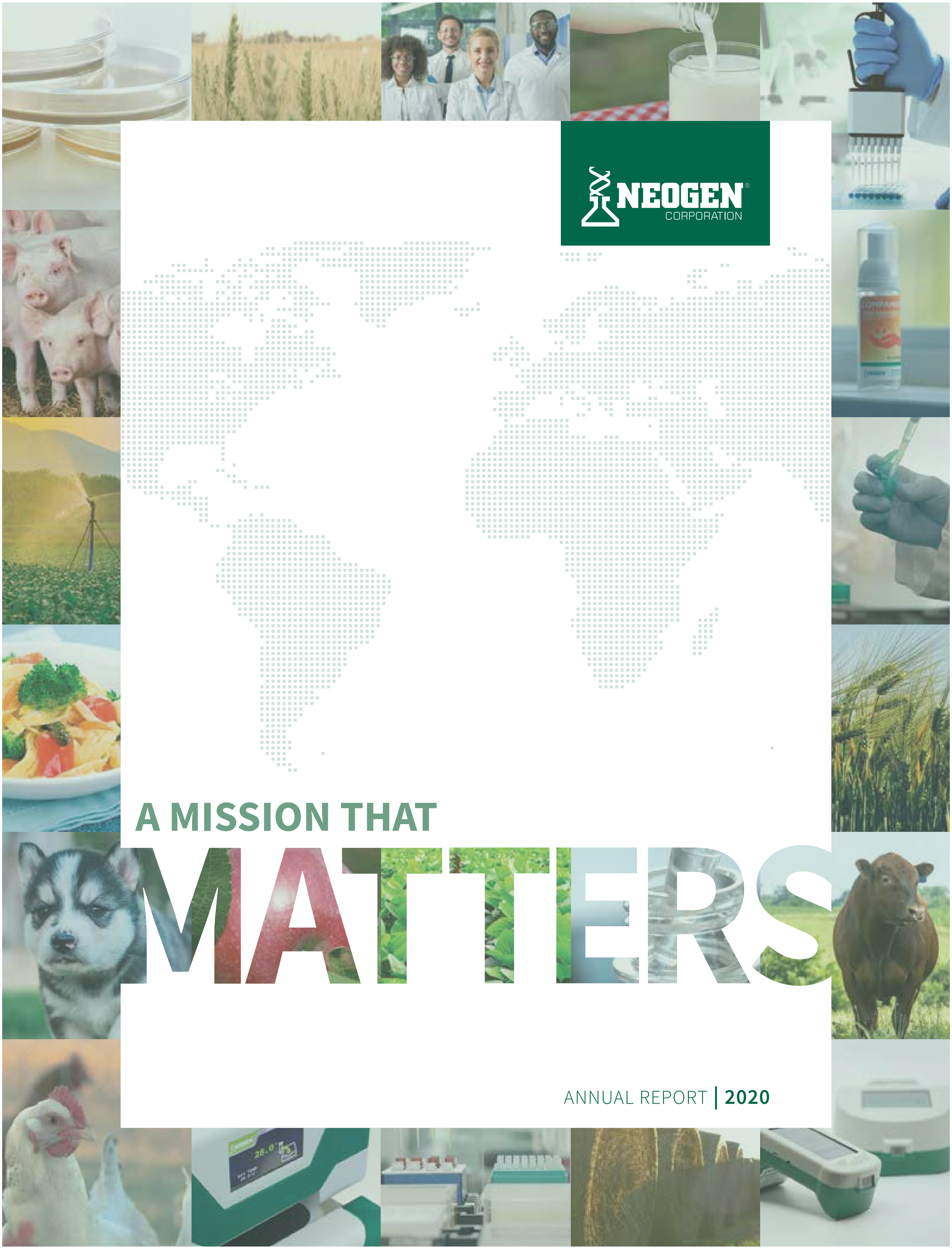

NEOGEN CORPORATION

A MISSION THAT MATTERS

ANNUAL REPORT | 2020

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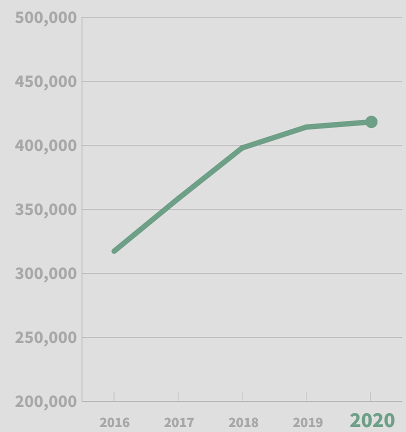
TOTAL REVENUES

Dollars in thousands

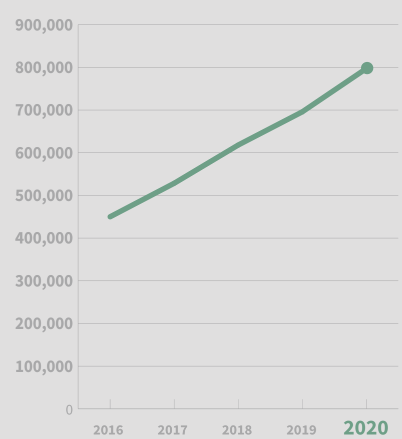


NET INCOME

Dollars in thousands

TOTAL ASSETS

Dollars in thousands



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

Financial Highlights

Amounts in thousands, except per share

Year Ended May 31	2020	2019	2018	2017	2016
Operations:					
Total Revenues*	$ 418,170	$ 414,186	$ 397,930	$ 358,277	$ 317,229
Food Safety*	212,691	213,474	194,477	170,034	145,057
Animal Safety*	205,479	200,712	203,453	188,243	172,172
Operating Income	67,523	68,094	70,194	64,945	56,386
Net Income Attributable to Neogen	59,475	60,176	63,215	43,973	36,564
Basic Net Income Per Share**	$ 1.13	$ 1.16	$ 1.23	$ 0.87	$ 0.73
Diluted Net Income Per Share**	$ 1.13	$ 1.15	$ 1.21	$ 0.86	$ 0.72
Average Diluted Shares Outstanding**	52,860	52,425	52,149	51,165	50,500

* Revised 2016–2018
** Restated for 2016–2017 due to December 2017 stock split

In thousands

Year Ended May 31	2020	2019	2018	2017	2016
Financial Strength:					
Cash and Marketable Securities	$ 343,673	$ 267,524	$ 210,810	$ 143,635	$ 107,796
Working Capital	488,917	411,278	337,101	256,959	219,628
Total Assets	797,182	695,740	618,009	528,409	449,940
Long-Term Debt	–	–	–	–	–
Equity	725,177	637,899	560,175	471,757	404,161

A MESSAGE FROM
JOHN **ADENT**, CEO

To our stockholders, employees and friends:

As I write this in August 2020, the world is in the midst of a deadly battle against the COVID-19 pandemic. Military professionals refer to operating in times like this as being in the "fog of war" when it's not clear exactly what is happening, but you must rely on your training and experience to determine your best way forward.

To move forward in the crisis, Neogen took immediate action to protect our employees and our business. The fiscal 2020 results that we are reporting here are reflective of an incredible amount of hard work from our entire team, and I am extremely proud of them. While we know that we have a long, hard fight ahead of us, going forward, Neogen's mission matters more than ever. Keeping our food, and food production environments, as safe as possible will be even more important in the challenging times that lie ahead. Neogen was built to do just that.

The impact of the pandemic on our food industry customers

A common question that I receive is about why the food industry has been hit so hard by the pandemic. Don't people have to eat regardless of if they are leaving the house or staying home?

People do have to eat, but the pandemic caused a massive disruption in how they eat. According to the USDA, prior to the pandemic, Americans spent approximately 50% of their food budget away from home. For most of us, that percentage came close to zero for weeks, and most saw the effects every time they went to the grocery store and were confronted with empty shelves.

