact of this amendment on its consolidated financial condition and results of operations. This evaluation includes a review of revenue through leasing arrangements as well as lease expenses, which are primarily through operating lease arrangements at most of the Company's facilities.

In March 2016, the FASB issued ASU No. 2016-09 — Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting to provide guidance that changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid-in capital pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. This ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2016 with early adoption permitted. The Company will adopt this standard effective June 1, 2017 and currently believes that tax benefits related to share-based payments will result in a lower effective tax rate in fiscal 2018.

In June 2016, the FASB issued ASU No. 2016-13 — Measurement of Credit Losses on Financial Instruments, which changes how companies measure credit losses on most financial instruments measured at amortized cost and certain other instruments, such as loans, receivables and held-to-maturity debt securities. Rather than generally recognizing credit losses when it is probable that the loss has been incurred, the revised guidance requires companies to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the company expects to collect over the instrument's contractual life. ASU 2016-13 is effective for fiscal periods beginning after December 15, 2019 and must be adopted as a cumulative effect adjustment to retained earnings. Early adoption is permitted. The Company does not believe the adoption of this guidance will have an impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15—Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). The amendments in ASU 2016-15 address eight specific cash flow issues and apply to all entities that are required to present a statement of cash flows under FASB Accounting Standards Codification (FASB ASC) 230, Statement of Cash Flows. The amendments in ASU 2016-15 are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption during an interim period. The Company has not yet adopted this update and is currently evaluating the impact of ASU No. 2016-15 on its consolidated financial statements.

Neogen Corporation and Subsidiaries: Notes to Consolidated Financial Statements

In January 2017, the FASB issued ASU 2017-04 — Intangibles - Goodwill and Other (Topic 350). ASU 2017-04 simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual, or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendment should be applied on a prospective basis. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company has adopted this amendment; the adoption has not had an impact on its consolidated financial statements.

2. GOODWILL AND OTHER INTANGIBLE ASSETS

Management has completed the annual impairment analysis of goodwill and intangible assets with indefinite lives using a quantitative assessment as of the first day of the fourth quarter of fiscal years 2017, 2016 and 2015, respectively, and determined that recorded amounts were not impaired and that no write-down was necessary.

The following table summarizes goodwill by reportable segment:

<i>(In thousands)</i>	Food Safety	Animal Safety	Total
Balance, May 31, 2015	\$ 18,806	\$ 51,313	\$ 70,119
Goodwill acquired and/or adjusted	8,083	10,304	18,387
Balance, May 31, 2016	\$ 26,889	\$ 61,617	\$ 88,506
Goodwill acquired and/or adjusted ⁽¹⁾	19,031	(2,778)	16,253
Balance, May 31, 2017	\$ 45,920	\$ 58,839	\$ 104,759

⁽¹⁾ Represents final purchase price allocation adjustment

At May 31, 2017, non-amortizable intangible assets included licenses of \$569,000, trademarks of \$12,530,000 and other intangibles of \$1,224,000. At May 31, 2016, non-amortizable intangible assets included licenses of \$569,000, trademarks of \$7,377,000 and other intangibles of \$1,224,000.

Amortizable intangible assets consisted of the following and are included in customer-based intangible and other non-current assets within the consolidated balance sheets:

<i>(In thousands)</i>	Gross Carrying Amount	Less Accumulated Amortization	Net Carrying Amount
Licenses	\$ 5,989	\$ 2,011	\$ 3,978
Covenants not to compete	1,208	309	899
Patents	9,304	4,601	4,703
Customer-based intangibles	56,829	20,846	35,983
Other product and service-related intangibles	12,065	3,010	9,055
Balance, May 31, 2017	\$ 85,395	\$ 30,777	\$ 54,618
Licenses	\$ 5,189	\$ 1,782	\$ 3,407
Covenants not to compete	491	193	298
Patents	8,040	3,631	4,409
Customer-based intangibles	48,186	17,277	30,909
Other product and service-related intangibles	12,256	1,924	10,332
Balance, May 31, 2016	\$ 74,162	\$ 24,807	\$ 49,355

Amortization expense for intangibles totaled \$5,908,000, \$4,730,000 and \$4,331,000 in fiscal years 2017, 2016, and 2015, respectively. The estimated amortization expense for each of the five succeeding fiscal years is as follows: \$5,951,000 in 2018, \$5,558,000 in 2019, \$5,253,000 in 2020, \$4,977,000 in 2021 and \$4,646,000 in 2022. The amortizable intangible assets useful lives are 2 to 20 years for licenses, 5 to 13 years for covenants not to compete, 5 to 25 years for patents, 5 to 20 years for customer-based intangibles and 2 to 20 years for other product and service-related intangibles, which primarily consist of product formulations. All definite-lived intangibles are amortized on a straight line basis with the exception of definite-lived customer-based intangibles and product and service-related intangibles, which are amortized on an accelerated basis.