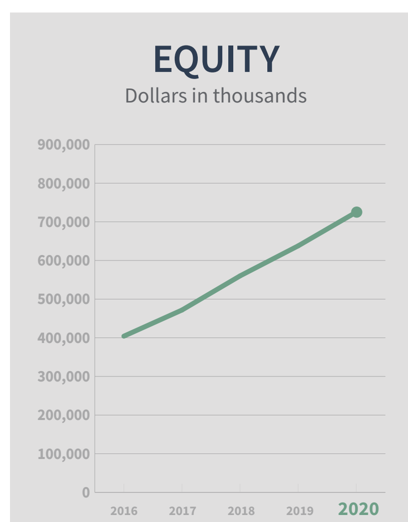
"The fiscal 2020 results that we are reporting here are reflective of an incredible amount of hard work from our entire team, and I am extremely proud of them."

I have also seen estimates that 40% of the food produced in the U.S. is eventually thrown away. As consumers prepared their own meals, they dramatically reduced the waste in the system. In this time of crisis, people are preparing the right-sized meals for their families and eating the leftovers.

As a result, we have had massive disruptions in the food supply chain with this shift toward eating at home. As just one example, we have a dairy customer that specializes in providing 50-pound tubs of butter to restaurants and commercial kitchens. It's entire production and supply process is geared to efficiently producing and delivering these 50-pound tubs. Once its market abruptly crashed, the company had no place to sell its product. Consumers do not want 50-pound tubs of butter. This type of market disruption caused ripples throughout our customer base. Once a dairy can't sell its products, milk producers can't sell its milk to that dairy, and we can't sell our dairy products to that milk producer. We have heard endless stories just like this, and the food industry is adjusting. But, it will take time.

FY 2020 revenue and net income performance

Revenues for the company for our 2020 fiscal year were $418,170,000, compared to the prior year's $414,186,000, an increase of 1%. Net income for 2020 was $59,475,000, or $1.13 per share, compared to the prior year's $60,176,000, or $1.15 per share.



When the magnitude of the COVID-19 pandemic became evident and as it began spreading around the world, there was a move towards the safety of the U.S. dollar, negatively impacting local currencies in our international locations, particularly those where the outbreaks were less controlled. The Brazilian real and Mexican peso were hit especially hard, and the euro and British pound also fell. For the full year, in a neutral currency environment, revenues would have been approximately $6.0 million higher than we reported.

As an international company, we know there will be some years where the currency winds will be in our face, and other years where it is at our backs. We believe that our significant opportunities around the world are worth this risk.

Our fiscal 2020 marked the 29th straight year that Neogen reported revenue increases as compared to the previous year.

Balance sheet remains strong

Our fiscal 2020 was another strong year for us in generating cash and further strengthening our balance sheet. We continue to be debt-free, and we added approximately 14% to shareholder equity during the year.

We continued to produce strong cash flow, generating $86 million from operations for the full year, versus $64 million in the prior fiscal year, and invested about $18 million in property and equipment and $13 million in acquisitions during the year.

Our FY 2020 segment performances

Highlights in our Food Safety product line for the full year included increases in sales of natural toxin and allergen test kits, the AccuPoint® product line, and our *Listeria* Right Now™ product as we continue to gain share with this fairly new product.

Internationally, we continued to integrate the acquisitions we completed in the third and fourth quarters; they have performed above our expectations, providing $1.2 million of revenue for the quarter, $1.9 million for the year. These acquisitions, in which we purchased three of our existing distributors in the Southern Cone area of South America, our distributor in Italy and a manufacturer of key raw material for our European operations, enhance our position in markets we believe have significant growth potential, and improve our cost position. Our European business finished the year strong with sales increases in cleaners and disinfectants, veterinary instruments, and genomics services; revenues for this group increased 5% for the year.

Revenues were up 6% for the year for our Mexican operations with strong market gains across the Food Safety diagnostic portfolio. China closed the year strong, with revenues up 22% for the year, with continued sales increases of cleaners and disinfectants to help in fighting against outbreaks of African Swine Fever and COVID-19 in that country, and upticks in our Food Safety diagnostic business.

Revenues for the Animal Safety segment, which were soft for most of the year due to continued tariff wars and resultant agricultural market weakness, rose late in the year, led by a significant increase in sales of sanitizers and disinfectant products, which we manufacture, and increases in sales of personal protective equipment such as gloves and gowns, which we distribute, as demand for these products exploded as a result of the pandemic. That we were able to pivot that quickly to this surge in demand, particularly on the manufacture of hand sanitizer, is a testament to our operations group. Strong growth in the companion animal and commercial beef markets drove a 14% increase in domestic genomics services, and our acquisition of a distributor of diagnostic test kits in Australia in February 2020 enhanced our existing genomics and animal safety product portfolio in that region.

A mission that matters

As I've said previously, our mission matters today more than ever. As the world fights through this crisis to eventual recovery, there are few things more important than a continuing safe and plentiful food supply.

Neogen was built to respond in times of crisis, and we have responded. We have assisted the broader global civic efforts to combat COVID-19 by making our sanitizers and disinfectants available outside of our traditional agricultural and veterinary markets.

We are well positioned financially to weather the continuing threats to the global economy in 2020 with a cash and investments balance of $344 million, no debt and strong free cash flow.

And once again, I am extremely proud of how our team acted and reacted to this unprecedented business and social environment.

I believe that Neogen is well prepared and positioned for whatever our 2021 fiscal year holds for all of us. We have the products and services our customers need to operate through the pandemic and what lies beyond, and the financial and organizational strength to rapidly adapt to known, and currently unforeseen, challenges.

John Adent
CEO and President

A MISSION THAT MATTERS

Neogen Corporation was built to respond in times of crisis, and we have responded to the unprecedented global challenges that exist in 2020. At a time when other companies have had no choice but to take a step back, Neogen and our nearly 1,800 employees around the world have stepped up.

Neogen's mission matters today more than ever.

As the COVID-19 pandemic spread across the globe, we ramped up our production capacity, did our best to make our sanitizers and disinfectants available outside of our traditional agricultural and veterinary markets, and our entire worldwide team continued their outstanding work to help ensure the global food supply is as safe and plentiful as possible.

As the global community moves from the current crisis to eventual recovery, there are few things more important than a continuing safe and plentiful food supply.

Around the globe, we are further positioning Neogen to develop, market and sell the food safety, animal safety and genomics products and services needed to enhance the global food supply.

Neogen is where it needs to be. We are ideally positioned to financially weather the continuing threats to the global economy in 2020, and well positioned globally to assist our food industry partners produce the best, safest products possible — and to assist our animal care partners provide the best care they can.

"As the global community moves from the current crisis to eventual recovery, there are few things more important than a continuing safe and plentiful food supply."

Keeping food, animals — and people — safe also requires advanced biosecurity products and expertise to stop the potential spread of disease before it can start. Over the years, we have extended our biosecurity portfolio to include cleaners, disinfectants, sanitizers, personal protection equipment, and more — including multiple products that have government approvals in the ongoing fight against COVID-19.

Neogen's food safety, animal safety, and biosecurity experts stand ready to help in any way that they can.

WHAT NEOGEN DOES

Food Safety Segment

Neogen's Food Safety segment is primarily engaged in the production and marketing of diagnostic test kits and complementary products to food and feed industries to detect dangerous and/or unintended substances in their products. Our tests are used to detect potential hazards or unintended substances in food and animal feed by testers ranging from small local grain elevators to the largest, best-known food and feed processors in the world, and numerous regulatory agencies.

Neogen's Food Safety products include tests for:

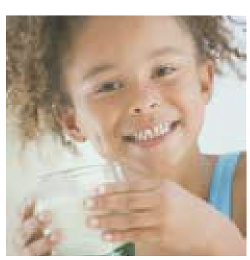
Mycotoxins. Grain producers and processors of all types and sizes use our Veratox®, Agri-Screen®, Reveal®, Reveal Q+ and Reveal Q+ MAX tests to detect the presence of mycotoxins, including aflatoxin, aflatoxin M1, deoxynivalenol, fumonisin, ochratoxin, zearalenone, T-2/HT-2 toxin and ergot alkaloids, to help ensure product safety and quality in food and animal feed.

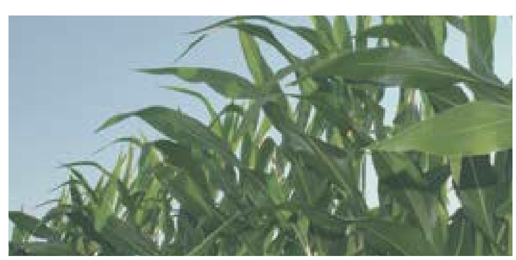
Food allergens. The world's largest producers of cookies, crackers, candy, ice cream and many other processed foods use our Veratox, Alert®, Reveal, Reveal 3-D and BioKits testing products to help protect their food-allergic customers from the inadvertent contamination of products with food allergens, including, but not limited to, peanut, milk, egg, almond, gliadin (gluten), soy, hazelnut and coconut residues.

"Neogen's Food Safety segment is primarily engaged in the production and marketing of diagnostic test kits and complementary products to food and feed industries..."

Dairy antibiotics. Dairy processors are the primary users of our BetaStar® S, BetaStar Advanced and BetaStar 4D diagnostic tests to detect the presence of veterinary antibiotics in milk. The presence of these drugs above a certain level in milk is a public health hazard and an economic risk to producers as it limits the milk's further processing.

Foodborne pathogens. Meat and poultry processors, seafood processors, fruit and vegetable producers and many other market segments are the primary users of our ANSR® and Reveal tests for foodborne bacteria, including *E. coli* O157:H7, *Salmonella*, *Listeria* and *Campylobacter*. Neogen's ANSR pathogen detection system amplifies the DNA of any bacteria in food and environmental samples to detectable levels in 10 minutes. Our *Listeria* Right Now™ test detects the pathogen in less than 60 minutes without sample enrichment.





Spoilage microorganisms. Our recently launched Soleris® Next Generation system is used by food processors to identify the presence of spoilage organisms (e.g., yeast and mold) and other microbiological contamination in food. The sensitivity of the system allows detection in a fraction of the time needed for traditional methods, with less labor and handling time. Our NeoSeek™ genomics services utilize a novel application of 16s metagenomics to determine all bacteria in a sample.

Sanitation monitoring. We manufacture and market our AccuPoint® Advanced rapid sanitation test to detect the presence of adenosine triphosphate (ATP), a chemical found in all living cells. This easy-to-use test uses bioluminescence to quickly determine if a surface is clean. The market for our ATP sanitation tests includes food and beverage processors, food service and healthcare industries, and many other users in the fight against the spread of disease.

Seafood contaminants. Our specialty products for the seafood market include tests for histamine, a highly allergenic substance that occurs when certain species of fish begin to decay, and sulfite, an effective but potentially allergenic shrimp preservative. Our Reveal lateral flow tests for shellfish toxins include rapid tests to detect the toxins that cause amnesic shellfish poisoning (ASP), diarrhetic shellfish poisoning (DSP) and paralytic shellfish poisoning (PSP).

Waterborne microorganisms. We offer the food and beverage industries, including water companies, several platforms for performing the microbial analysis of water. This includes our filter tests, which are a combination of Neogen Filter membrane filtration and Neogen Culture Media ampouled media, and easy-to-use Colitag™ product. With Colitag, after an incubation period, the sample changes color in the presence of coliforms and fluoresces in the presence of *E. coli*.

Culture media. Neogen Culture Media, formerly our Acumedia® and Lab M® products, offers culture media and prepared media for varied purposes, including traditional bacterial testing and the growth of beneficial bacteria, such as cultures for sausages and beer.

Laboratory services. We offer food safety analysis services in the U.S., United Kingdom and India. These ISO-accredited laboratories offer a variety of fee-for-service tests for the food and feed industry.

Animal Safety Segment

Neogen's Animal Safety segment is primarily engaged in the development, manufacture, marketing and distribution of veterinary instruments, pharmaceuticals, vaccines, topicals, diagnostic products, a full suite of agricultural biosecurity products such as rodenticides, cleaners, disinfectants and insecticides, and genomics services.

Animal genomics services. Neogen Genomics provides services to leading agricultural genetics providers, large national cattle associations, companion animal breed registries and direct-to-consumer canine genetic test providers, university researchers, and numerous commercial beef and dairy cattle, swine, sheep and poultry producers. With state-of-the-art genomics laboratories and comprehensive bioinformatics to interpret genomics test results, Neogen Genomics offers identity and trait determination and analysis.

"Animal Safety is primarily engaged in the development, manufacture, marketing and distribution of veterinary instruments, pharmaceuticals, vaccines, topicals, diagnostic products, a full suite of agricultural biosecurity products..."

Cleaners and disinfectants. Used in animal and food production facilities, and now in the fight against COVID-19, our cleaners and disinfectants, including Neogen Viroxide Super™, 904 Disinfectant, Acid-A-Foam™, Synergize®, BioPhene™ and FarmFluid S, can stop a disease outbreak before it starts. The products are also used in the veterinary clinic market to maintain sanitary conditions and limit the potential hazards of bacteria, fungi and viruses. Our water line cleaner and disinfectant products, including Peraside™, NeoKlor, AquaPrime® and Siloxycide®, clean water lines, and provide continuous disinfection of a livestock facility's water supply.

Rodenticides. Our comprehensive line of proven rodenticides, sold under brand names such as Ramik® and Havoc®, effectively address rodent problems of any size and serve as a critical component of an overall biosecurity plan for animal protein production operations. Neogen offers several rodenticide active ingredients including diphacinone, bromethalin, brodifacoum, and zinc phosphide formulated with food grade ingredients to generate the highest acceptance and most palatable bait possible.

Insecticides. Neogen's highly effective insecticides utilize environmentally friendly technical formulas, and several are approved for use in food establishments and by pest control professionals in a wide range of environments. Our Prozap® insecticide brand is used in the large animal production industry, particularly with dairy and equine producers. Our SureKill® line of products is used by professionals to control a variety of insects. In August 2020, we acquired StandGuard® Pour-on, one of the premier domestic beef cattle insecticide products. StandGuard represents an exceptional fit in our existing agricultural insecticide portfolio.

Veterinary instruments. We market a broad line of veterinary instruments and animal health delivery systems under the Ideal brand name, many of which are used to deliver animal health products, such as antibiotics and vaccines. Ideal's D3™ Needles are stronger than conventional veterinary needles and are uniquely detectable by metal detectors at meat processing facilities — a potential market advantage in the safety-conscious beef and swine industries. Our Prima® product line consists of highly accurate devices used by farmers, ranchers and veterinarians.

Veterinary pharmaceuticals. Animal Safety's NeogenVet product line provides innovative, value-added, high quality products to the veterinary market. Top NeogenVet products include PanaKare™, a digestive aid that treats exocrine pancreatic insufficiency; Natural Vitamin E-AD, which aids in the prevention and treatment of vitamin deficiencies in swine, cattle and sheep; and RenaKare™, a supplement for potassium deficiency in cats and dogs.

Veterinary biologics. Our BotVax® B vaccine has successfully protected thousands of horses and foals against Type B botulism. Our product is the only USDA-approved vaccine for the prevention of Type B botulism in horses. Years of research and many thousands of doses have proven our EqStim® immunostimulant to be safe and effective as an adjunct to conventional treatment of equine bacterial and viral respiratory infections.

Veterinary OTC products. Animal Safety products offered by Neogen to the retail over-the-counter (OTC) market include Ideal brand veterinary instruments. OTC products also include Stress-Dex®, an oral electrolyte replacer for performance horses, and Fura-Zone®, for the prevention and treatment of surface bacterial infections in wounds, burns and cutaneous ulcers. Hoof care, disposables and artificial insemination supplies are marketed to the dairy and veterinary industries.





WHERE NEOGEN DOES IT

We maintain nine domestic and 15 international company-owned locations to provide a direct presence in regions of particular importance to us. We have an extensive network of distributors to reach countries where we do not have a direct presence.