3. BUSINESS COMBINATIONS

The Consolidated Statements of Income reflect the results of operations for business acquisitions since the respective dates of purchase. All are accounted for using the acquisition method. Goodwill recognized in the acquisitions described below relates primarily to enhancing the Company's strategic platform for the expansion of available product offerings.

Fiscal 2015

On October 1, 2014, the Company acquired all of the stock of BioLumix, Inc., a manufacturer and marketer of automated systems for the detection of microbial

Neogen Corporation and Subsidiaries: Notes to Consolidated Financial Statements

contaminants located in Ann Arbor, Michigan. Consideration for the purchase was \$4,514,000 in cash. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of \$499,000, other receivable of \$178,000, inventory of \$421,000, prepaid assets of \$48,000, property and equipment of \$159,000, current liabilities of \$155,000, non-current liabilities of \$780,000, intangible assets of \$2,090,000 (with an estimated life of 5-15 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. This business has been relocated to Lansing, Michigan and integrated with the Company's operations there, reporting within the Food Safety segment.

On December 8, 2014, the Company acquired the food safety and veterinary genomic assets of its Chinese distributor Beijing Anapure BioScientific Co., Ltd. Consideration for the purchase was \$2,040,000 in cash. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included inventory of \$525,000, property and equipment of \$64,000, intangible assets of \$422,000 (with an estimated life of 5-15 years) and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. This business has been integrated into the Company's subsidiary in China and reports within the Food Safety segment.

Fiscal 2016

On June 1, 2015, the Company acquired the assets of Sterling Test House, a commercial food testing laboratory based in India. Consideration for the purchase was \$1,118,000 in cash and approximately \$102,000 of a contingent consideration liability, due in installments on the first two anniversary dates, based on an excess sales formula. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of \$43,000, inventory of \$14,000, property and equipment of \$141,000, contingent consideration accrual of \$102,000, intangible assets of \$345,000 (with an estimated life of 5-15 years) and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. This business continues to operate in its current location and reports within the Food Safety segment. In July 2016, the Company paid the former owner \$70,000 for contingent consideration based on the achievement of sales targets, and reduced the recorded liability by a corresponding amount. In May 2016, the Company revised the remaining contingent consideration accrual to Other Income because sales targets for the applicable periods were not achieved.

On August 26, 2015, the Company acquired all of the stock of Lab M Holdings, a developer, manufacturer and supplier of microbiological culture media and diagnostic systems located in the United Kingdom. Consideration for the purchase was \$12,436,000 in cash. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included cash of \$285,000, accounts receivable of \$975,000, inventory of \$1,169,000, property and equipment of \$3,337,000, other current assets of \$309,000, current liabilities of \$948,000, non-current deferred tax liability of \$784,000, intangible assets of \$3,611,000 (with an estimated life of 5-15 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. This business continues to operate in its current location and reports within the Food Safety segment.

On December 22, 2015, the Company acquired the rodenticide assets of Virbac Corporation, the North American affiliate of the France-based Virbac group, a global animal health company. The acquired assets include a rodenticide active ingredient that complements Neogen's existing active ingredients, and more than 40 regulatory approvals for a variety of formulations in the United States, Canada and Mexico. The acquired assets also include a large retail and OEM customer base. Consideration for the purchase was \$3,525,000 in cash and up to \$300,000 of contingent consideration. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included inventory of \$317,000, property and equipment of \$60,000, current liabilities of \$300,000, intangible assets of \$1,759,000 (with an estimated life of 5-15 years), non-amortizable trademarks of \$200,000 and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. The products are manufactured at the Company's production facility in Randolph, Wisconsin, and report within the Animal Safety segment. In fiscal 2016, the Company paid the former owner \$300,000 of contingent consideration based on the achievement of specific objectives, and reduced the recorded liability by a corresponding amount.