Our newly expanded international operations include:

Neogen Europe and subsidiaries. Neogen Europe, Ltd., located in Ayr, Scotland, sells products and services to our network of customers and distributors throughout the U.K., Europe, the Middle East and Africa. Its management is also responsible for Neogen's other Europe-based operations, which include: Lab M Ltd., located in Heywood, England, which manufactures microbiological culture media and supplements; Quat-Chem Ltd., a Rochdale, England-based chemical company that specializes in the development, manufacture and sale of biocidal hygiene products, including cleaners and disinfectants; Neogen Italia, a Milan, Italy-based business, acquired in January 2020, which directly markets and sells Neogen's products in Italy; and Abtek (Biologicals) Ltd., acquired in February 2020, a developer and supplier of culture media supplements and microbiology technologies.

Neogen Latinoamérica. Neogen Latinoamérica is headquartered near Mexico City and distributes our products throughout Mexico and Central America. Neogen Latinoamérica manages our business activities throughout the region by marketing to animal and crop producers and food processors, utilizing our direct sales representatives to sell food safety products and genomics services, while marketing cleaners, disinfectants and other animal safety products primarily through distributors.

Neogen Argentina, Neogen Uruguay and Neogen Chile. In January 2020, we acquired Productos Quimicos Magiar and Lakenord S.A. (Magiar Uruguay), distributors of Neogen's food safety diagnostics products for the previous 20 years, with operations in Argentina and Uruguay, respectively. In March 2020, we acquired the assets of Chile-based Magiar Chilena, a distributor of food, animal, and plant diagnostics, including our products. With the acquisitions, the former Magiar operations remain in the three countries and provide us with a physical presence in the important agricultural Southern Cone region of South America, which has large beef and dairy populations with significant export markets.

Neogen do Brasil. Neogen do Brasil, headquartered near São Paulo, distributes our products throughout Brazil. Brazil is one of the world leaders in the export of numerous food commodities, including beef, poultry, soybeans, coffee, sugar and orange juice, and this operation gives us direct sales representation to these important markets. Neogen do Brasil management is also responsible for Rogama, which manufactures rodenticides and insecticides, and operates a genomics laboratory. Neogen's other animal safety products are also sold through this group in Brazil.

Neogen China. Located in Shanghai, Neogen China employs sales representatives who sell directly to Chinese customers. China's burgeoning middle class, with its rapidly growing demand for higher quality meat and dairy products, makes the country a growth opportunity for our products and services — both for animal production on the country's farms, and in processing plants throughout China's food production and distribution channels.

Neogen India. Neogen India is located in Kochi, in the state of Kerala, which is India's leading region for the export of spices, tea, and fresh fruits and vegetables. Neogen India is also responsible for sales of the company's food safety and animal safety products to customers and distributors in India and nearby countries.

Neogen Australasia. Neogen Australasia operates a genomics testing laboratory, focusing on the sheep and cattle markets in Australia and New Zealand, and also sells Neogen's animal safety products in those countries. In February 2020, we acquired the assets of Cell BioSciences, an Australian distributor of food safety and industrial microbiology products. This acquisition has given us a direct sales presence across Australasia for our entire product portfolio.

Neogen Canada. In January 2019, we acquired the assets of the Edmonton-based Delta Genomics Centre, a major animal genomics laboratory in Canada. With the acquisition, Delta's laboratory operations were renamed Neogen Canada, and became our sixth animal genomics laboratory, joining locations in the U.S., Scotland, Brazil, China and Australia.

"Neogen's mission has driven the company to a remarkable record of growth throughout our 38-year history."

Other distributor partners. Outside of our physical locations, we use our own sales managers in both the Food Safety and Animal Safety segments to work closely with and coordinate the efforts of a network of approximately 200 distributors in more than 100 countries. The distributors provide local training and technical support, perform market research and promote company products within designated countries around the world.

Neogen's mission has driven the company to a remarkable record of growth throughout our 38-year history.

As the world's food and animal producers continue their mission to provide their customers with more and better products, our mission to supply our customers innovative food and animal safety solutions will matter as much tomorrow as it does today.

Management’s discussion and analysis of financial condition and results of operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere in this Annual Report.

In addition, any forward-looking statements represent management’s views only as of the day our 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 we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our views change.

Critical Accounting Policies and Estimates

The discussion and analysis of our 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. Though the impact of the COVID-19 pandemic to our business and operating results presents additional uncertainty, we continue to use the best information available to inform our critical accounting estimates. Actual results may differ from these estimates under different assumptions or conditions.

The following critical accounting policy reflects management’s more significant judgments and estimates used in the preparation of the consolidated financial statements.

Income Taxes

We account 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 carryforwards 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 determination of income subject to income tax in each tax paying jurisdiction requires us to apply transfer pricing guidelines for certain intercompany transactions.

Our wholly-owned foreign subsidiaries are comprised of Neogen Europe, Lab M Ltd, Quat-Chem Ltd, Abtek (Biologicals) Ltd, Neogen Italia S.r.l., Neogen do Brasil, Rogama Industria e Comercio Ltda, Neogen Latinoamérica, Productos Quimicos Magiar S.A., Neogen Uruguay, Neogen Chile SpA, Neogen Bio-Scientific Technology Co (Shanghai), Neogen Food and Animal Security (India), Neogen Canada, and Neogen Australasia Pty Limited. Based on historical experience, as well as our future plans, earnings from these subsidiaries are expected to be re-invested indefinitely for future expansion and working capital needs. Furthermore, our domestic operations have historically produced sufficient operating cash flow to mitigate the need to remit foreign earnings. On an annual basis, we evaluate 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. It is not practicable to determine the income tax liability that would be payable if such earnings were not reinvested indefinitely.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (U.S. Tax Act) was signed into law making significant changes to the Internal Revenue Code. Changes include a federal corporate tax rate reduced from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. The U. S. Tax Act also includes a provision to tax global intangible low-taxed income (GILTI) of foreign subsidiaries and a deduction for foreign derived intangible income (FDII), both of which became effective for us beginning June 1, 2018. See Note 6 to the consolidated financial statements for further information.

Results of Operations

Executive Overview

- Consolidated revenues were $418.2 million in fiscal 2020, an increase of 1.0% compared to $414.2 million in fiscal 2019. Organic sales overall increased 0.2% compared to the prior year.
- Food Safety segment sales were $212.7 million in fiscal 2020 compared to $213.5 million in fiscal 2019, a decrease of $800,000, or 0.4%. Organic sales decreased 1.3%, while the Clarus Labs (August 2018) acquisition, the purchase of four former distributors and a small manufacturer (Abtek) completed during the year, contributed $2.0 million in revenues.
- Animal Safety segment sales were $205.5 million in fiscal 2020, an increase of 2.4% compared to $200.7 million in fiscal 2019. Organic sales rose 1.9%, with the acquisitions of Livestock Genetic Services (September 2018), Delta Genomics (January 2019) and Cell BioSciences (March 2020) contributing the remainder of the growth.
- International sales were 39.4% of total sales in fiscal 2020 compared to 40.1% of total sales in fiscal 2019.
- Our effective tax rate was 17.7% in fiscal 2020 compared to an effective tax rate of 17.5% in fiscal 2019.
- Net income was $59.5 million, or $1.13 per diluted share, a decrease of 1% compared to $60.2 million, or $1.15 per share, in the prior year.
- Cash generated from operating activities in fiscal 2020 was $85.9 million, compared to $63.8 million in fiscal 2019.

Neogen's international revenues were $164.7 million in fiscal 2020, compared to $165.9 million in fiscal 2019. Currency translation had a negative impact during the year. In a neutral currency environment, revenues would have been approximately $6.0 million higher on a comparative basis in fiscal 2020, as the U.S. dollar (USD) strengthened against all the currencies in the countries in which we conduct business. As financial markets reacted to the global impact of the COVID-19 pandemic, currency translations negatively impacted comparative revenues by $3.5 million in the fourth quarter of fiscal 2020. This was primarily due to devaluation of the Brazilian real and the Mexican peso, which were 25% and 18% lower on average, respectively, compared to the fourth quarter of fiscal 2019.

We continue to focus on increasing our presence and market share throughout the world, while also integrating recent international acquisitions into our overall geographic and product portfolio. Sales results for fiscal 2020 compared to the prior year are as follows for each of our international locations:

	Revenue Change USD	Revenue Change Local Currency
Neogen Europe (including Lab M, Quat-Chem & Abtek)	5%	8%
Neogen do Brasil (including Rogama)	(10)%	0%
Neogen Latinoamerica	6%	11%
Neogen China	22%	26%
Neogen India	3%	5%
Neogen Australasia	18%	26%
Neogen Canada	70%	72%

The revenue increase in U.S. dollars at Neogen Europe was led by a 14% increase in sales of disinfectant and veterinary products, primarily due to COVID-19 related sales of hand sanitizer and disinfectant in the U.K. Sales of genomics services rose 7% in fiscal 2020, on strength to the bovine market. Sales of culture media products increased 5% for the year. Partially offsetting this growth, were lower sales of deoxynivalenol (DON) test kits into France and Germany, due to an outbreak in fiscal 2019, which did not recur in the current year.

Revenues in Brazil declined 10% in USD in fiscal 2020, in large part due to the devaluation of the Brazilian real relative to the U.S. dollar during the year. Sales of our forensic drug test kits, used to test for the presence of prohibited drugs in commercial truck drivers in that country, declined 86%, as a large commercial laboratory switched to an alternative testing method in the first quarter of the year. Genomics revenues in Brazil declined 26% during the year, primarily due to a project testing cattle for the Brazilian government in the prior fiscal year which did not recur in fiscal 2020, as well as delays in receiving samples in the fourth quarter due to COVID-19. Partially offsetting that decline was strong growth in sales of natural toxins test kits, as we continued to gain significant business from customers testing for the presence of aflatoxin in corn and DON in grains.

Neogen Latinoamerica grew revenues by 6% in USD, with strong growth in sales of diagnostic test kits, which offset lower sales of cleaners, disinfectants and rodenticides in Mexico and Central America due to weakness in the distribution channels in those markets. Growth in China was the result of strong sales of cleaners and disinfectants, including Neogen Viroxide Super, into the porcine market, due to demand resulting from the African swine fever and COVID-19 outbreaks in that country. Revenue growth in India was 3% for the year but decreased 16% during the fourth quarter compared to the prior year, as the country's economic activity was greatly reduced in that period due to COVID-19. Neogen Australasia's growth was led by a 21% growth in genomics revenue to the sheep market and growth in traditional animal safety products for the year, while strong genomics sales in beef and poultry markets in Canada drove their 70% revenue increase, albeit off a small base.

Service revenue, which consists primarily of genomics services to animal protein and companion animal markets, was $82.6 million in fiscal 2020, an increase of 11% over prior fiscal year sales of $74.7 million. The growth was led by increases in sample volumes from the global commercial beef, sheep and companion animal markets, while porcine and poultry sales were fairly flat.

Revenues

	Year Ended May 31				
(Dollars in thousands)	2020	Change	2019	Change	2018
Food Safety:					
Natural Toxins, Allergens & Drug Residues	$ 76,207	(3)%	$ 78,373	7%	$ 72,962
Bacterial & General Sanitation	41,780	(0)%	41,966	10%	38,156
Culture Media & Other	47,847	(4)%	49,857	13%	44,271
Rodenticides, Insecticides & Disinfectants	28,890	13%	25,584	7%	23,821
Genomics Services	17,967	2%	17,694	16%	15,267
	212,691	(0)%	213,474	10%	194,477
Animal Safety:					
Life Sciences	6,322	(20)%	7,858	(25)%	10,411
Veterinary Instruments & Disposables	42,941	(4)%	44,582	(7)%	47,749
Animal Care & Other	28,389	(5)%	29,941	(3)%	30,930
Rodenticides, Insecticides & Disinfectants	68,815	4%	66,389	(2)%	67,646
Genomics Services	59,012	14%	51,942	11%	46,717
	205,479	2%	200,712	(1)%	203,453
Total Revenue	$ 418,170	1%	$ 414,186	4%	$ 397,930

Year Ended May 31, 2020 Compared to Year Ended May 31, 2019

Food Safety

The COVID-19 pandemic in the second half of fiscal 2020 resulted in difficult operating conditions in many of our key market segments. Shelter in place orders across the U.S. and in a number of our international markets, the closure or reduced output of businesses due to quarantine, disruption in the supply chain resulting from reduction in end-market demand, and the inability of some markets to react quickly to these changes, each adversely impacted our revenues.

Natural Toxins, Allergens & Drug Residues – Sales in this category were 3% lower in fiscal 2020 compared to the prior year, driven by a 30% decline in sales of drug residues test kits, due to lower demand from a large distributor in Europe. In January 2020, we ended our exclusive relationship with this distributor and have begun marketing these products directly into the European market. Partially offsetting the decrease in drug residue testing, the natural toxins and allergens product lines each increased 4% for the year. The natural toxin increase was due to continued new business earned in Brazil for aflatoxin and DON test kits, partially offset by lower sales of DON test kits in the U.S. and France, the result of mild outbreaks in the prior year which did not recur in fiscal 2020. The allergen test kit increase was primarily the result of strong gliadin, milk and coconut allergen test kit sales in the U.S. market, although fourth quarter sales declined 7% due to lower business with customers supplying restaurants and other food service organizations, which were adversely impacted by COVID-19.

Bacterial & General Sanitation – Sales in this category were essentially flat in fiscal 2020 compared to the prior year. Sales of test kits to detect pathogens decreased 2%, as lower sales of ANSR equipment were only partially offset by increases from our *Listeria* Right Now test kit, which grew 24% in fiscal 2020. Sales of our AccuPoint sanitation monitoring product line increased 6%, on gains in both readers and samplers. Sales of products to detect spoilage organisms in foods decreased 7% in fiscal 2020 on reduced sales of readers and consumable vials during the year, resulting from lower market demand and customer losses.

Culture Media & Other – Sales in this category decreased 4% in fiscal 2020 compared to fiscal 2019. This category includes forensic drug test kits sold within Brazil, which declined significantly as a large commercial lab customer in that country moved to an alternative technology which provided higher throughput. Culture media revenues declined 5%, due to lower end market demand from several large customers in the U.S. Higher shipping revenues, which rose 12% for the year, and lower rebates offered to certain customers, both of which are reported in this category, partially offset the lower forensic and culture media revenues.

Rodenticides, Insecticides & Disinfectants – Revenues of products in this category sold through our Food Safety operations increased 13% in fiscal 2020 compared to fiscal 2019. This category was led by increases in sales of cleaners and disinfectants to customers in Europe, the Middle East and China, partially offset by a decrease in sales of rodenticides in Central America due to lower demand from a large distributor, and reduced demand of cleaners and disinfectants in India, due to a large order in 2019 which did not recur in fiscal 2020.

Genomics Services – Sales of genomics services sold through our Food Safety operations increased 2% in fiscal 2020 compared to the prior year, primarily due to higher sales in the European bovine and equine markets. Partially offsetting this increase were lower revenues from our genomics operation in Brazil due to a research project with the Brazilian government from 2019 which did not recur in fiscal 2020.

Animal Safety

A significant proportion of the Animal Safety products are marketed and sold through our veterinary distributor network; this channel has been soft in both fiscal years 2019 and 2020, as difficult market conditions resulting from increased tariffs and political uncertainties in our agricultural and animal protein markets continued. The COVID-19 pandemic in the second half of fiscal 2020 has exacerbated these market conditions; further, the market uncertainty resulting from COVID-19 has caused our larger distributor partners to implement working capital improvement programs by lowering inventory levels, which resulted in lower sales of many products in our animal health portfolio. Partially offsetting this weakness in the fourth quarter were higher sales of several of our cleaning and disinfecting products due to demand caused by the COVID-19 pandemic.