On April 26, 2016, the Company acquired the stock of Deoxi Biotecnologia Ltda., an animal genomics laboratory located in Aracatuba, Brazil. This acquisition is intended to help accelerate the growth of Neogen's animal genomics services in Brazil. Consideration for the purchase was \$1,549,000 in cash and up to \$2,552,000 of contingent consideration, due at the end of each of the first two years, based on an excess net sales formula. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of \$132,000, inventory of \$89,000, other current assets of \$9,000, property and equipment of \$232,000, current liabilities of \$266,000, contingent consideration accrual of \$453,000, non-current deferred tax liability of \$184,000, non-amortizable trademarks of \$193,000, intangible assets of \$350,000 (with an estimated life of 5-10 years) and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. This business continues to operate in its current location and is managed by Neogen do Brasil, reporting within the Food Safety segment. In June 2017, the Company paid the former owners \$393,000 in contingent consideration based on the achievement of sales targets, and charged \$14,000 to Other Income; \$60,000 remains accrued for contingent consideration at the end of the second year.

On May 1, 2016, the Company acquired the stock of Preserve International and its sister company, Tetradyne LLC, manufacturers and marketers of cleaners, disinfectants and associated products to the swine, poultry, food processing and dairy markets. Preserve and Tetradyne have manufacturing locations in Memphis, Tennessee and Turlock, California. Consideration for the purchase was \$24,245,000 in cash. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of \$1,629,000, inventory of \$1,964,000, other current assets of \$269,000, land, property and equipment of \$1,625,000, current liabilities of \$987,000, non-current liabilities of \$660,000, intangible assets of \$11,950,000 (with an estimated life of 5-15 years), non-amortizable trademarks of \$2,600,000, and the remainder to goodwill (partially deductible for tax purposes). These values are Level 3 fair value measurements. This business continues to operate in its current locations and reports within the Animal Safety segment.

Neogen Corporation and Subsidiaries: Notes to Consolidated Financial Statements

Fiscal 2017

On December 1, 2016, the Company acquired the stock of Quat-Chem Ltd., a chemical company that manufactures biosecurity products, based in Rochdale, England. Consideration for the purchase was \$21,606,000 in cash and up to \$3,778,000 of contingent consideration, due at the end of each of the first two years, based on an excess net sales formula. The preliminary purchase price allocation included accounts receivable of \$4,684,000, inventory of \$1,243,000, land, property and equipment of \$2,715,000, accounts payable of \$2,197,000, deferred tax liability of \$1,133,000, contingent consideration accrual of \$1,105,000, other current liabilities of \$604,000, non-amortizable intangible assets of \$1,637,000, intangible assets of \$5,682,000 (with an estimated life of 5-15 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. This business continues to operate in its current location and is managed by Neogen Europe, reporting within the Food Safety segment.

On December 27, 2016, the Company acquired the stock of Rogama Industria e Comercio, Ltda., a company that develops and manufactures rodenticides and insecticides, based near Sao Paulo, Brazil. Consideration for the purchase was \$12,423,000 in cash and up to \$2,069,000 of contingent consideration, due at the end of each of the first two years, based on an excess net sales formula. The preliminary purchase price allocation included accounts receivable of \$1,863,000, inventory of \$1,026,000, property and equipment of \$1,840,000, current liabilities of \$2,177,000, contingent consideration accrual of \$430,000, non-current deferred tax liability of \$1,307,000, non-amortizable intangible assets of \$591,000, intangible assets of \$3,252,000 (with an estimated life of 5-15 years) and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. This business continues to operate in its current location and is managed by Neogen do Brasil, reporting within the Food Safety segment.

4. LONG-TERM DEBT

The Company has a financing agreement with a bank providing for an unsecured revolving line of credit, which was amended on November 30, 2016 to increase the line from \$12,000,000 to \$15,000,000, and extend the maturity from September 1, 2017 to September 30, 2019. There were no advances against the line of credit during fiscal years 2016 and 2017; there was no balance outstanding at May 31, 2017. Interest on any borrowings is at LIBOR plus 100 basis points (rate under the terms of the agreement was 2.04% at May 31, 2017). Financial covenants include maintaining specified levels of tangible net worth, debt service coverage, and funded debt to EBITDA, each of which the Company was in compliance with at May 31, 2017.

5. EQUITY COMPENSATION PLANS

Qualified and non-qualified options to purchase shares of common stock may be granted to directors, officers and employees of the Company under the terms of the Company's stock option plans. These options are granted at an exercise price of not less than the fair market value of the stock on the date of grant. Remaining shares available for grant under stock option plans were 1,894,000, 2,457,000 and 306,000 at May 31, 2017, 2016 and 2015, respectively. Options vest ratably over three and five year periods and the contractual terms are generally five or ten years.