Life Sciences – Sales in this category decreased 20% in fiscal 2020 compared to the same period in the prior year, the result of lower forensic drug test kit sales to a large commercial lab in the U.S. serving the Brazilian market, a reduction in sales of products to the U.S. horse racing industry due to a decline in domestic racing activity, and the consolidation of several state laboratories.

Veterinary Instruments & Disposables – Revenues in this category decreased 4% in fiscal 2020 compared to fiscal 2019. Veterinary instruments sales were down 7% for the year, primarily the result of a 20% decline in needles and 3% decline in syringes, due to lower demand from our largest distributors. Partially offsetting these decreases, protective wear and consumables increased 24% for the year, on the strength of a $956,000 increase in gloves in the fourth quarter of fiscal 2020, the result of demand caused by the COVID-19 pandemic.

Animal Care & Other – Sales of these products decreased 5% in fiscal 2020 compared to fiscal 2019. Antibiotics and injectable vitamin products were down 20% and 15%, respectively, due primarily to inventory destocking at distributors. Sales of our biologics product line, marketed primarily into the equine market, declined 17%, and our equine supplements were also down 20%, due to lower demand from end customers in this market. Sales of wound care products rose 9% to partially offset these losses.

Rodenticides, Insecticides & Disinfectants – Sales in this category increased 4% in fiscal 2020, compared to the prior year. The increase was due primarily to a $2.6 million increase in sales of cleaners and disinfectants for the year, driven in large part by growth in hand sanitizers, disinfectants, and disinfecting wipes in the fourth quarter resulting from the COVID-19 pandemic. Revenues for water disinfection in animal protein production environments rose 8% over fiscal 2019. Rodenticide sales increased 1% over the prior year, as strong growth in the retail market was almost entirely offset by decreased sales to agricultural markets in the northwest U.S., due to lower rodent pressure. Insecticide revenues declined 2% for the year.

Genomics Services – Sales in this category increased 14% in fiscal 2020, aided by the acquisition of Livestock Genetics (September 2018) and Delta Genomics (January 2019); organic growth in this category was 12%. Strong growth in the companion animal and commercial beef cattle markets was partially offset by revenue decreases in the U.S. commercial dairy market due to weak economic conditions in that market, resulting from a movement away from dairy milk towards alternative products.

Year Ended May 31, 2019 Compared to Year Ended May 31, 2018

Food Safety

Natural Toxins, Allergens & Drug Residues – Sales in this category increased 7% in fiscal 2019 compared to the prior year. For the natural toxins and allergens product lines, test kit sales increased 15% and 7%, respectively, for the year. The natural toxin increase was due to new business earned in Brazil for aflatoxin test kits, and higher sales of DON test kits in the U.S. and France, the result of mild outbreaks. These increases were partially offset by a 5% decrease in sales of drug residues test kits, due to lower demand in Europe.

Bacterial & General Sanitation – Sales in this category increased 10% in fiscal 2019 compared to the prior year. Sales of test kits to detect pathogens increased 24%, as we continued to gain new business with our *Listeria* Right Now test kit that launched in fiscal 2018. Sales of our AccuPoint sanitation monitoring product line increased 11%, with samplers up 13%, as we increased our market share. Sales of products to detect spoilage organisms in foods increased 3%.

Culture Media & Other – Sales in this category increased 13% in fiscal 2019 compared to fiscal 2018. Sales of Neogen Culture Media, formerly marketed as the Acumedia and Lab M brands, increased 7%, aided in part by the August 2018 acquisition of Clarus Labs, which consists of the Colitag product and reports in the culture media product line. Excluding new business from the acquisition, sales in the Neogen Culture Media product line increased 4%. This category also includes forensic drug test kits sold within Brazil, which increased significantly as business shifted from labs in the U.S. in the prior year (reported in the Animal Safety segment) to labs in Brazil and increased demand from commercial laboratories in that country.

Rodenticides, Insecticides & Disinfectants – Revenues of products in this category sold through our Food Safety operations increased 7% in fiscal 2019. This category was led by increases in sales of cleaners and disinfectants to customers in Europe, China and India, partially offset by lower sales of insecticides in Brazil due to a large government tender in fiscal 2018 which did not recur in fiscal 2019.

Genomics Services – Sales of genomics services sold through our Food Safety operations increased 16% in fiscal 2019 compared to the same period in the prior year, primarily due to higher sales in the European porcine and bovine markets. We also benefitted from a large, non-recurring research project with the Brazilian government, and the commercialization of a new service offering for a type of cattle specific to the Brazilian market.

Animal Safety

Life Sciences – Sales in this category decreased 25% in fiscal 2019 compared to the same period in the prior year, as approximately $2.4 million of forensic drug test kit revenues shifted to our operations in Brazil, which are reported in the Food Safety segment. This testing was performed by commercial labs in the U.S. in the prior fiscal year, but has since moved to commercial labs located in Brazil.

Veterinary Instruments & Disposables – Revenues in this category decreased 7% in fiscal 2019 compared to fiscal 2018. Protective wear and consumables decreased 17%, resulting from poor economic conditions in the commercial dairy production market. Veterinary instruments sales were down 4% for the year, however, this product line had a very strong increase in fiscal 2018, with sales up 23% in that period compared to the prior year. A 19% decline in detectable needles was partially offset by strong increases in disposable syringes and aluminum and poly hub needles.

Animal Care & Other – Sales of these products decreased 3% in fiscal 2019. Wound care and injectable vitamin products were down 13% and 6%, respectively, due to inventory destocking at distributors; dairy supplies that we distribute were down 5%, due to poor economic conditions in the commercial dairy production market. Additionally, we spent more on promotional programs and rebates with distributors, which are recorded as contra revenues within this category, in fiscal 2019 than in the prior year. Partially offsetting these losses were a 12% increase in sales of our biologics product line and a 7% increase in supplements and other care products, both due to increased demand from end customers in the companion animal and equine markets.

Rodenticides, Insecticides & Disinfectants – Sales in this category decreased 2% in fiscal 2019, compared to the same period in the prior year. The decrease was due primarily to the full year impact of toll manufacturing business lost in the third quarter of fiscal year 2018. Additionally, rodenticide sales declined due to poor weather conditions causing lower demand and a weak U.S. animal protein market partially caused by tariff issues.

Genomics Services – Sales in this category increased 11% in fiscal 2019, aided by the acquisition of Neogen Australasia (September 2017), Livestock Genetics (September 2018) and Delta Genomics (January 2019); organic growth in this category was 7%. Strong growth in the beef cattle and companion animal markets was partially offset by revenue decreases in U.S. poultry and porcine markets, despite increases in sample volumes, resulting from a shift to lower priced chips and services. Additionally, poor economic conditions in the U. S. commercial dairy production market resulted in lower revenues from that market.

Cost of Revenues

(Dollars in thousands)	2020	Change	2019	Change	2018
Cost of Revenues	$ 221,891	0%	$ 222,266	5%	$ 211,658

Cost of revenues was essentially flat in fiscal 2020 compared to fiscal 2019 and rose 5% in fiscal 2019 compared to fiscal 2018. This compares with revenue increases of 1% in fiscal 2020 and 4% in fiscal 2019. Expressed as a percentage of sales, cost of revenues was 53.1%, 53.7% and 53.2% in fiscal years 2020, 2019 and 2018, respectively. Gross margins were 46.9%, 46.3%, and 46.8% for fiscal years 2020, 2019, and 2018, respectively.

Fiscal 2020 – Our overall gross margin improved 60 basis points in fiscal 2020, primarily from improved gross margin in the Animal Safety segment and improved efficiencies, resulting from a focus on cost reductions in certain areas. These efforts resulted in a slight decrease in cost of revenues compared to the prior fiscal year.

Fiscal 2019 – Both Food Safety and Animal Safety margins decreased in fiscal 2019, primarily due to a product mix shift towards lower margin products within each segment, and to a lesser extent, the strength of the U.S. dollar, which rose against all of the currencies in the countries in which we operate, and resulted in higher cost of sales in our international operations, which pay for their inventory in U.S. dollars. A higher overall proportion of Food Safety revenues, which have higher than average gross margins, partially offset the lower margins within each segment.

Food Safety Gross Margins

Food Safety gross margins were 51.4%, 51.8% and 52.4% in fiscal years 2020, 2019 and 2018, respectively.

Fiscal 2020 –Food Safety margins decreased 40 basis points in fiscal 2020, primarily due to lower sales of higher margin forensic test kits in Brazil, and the continued strength of the U.S. dollar against currencies in the countries in which we operate; our international operations pay for their inventory primarily in U.S. dollars, and the weakness in local currencies adversely impacted gross margins.

Fiscal 2019 – Food Safety gross margins decreased 60 basis points in fiscal 2019, primarily the result of a shift in product mix at our international operations; in fiscal 2019, these operations sold a higher proportion of lower margin traditional Animal Safety products such as cleaners and disinfectants. In addition, gross margins were also negatively impacted by the strength of the U.S. dollar relative to the international currencies in which we operate, particularly in Brazil, Europe, and Mexico, where the real, pound and peso declined in value against the U.S. dollar by 15%, 3%, and 4%, respectively. These international operations report through the Food Safety segment. Increases in higher margin product lines such as our diagnostic and forensic test kits partially offset these decreases.

Animal Safety Gross Margins

Animal Safety gross margins were 42.3%, 40.6% and 41.4% in fiscal years 2020, 2019 and 2018, respectively.

Fiscal 2020 – Animal Safety gross margins increased by 170 basis points, driven by increased sales of higher margin disinfectant products, particularly in the fourth quarter of the year as a result of the COVID-19 pandemic, which caused heavy demand for our sanitizing products. In addition, a mix shift towards genomics services for the companion animal markets, which have higher gross margins within the genomics business, contributed to the improvement.

Fiscal 2019 – Animal Safety gross margins decreased 80 basis points in fiscal 2019, primarily the result of lower volumes in higher margin products such as diagnostics, animal care products, instruments and rodenticides. Forensic test kit revenues in Animal Safety declined as a large U.S. commercial laboratory transferred sample testing to its locations in Brazil which we service through our Brazilian Food operation reporting in the Food Safety segment. We also had strong growth in sales of genomics services in our Australian operations; gross margins in this operation are lower than historical Animal Safety margins due to higher chip costs and lack of scale. Partially offsetting these lower margins were increased margins in the U.S. genomics operations, based primarily on improved input costs and increased sales of higher margin services to the bovine and companion animal markets.

Operating Expenses

(Dollars in thousands)	2020	Change	2019	Change	2018
Sales and Marketing	$ 69,675	(1)%	$ 70,230	5%	$ 66,929
General and Administrative	44,331	9%	40,791	7%	38,294
Research and Development	14,750	15%	12,805	18%	10,855
Total Operating Expense	$ 128,756	4%	$ 123,826	7%	$ 116,078

Overall operating expenses increased by 4% in fiscal 2020 and 7% in fiscal 2019, each compared to the prior year. These increases compare to revenue increases of 1% and 4%, respectively, for each comparative period.

Sales and Marketing

Sales and marketing expenses decreased by 1% in fiscal 2020 compared to fiscal 2019 and rose 5% in fiscal 2019 compared to the prior year. As a percentage of sales, sales and marketing expense was 16.7%, 17.0% and 16.8% in fiscal years 2020, 2019 and 2018, respectively.

Fiscal 2020 – The $550,000 decline in sales and marketing expenses in fiscal 2020 was driven by a $1.3 million, or 7.4%, decline in spending in this category in the fourth quarter of the year, caused by a reduction in business travel, meals and entertainment, trade shows, and related marketing expenses, as the COVID-19 global pandemic resulted in strict travel restrictions and reductions in face to face sales activities in many of our markets during the quarter. Partially offsetting these declines were higher compensation and related fringe benefits, the result of increased headcount, increased shipping expenses, and higher regulatory expense due to product registration efforts in our international markets.

Fiscal 2019 – Salaries and commissions increased by 4% in 2019 and drove the 5% increase in overall sales and marketing expenses; shipping expenses increased 11%, the result of higher rates and an increase in air shipments. Other increases were the result of higher trade show, exhibit and sponsorship costs, and provision for bad debts. Partially offsetting these increases were lower promotion and consulting expenses.

General and Administrative

General and administrative expenses rose 9% in fiscal 2020 compared to fiscal 2019 and by 7% in fiscal 2019 compared to fiscal 2018. As a percentage of sales, general and administrative expense was 10.6%, 9.8% and 9.6% in fiscal years 2020, 2019 and 2018, respectively.

Fiscal 2020 – Higher stock-based compensation costs and a significant uptick in legal fees, driven in part from the number of acquisitions completed during the year, resulted in the overall 9% expense increase. In addition, the company continued to invest in information technology infrastructure, network capabilities and e-commerce initiatives. This resulted in higher depreciation on IT-related hardware and increased license fees on software investments. These increases were somewhat offset by a reduction in outside consulting. General and administrative expenses at five new company locations, the result of acquisitions in the second half of fiscal 2020, totaled $520,000 for the year.

Fiscal 2019 – Higher salary and stock-based compensation costs were the primary drivers of the overall 7% expense increase. In addition, higher depreciation and license fees on IT-related hardware and software investments, increased training, recruiting and legal fees contributed to the increased expense. These increases were somewhat offset by a $427,000 reduction in amortization expense as certain intangible assets from past acquisitions were fully amortized during the year.

Research and Development

Research and development expenses increased 15% in fiscal 2020 and 18% in fiscal 2019, each compared to the prior year. As a percentage of revenue, these expenses were 3.5% in fiscal year 2020, 3.1% in fiscal year 2019 and 2.7% in fiscal year 2018; we expect to spend approximately 3% of total revenue on research and development annually.

Fiscal 2020 – The 15% increase in research and development expenses in fiscal 2020 was primarily the result of continued spending with development partners for two new readers, currently anticipated to be launched in the first half of fiscal 2021. Increased compensation expense, resulting from investments in people as we heighten the development capabilities of the group, higher depreciation expense from continued investment in analytical equipment, and an increase in contracted services also contributed to the expense growth.

Fiscal 2019 – The 18% increase in research and development expenses in fiscal 2019 was primarily the result of development spending for next generation products and increases in expenditures to obtain regulatory approvals for a number of new products. Higher salaries expense, resulting from increased headcount and compensation increases, and increased depreciation expense, resulting from investments in analytical and testing equipment, accounted for the remainder of the increase.

Operating Income

(Dollars in thousands)	2020	Change	2019	Change	2018
Operating Income	$67,523	(1)%	$68,094	(3)%	$70,194

Our operating income decreased by 1% in fiscal 2020 compared to fiscal 2019, and by 3% in fiscal 2019 compared to fiscal 2018. Expressed as a percentage of revenues, operating income was 16.1%, 16.4% and 17.6% in fiscal years 2020, 2019 and 2018, respectively.

Gross margins rose by $4.4 million in fiscal 2020; the increase was more than offset by an overall increase of $4.9 million, or 4.0%, in operating expenses, resulting in a 1% decrease in operating income compared to fiscal 2019.

The 3% decrease in operating income for fiscal 2019 was due primarily to overall operating expense increases of $7.7 million, up 7%, which compared to a gross margin increase of $5.6 million.

Other Income (Expense)

Other Income (Expense) for the previous three fiscal years consisted of the following:

(Dollars in thousands)	2020	2019	2018
Interest income (net of expense)	$ 5,992	$ 4,683	$ 2,043
Foreign currency transactions	(1,178)	(1,279)	274
Royalty income	1	150	147
Licenses and settlements	(38)	672	360
Quat-Chem contingent consideration	-	422	255
Deoxi contingent consideration	-	(10)	(42)
Other	5	227	234
Total Other Income (Expense)	$ 4,782	$ 4,865	$ 3,271

The increase in interest income in fiscal years 2020 and 2019, each compared to the prior year, is the result of higher cash balances and rising interest rates during the two year period. During the second half of the 2020 fiscal year, and particularly in response to the COVID-19 pandemic, yields on fixed income securities declined significantly, corresponding to a similar decline in the ten year U.S. Treasury bill rate. The loss from foreign currency translations in fiscal 2020 and 2019 is primarily the result of the changes in the value of foreign currencies relative to the U.S. dollar in countries in which we operate; the dollar strengthened against all of these currencies in each comparative year.