<i>(Options in thousands)</i>	Options	Weighted-Average Exercise Price	Weighted-Average Grant Date Fair Value
Outstanding at May 31, 2014 (577 exercisable)	1,869	\$ 25.69	\$ 7.62
Granted	536	39.79	11.91
Exercised	(380)	16.69	5.17
Forfeited	(37)	33.55	9.45
Outstanding at May 31, 2015 (639 exercisable)	1,988	31.04	9.20
Granted	549	46.98	13.11
Exercised	(427)	23.47	7.15
Forfeited	(29)	38.57	11.14
Outstanding at May 31, 2016 (656 exercisable)	2,081	36.71	10.63
Granted	621	54.24	15.86
Exercised	(620)	30.42	9.03
Forfeited	(58)	42.72	12.22
Outstanding at May 31, 2017 (496 exercisable)	2,024	\$ 43.84	\$ 12.68

The following is a summary of stock options outstanding at May 31, 2017:

<i>(Options in thousands)</i>		Options Outstanding			Options Exercisable	
Range of Exercise price	Number	Average Contractual Life (in years)	Weighted-Average Exercise Price	Number	Weighted Average Exercise Price	
\$ 11.02–36.26	491	1.8	\$ 31.22	268	\$ 29.16	
36.27–40.87	382	2.8	39.57	113	39.54	
40.88–49.68	536	4.1	46.52	115	45.12	
49.69–54.55	576	4.7	53.94	–	–	
54.56–65.71	39	7.7	58.74	–	–	
	2,024	3.5	43.84	496	35.23	

The weighted average exercise price of shares that were exercisable at May 31, 2017 and 2016 was \$35.23 and \$29.69, respectively.

Neogen Corporation and Subsidiaries: Notes to Consolidated Financial Statements

Compensation expense related to share-based awards was \$5,261,000, \$5,468,000 and \$4,450,000 in fiscal years 2017, 2016 and 2015, respectively. Remaining compensation cost to be expensed in future periods for non-vested options was \$10,999,000 at May 31, 2017, with a weighted average expense recognition period of 3.3 years.

The aggregate intrinsic value of options outstanding and options exercisable was \$39,388,000 and \$13,929,000, respectively, at May 31, 2017, \$26,344,000 and \$12,912,000 respectively, at May 31, 2016 and \$31,204,000 and \$14,201,000 respectively, at May 31, 2015. The aggregate intrinsic value of options exercised during the year was \$18,067,000 in fiscal 2017, \$12,980,000 in fiscal 2016 and \$10,690,000 in fiscal 2015.

Common stock totaling 8,725 of the 337,500 originally authorized shares are reserved for issuance under the terms of the 2002 Employee Stock Purchase Plan. An additional 375,000 shares are also reserved for issuance under the terms of the 2011 Employee Stock Purchase Plan. The plans give eligible employees the option to purchase common stock at a 5% discount to the lower of the market value of the stock at the beginning or end of each participation period; the discount is recorded in general and administrative expense. Total individual purchases in any year are limited to 10% of compensation. Shares purchased by employees were 18,715, 18,277 and 19,592 in fiscal years 2017, 2016 and 2015, respectively.

6. INCOME TAXES

Income before income taxes by source consists of the following amounts:

<i>(In thousands)</i>	Year ended May 31		
	2017	2016	2015
U.S.	\$ 55,171	\$ 50,662	\$ 45,156
Foreign	11,502	4,851	6,920
	\$ 66,673	\$ 55,513	\$ 52,076

The provision for income taxes consisted of the following:

<i>(In thousands)</i>	2017	2016	2015
Current:			
U.S. Taxes	\$ 20,259	\$ 14,630	\$ 15,269
Foreign	2,514	1,756	1,364
Deferred	(73)	2,589	1,867
	\$ 22,700	\$ 18,975	\$ 18,500

The reconciliation of income taxes computed at the U.S. federal statutory tax rate to income tax expense is as follows:

<i>(In thousands)</i>	2017	2016	2015
Tax at U.S. statutory rate	\$ 23,336	\$ 19,429	\$ 18,227
Section 199 domestic production deduction	(1,057)	(1,143)	(1,067)
Foreign rate differential	(1,247)	(699)	(949)
Subpart F income	996	1,049	1,396
Tax credits and other	(300)	337	39
Provisions for state income taxes, net of federal benefit	972	779	854
Amended U.S. Federal tax returns, FY12, FY13 & FY14	—	(777)	—
	\$ 22,700	\$ 18,975	\$ 18,500

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred income tax liabilities and assets are as follows:

<i>(In thousands)</i>	Year ended May 31	
	2017	2016
Deferred income tax liabilities		
Indefinite and long-lived assets	\$ (23,177)	\$ (19,296)
Prepaid expenses	(640)	(824)
Brazil valuation allowance	—	(542)
	(23,817)	(20,662)
Deferred income tax assets		
Stock options	2,604	2,786
Inventories and accounts receivable	2,603	2,076
Tax loss carryforwards	436	813
Accrued expenses and other	1,126	229
	6,769	5,904
Net deferred income tax liabilities	\$ (17,048)	\$ (14,758)

The Company had no accrual for unrecognized tax benefits at both May 31, 2017 and 2016. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, such accruals will be reflected within income tax accounts. The Company is under audit by the Internal Revenue Service for tax years 2014–2016.

Neogen Corporation and Subsidiaries: Notes to Consolidated Financial Statements

7. COMMITMENTS AND CONTINGENCIES

The Company is involved in environmental remediation and monitoring activities at its Randolph, Wisconsin manufacturing facility and accrues for related costs when such costs are determined to be probable and estimable. The Company expenses annual costs of remediation which have ranged from \$38,000 to \$57,000 per year over the past five years. The Company's estimated liability for these costs is \$916,000 at both May 31, 2017 and 2016, measured on an undiscounted basis over an estimated period of 15 years; \$54,000 of the liability is recorded within current liabilities and the remainder is recorded within other non-current liabilities in the consolidated balance sheet.

The Company has agreements with unrelated third parties that provide for the payment of license fees and royalties on the sale of certain products. Royalty expense, recorded in sales and marketing, under the terms of these agreements was \$2,659,000, \$1,969,000 and \$2,189,000 for fiscal years 2017, 2016 and 2015, respectively. Some of these agreements provide for guaranteed minimum royalty payments to be paid each fiscal year by the Company for certain technologies. Future minimum royalty payments are as follows: 2018—\$625,000, 2019—\$659,000, 2020—\$666,000, 2021—\$674,000 and 2022—\$597,000.

The Company leases office and manufacturing facilities under non-cancelable operating leases. Rent expense for fiscal years 2017, 2016 and 2015 was \$729,000, \$662,000 and \$736,000, respectively. Future fiscal year minimum rental payments for these leases over their remaining terms are as follows: 2018—\$591,000, 2019—\$292,000, 2020—\$88,000, 2021—\$87,000 and 2022 later—\$91,000.

The Company is subject to certain legal and other proceedings in the normal course of business that, in the opinion of management, should not have a material effect on its future results of operations or financial position.

8. DEFINED CONTRIBUTION BENEFIT PLAN

The Company maintains a defined contribution 401(k) benefit plan covering substantially all employees. Employees are permitted to defer compensation up to IRS limits, with the Company matching 100% of the first 3% of deferred compensation and 50% of the next 2% deferred. The Company's expense under this plan was \$1,259,000, \$1,188,000, and \$1,051,000 in fiscal years 2017, 2016 and 2015, respectively.

9. SEGMENT INFORMATION

The Company has two reportable segments: Food Safety and Animal Safety. The Food Safety segment is primarily engaged in the development, production and marketing of diagnostic test kits and related products used by food producers and processors to detect harmful natural toxins, foodborne bacteria, allergens and levels of general sanitation. The Animal Safety segment is primarily engaged in the development, production and marketing of products dedicated to animal safety, including a complete line of consumable products marketed to veterinarians and animal health product distributors; this segment also provides genomic identification and related interpretive bioinformatic services. Additionally, the Animal Safety segment produces and markets rodenticides, disinfectants, and insecticides to assist in control of rodents, insects and disease in and around agricultural, food production and other facilities.

Neogen's international operations in the United Kingdom, Mexico, Brazil, China and India originally focused on the Company's Food Safety products, and each of these units reports through the Food Safety segment. In recent years, these operations have expanded to offer the Company's complete line of products and services, including those usually associated with the Animal Safety segment such as cleaners, disinfectants, rodenticides, insecticides, veterinary instruments and genomics services. These additional products and services are managed and directed by existing management, and are reported through the Food Safety segment. The accounting policies of each of the segments are the same as those described in Note 1.

Segment information is as follows:

<i>(In thousands)</i>	Food Safety	Animal Safety	Corporate and Eliminations (1)	Total
Fiscal 2017				
Product revenues to external customers	\$ 155,795	\$ 150,717	\$ —	\$ 306,512
Service revenues to external customers	15,530	39,552	—	55,082
Total revenues to external customers	171,325	190,269	—	361,594
Operating income (loss)	33,971	34,841	(3,867)	64,945
Depreciation and amortization	7,088	7,603	—	14,691
Total assets	190,895	210,927	126,587	528,409
Expenditures for long-lived assets	10,332	4,246	—	14,578
Fiscal 2016				
Product revenues to external customers	\$ 133,743	\$ 139,827	\$ —	\$ 273,570
Service revenues to external customers	12,678	35,027	—	47,705
Total revenues to external customers	146,421	174,854	—	321,275
Operating income (loss)	28,984	30,978	(3,576)	56,386
Depreciation and amortization	5,609	6,572	—	12,181
Total assets	143,303	215,374	91,263	449,940
Expenditures for long-lived assets	9,192	5,030	—	14,222



Neogen Corporation and Subsidiaries: Notes to Consolidated Financial Statements

► Segment information, continued

<i>(In thousands)</i>	Food Safety	Animal Safety	Corporate and Eliminations (1)	Total
Fiscal 2015				
Product revenues to external customers	\$ 119,990	\$ 123,919	\$ —	\$ 243,909
Service revenues to external customers	11,489	27,676	—	39,165
Total revenues to external customers	131,479	151,595	—	283,074
Operating income (loss)	30,265	26,034	(3,181)	53,118
Depreciation and amortization	4,620	6,029	—	10,649
Total assets	110,655	179,082	102,444	392,181
Expenditures for long-lived assets	4,216	5,403	—	9,619

(1) Includes corporate assets, including cash and cash equivalents, marketable securities, current and deferred tax accounts, and overhead expenses not allocated to specific business segments. Also includes the elimination of intersegment transactions and noncontrolling interests.

Revenues to customers located outside the United States amounted to \$129,322,000 or 35.8% of consolidated revenues in fiscal 2017, \$107,680,000 or 33.5% in fiscal 2016 and \$103,867,000 or 36.7% in fiscal 2015 and were derived primarily in Canada and various countries throughout Europe, South and Central America and Asia. No customer represented revenues in excess of 10% of consolidated net sales in any of the three years. The United States based operations represent 76% of the Company's long-lived assets as of May 31, 2017 and 89% as of May 31, 2016.

10. STOCK REPURCHASE

In December 2008, the Company's Board of Directors authorized a program to purchase, subject to market conditions, up to 1,125,000 shares of the Company's common stock. As of May 31, 2017, 112,026 cumulative shares have been purchased in negotiated and open market transactions for a total price, including commissions, of approximately \$923,000. There were no purchases in fiscal years 2017, 2016 or 2015. Shares purchased under the program were retired.

11. SUMMARY OF QUARTERLY DATA (UNAUDITED)

<i>(In thousands, except per share)</i>	Quarter Ended			
	August 2016	November 2016	February 2017	May 2017
Total revenues	\$ 83,645	\$ 90,717	\$ 88,385	\$ 98,847
Gross margin	40,479	43,591	40,880	47,018
Net income	9,934	11,171	10,377	12,491
Net income attributable to Neogen	9,881	11,151	10,287	12,474
Basic net income per share	0.26	0.29	0.27	0.34
Diluted net income per share	0.26	0.29	0.27	0.32

<i>(In thousands, except per share)</i>	Quarter Ended			
	August 2015	November 2015	February 2016	May 2016
Total revenues	\$ 74,860	\$ 79,610	\$ 76,725	\$ 90,080
Gross margin	37,792	38,224	35,196	41,852
Net income	9,289	9,142	8,289	9,818
Net income attributable to Neogen	9,323	9,073	8,311	9,857
Basic net income per share	0.25	0.24	0.22	0.27
Diluted net income per share	0.25	0.24	0.22	0.26

Quarterly net income per share is based on weighted-average shares outstanding and potentially dilutive stock options for the specific period, and as a result, will not necessarily aggregate to total net income per share as computed for the year as disclosed in the consolidated statements of income.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders • Neogen Corporation and Subsidiaries • Lansing, Michigan

We have audited the accompanying consolidated balance sheets of Neogen Corporation and Subsidiaries (the Company) as of May 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended May 31, 2017. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Neogen Corporation and Subsidiaries at May 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Neogen Corporation and Subsidiaries' internal control over financial reporting as of May 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated July 28, 2017 expressed an unqualified opinion thereon.

BDO USA, LLP

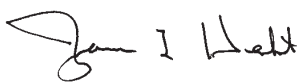
BDO USA, LLP • Grand Rapids, Michigan • July 28, 2017

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13-a-15(f) and 15d-15(f). Under the supervision and with the participation of the Company's management, including the Executive Chairman of the Board and Chief Financial Officer, an evaluation was conducted as to the effectiveness of internal control over financial reporting as of May 31, 2017, based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, management concluded that internal control over financial reporting was effective as of May 31, 2017. The effectiveness of internal control over financial reporting as of May 31, 2017, has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in its attestation report, which is included on the following page and is incorporated into this Item 9A by reference.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting were identified as having occurred during the year ended May 31, 2017 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.



James L. Herbert, Executive Chairman



Steven J. Quinlan, Vice President and CFO

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders • Neogen Corporation and Subsidiaries • Lansing, Michigan

We have audited Neogen Corporation and Subsidiaries' internal control over financial reporting as of May 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Neogen Corporation and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Neogen Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of May 31, 2017, based on the COSO criteria.

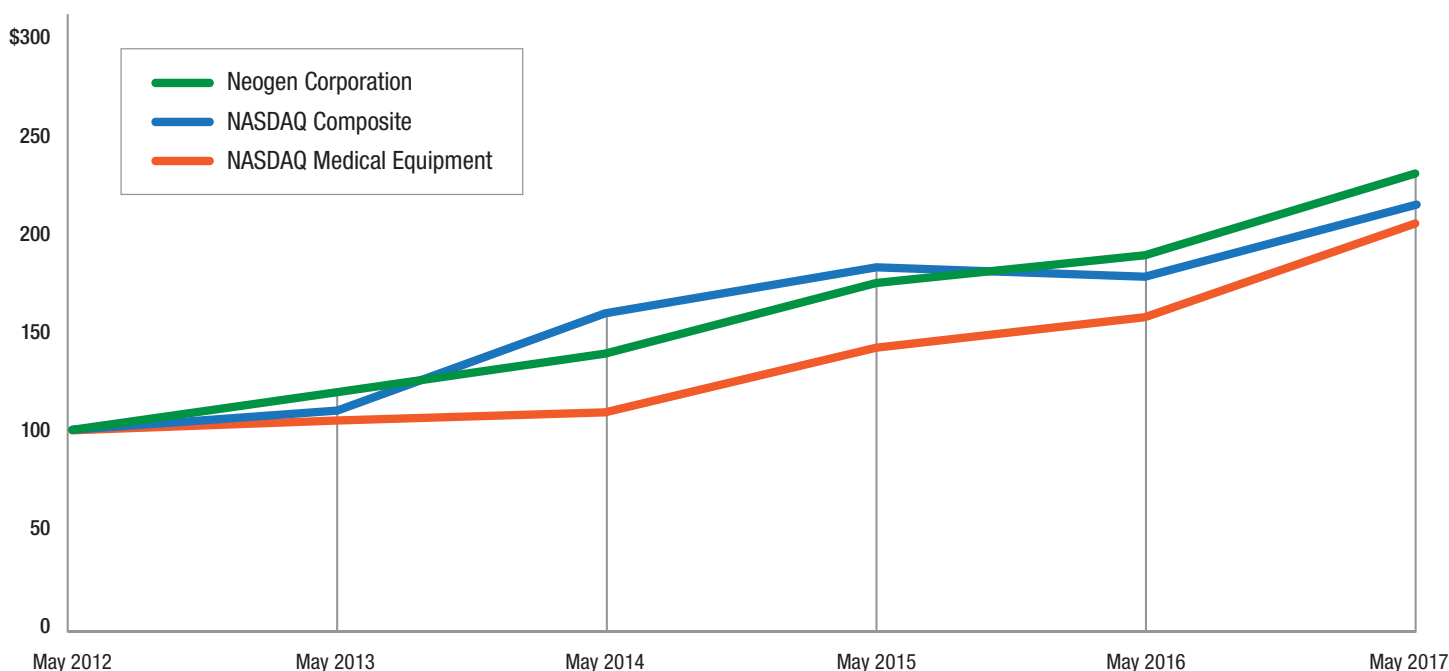
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Neogen Corporation and Subsidiaries as of May 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended May 31, 2017, and our report dated July 28, 2017 expressed an unqualified opinion thereon.

BDO USA, LLP

BDO USA, LLP • Grand Rapids, Michigan • July 28, 2017

Neogen Corporation and Subsidiaries: Comparison of Five Year Cumulative Total Return and Stock Profile Activity

The graph below matches Neogen Corporation's cumulative 5-year total shareholder return on common stock with the cumulative total returns of the NASDAQ Composite index and the NASDAQ Medical Equipment index. The graph tracks the performance of a \$100 investment in Neogen common stock and in each index (with the reinvestment of all dividends) from May 31, 2012 to May 31, 2017.



	May 31 of:	2012	2013	2014	2015	2016	2017
Neogen Corporation		\$ 100.00	\$ 139.88	\$ 145.57	\$ 180.05	\$ 190.18	\$ 243.80
NASDAQ Composite		100.00	123.46	155.08	186.71	183.49	231.19
NASDAQ Medical Equipment		100.00	110.10	114.40	146.23	155.20	204.07

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Market Information

Neogen Common Stock is traded on the NASDAQ Global Select Market under the symbol "NEOG." The following table sets forth, for the fiscal periods indicated, the high and low sales prices for the Common Stock as reported on the NASDAQ Stock Market.

Year Ended May 31, 2017		High		Low	
		\$		\$	
Year Ended May 31, 2017	First Quarter	\$ 60.56		\$ 49.30	
	Second Quarter	63.57		50.53	
	Third Quarter	69.09		61.25	
	Fourth Quarter	68.98		59.51	
Year Ended May 31, 2016	First Quarter	\$ 62.70		\$ 44.90	
	Second Quarter	59.76		43.00	
	Third Quarter	60.38		45.00	
	Fourth Quarter	53.02		43.79	

Holders

As of June 30, 2017, there were approximately 281 stockholders of record of Common Stock and management believes there are a total of approximately 12,000 beneficial holders.

Dividends

Neogen has never paid cash dividends on its Common Stock and does not anticipate paying cash dividends in the foreseeable future.

Neogen Corporation Officers and Directors

OFFICERS

James L. Herbert

Executive Chairman of the Board

John E. Adent

Chief Executive Officer

Richard E. Calk, Jr.

President

Chief Operating Officer

Steven J. Quinlan

Vice President

Chief Financial Officer and Secretary

Daniel D. Kephart, Ph.D.

Chief Science Officer

Stewart W. Bauck, DVM, Ph.D.

Vice President, Agrigenomics

Edward L. Bradley

Vice President, Food Safety

Joseph A. Corbett

Vice President, Animal Safety Sales and Operations

Melissa K. Herbert

Vice President, Support Services

Kenneth V. Kodilla

Vice President, Manufacturing

Jason W. Lilly, Ph.D.

Vice President, Corporate Development

Terri A. Morrical

Vice President, Animal Safety

Dwight E. Schroedter

Vice President, Animal Safety Manufacturing

DIRECTORS

James L. Herbert

Neogen Corporation

Executive Chairman of the Board

William T. Boehm, Ph.D.

Kroger Company

Former Senior Vice President

President's Council of Economic Advisors

Former Senior Economist

James C. Borel

E.I. DuPont de Nemours

Former Executive Vice President

Ronald D. Green, Ph.D.

University of Nebraska—Lincoln

Chancellor

G. Bruce Papesh

Dart, Papesh & Co.

President

Jack C. Parnell

Siller Brothers, Inc.

Chairman of the Board

Siller Helicopters, Inc.

Chairman of the Board

U.S. Department of Agriculture

Former Deputy Secretary

Former Acting Secretary

State of California

Former Secretary of Agriculture

Thomas H. Reed

Tom Reed & Associates

President

JBS Packerland

Former Senior Vice President

Michigan Livestock Exchange

Former President and CEO

MSU Board of Trustees

Former Chairman

James P. Tobin

Monsanto

Former Vice President

Form 10-K and the Company's Code of Ethics

Copies of Form 10-K and the Company's Code of Ethics will be provided upon request without charge to persons directing their request to:

Neogen Corporation
Attention: Investor Relations
620 Leshar Place
Lansing, MI 48912

Annual Meeting

October 5, 2017 at 10:00 a.m.
University Club at Michigan State University
3435 Forest Road
Lansing, MI 48910

Independent Registered Public Accounting Firm

BDO USA, LLP
200 Ottawa Avenue N.W.
Suite 300
Grand Rapids, MI 49503

Stock Transfer Agent and Registrar

American Stock Transfer and Trust Co.
6201 15th Avenue
Brooklyn, NY 11219

Legal Counsel

Lowe Law Firm, P.C.
2375 Woodlake Drive
Suite 380
Okemos, MI 48864



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NASDAQ: NEOG