In fiscal 2020, we recognized $600,000 of expense for an expected settlement of a penalty payable to the U.S. government due to a violation of a sanctions program. This was partially offset by a $483,000 gain resulting from a settlement with the Brazilian government related to sales taxes charged over several years, and proceeds received for a property loss settlement. In fiscal 2019 and 2018, gains were recognized on insurance proceeds received for property loss settlements. Other Income in fiscal 2019 and 2018 included the adjustment of Quat-Chem and Deoxi contingent consideration based on the level of achievement of revenue targets for the acquired businesses in each of those fiscal years.

Provision for Income Taxes

(Dollars in thousands)	2020	Change	2019	Change	2018
Provision for Income Taxes	$ 12,830	0%	$ 12,783	25%	$ 10,250

Income tax expense for fiscal 2020 was $12.8 million, an effective tax rate of 17.7%, compared to income tax expense of $12.8 million in 2019, an effective tax rate of 17.5%. For fiscal 2018, income tax expense of $10.3 million represented an effective tax rate of 14.0%.

The U.S. Tax Act reduced the statutory income tax rate from 35% to 21% in December 2017. During both fiscal 2020 and 2019, we utilized the 21% statutory rate for the entire year to compute our income tax expense, whereas the statutory rate in fiscal 2018 was a blended rate of 29.2%.

Differences from the U. S. statutory rate to our effective rate are primarily due to provisions in the U.S. Tax Act and the exercise of stock options. Please refer to Note 6 to the consolidated financial statements for more information.

Net Income and Income Per Share

(Dollars in thousands—except per share data)	2020	Change	2019	Change	2018
Net Income Attributable to Neogen	$ 59,475	(1)%	$ 60,176	(5)%	$ 63,145
Net Income Per Share—Basic	1.13		1.16		1.23
Net Income Per Share—Diluted	1.13		1.15		1.21

Net income decreased $701,000 in fiscal 2020 compared to fiscal 2019, primarily due to the $654,000 decrease in in pre-tax income.

Net income decreased by 5% in fiscal 2019 as compared to fiscal 2018. This is due to the increase in our effective tax rate in fiscal 2019 and, to a lesser extent, a 1% decrease in pre-tax income.

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 our ability to successfully implement various strategies, including:

- developing, manufacturing and marketing new products with new features and capabilities, and having those new products successfully accepted in the marketplace;
- expanding our markets by fostering increased use of our products by customers;
- maintaining or increasing gross and net operating margins in changing cost environments;
- strengthening operations and 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, 2020, we had $66.3 million in cash and cash equivalents, $277.4 million in marketable securities, and working capital of $488.9 million. For the year ended May 31, 2020, cash generated from operating activities was $85.9 million, compared to $63.8 million generated in fiscal 2019; proceeds from stock option exercises provided an additional $29.4 million of cash. For the same period, additions to property, equipment and other non-current assets were $24.1 million and business acquisitions used cash of $13.2 million. We have a financing agreement with a bank providing for an unsecured revolving line of credit of $15.0 million, which expires on September 30, 2021. There were no advances against this line of credit during fiscal years 2020, 2019 and 2018, and no balance outstanding at May 31, 2020 and 2019.

Net accounts receivable at May 31, 2020 were $84.7 million, compared to $82.6 million at May 31, 2019; the increase is primarily due to the increase in the days sales outstanding (DSO), a measurement of the time it takes to collect receivables, which was 68 days at May 31, 2020 compared to 61 days at May 31, 2019. We have been carefully monitoring our customer receivables as the COVID-19 pandemic has spread across our global markets; to date, although there has been some slowdown in collections, we have not experienced an appreciable increase in bad debt write offs. We did provide an additional $100,000 in our allowance for bad debts to account for potential write offs related to COVID-19, based in part on the increase in DSO, and will continue to actively manage our customer accounts and adjust the allowance account as circumstances change.

Inventory balances were $95.1 million at May 31, 2020, an increase of $9.1 million, or 11%, compared to $86.0 million at May 31, 2019. During both fiscal 2019 and fiscal 2020, we have increased inventory levels of products that are sold into our European markets, to enhance our ability to serve these markets in the event of a disorderly Brexit. While Brexit is now official, there is a transition period which ends on December 31, 2020, and we will continue to monitor and adjust our inventory levels as necessary. In 2020, we increased our inventory levels by $4.3 million in the U.S., in part to ensure that we have adequate supplies of critical raw and finished products in the event our supply chain is adversely impacted by COVID-19. We have also increased inventory levels at other international locations by approximately $1.3 million due to acquisitions. Notwithstanding these increases, all operations participate in programs to improve inventory turns, while ensuring adequate safety stock to minimize backorders.

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

We are 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 our results of operations or financial position.

Contractual Obligations

As of May 31, 2020, we have the following contractual obligations due by period:

(Dollars in thousands)	Total	Less than one year	1–3 years	3–5 years	More than 5 years
Long-Term Debt	$ –	$ –	$ –	$ –	$ –
Operating Leases	2,094	1,080	973	41	–
Unconditional Purchase Obligations [1]	55,180	48,681	6,499	–	–
	$ 57,274	$ 49,761	$ 7,472	$ 41	$ –

[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 *(In thousands)*	May 31 2020	2019
Current Assets		
Cash and cash equivalents	$ 66,269	$ 41,688
Marketable securities	277,404	225,836
Accounts receivable, less allowance of $1,350 and $1,700 at May 31, 2020 and 2019, respectively	84,681	82,582
Inventories	95,053	85,992
Prepaid expenses and other current assets	13,999	13,431
Total Current Assets	537,406	449,529
Property and Equipment		
Land and improvements	5,456	5,324
Buildings and improvements	48,881	46,205
Machinery and equipment	90,351	82,752
Furniture and fixtures	4,324	3,895
Construction in progress	4,968	2,294
	153,980	140,470
Less accumulated depreciation	75,309	65,623
Net Property and Equipment	78,671	74,847
Other Assets		
Right of use assets	1,952	–
Goodwill	110,340	103,619
Other non-amortizable intangible assets	15,217	15,510
Amortizable intangible assets, net of accumulated amortization of $44,690 and $40,835 at May 31, 2020 and 2019, respectively	51,364	52,096
Other non-current assests	2,232	139
Total Other Assets	181,105	171,364
Total Assets	$ 797,182	$ 695,740

LIABILITIES AND STOCKHOLDERS' EQUITY *(In thousands, except share and per share)*	May 31 2020	2019
Current Liabilities		
Accounts payable	$ 25,650	$ 19,063
Accruals		
Accrued compensation	7,735	7,085
Income taxes	1,456	601
Other accruals	13,648	11,502
Total Current Liabilities	48,489	38,251
Deferred Income Taxes	18,125	15,618
Other Non-Current Liabilities	5,391	3,972
Total Liabilities	72,005	57,841
Commitments and Contingencies (Note 7)		
Stockholders' Equity		
Preferred stock, $1.00 par value – shares authorized 100,000; none issued and outstanding	–	–
Common stock, $0.16 par value — shares authorized 120,000,000; 52,945,841 and 52,216,589 shares issued and outstanding at May 31, 2020 and 2019, respectively	8,471	8,355
Additional paid-in capital	257,693	221,937
Accumulated other comprehensive loss	(19,709)	(11,640)
Retained earnings	478,722	419,247
Total Stockholders' Equity	725,177	637,899
Total Liabilities and Stockholders' Equity	$ 797,182	$ 695,740

See accompanying notes to consolidated financial statements.

Neogen Corporation and Subsidiaries: Consolidated Statements of Income

REVENUES *(In thousands, except per share)*	Year Ended May 31 2020	2019	2018
Product revenues	$ 335,539	$ 339,439	$ 331,288
Service revenues	82,631	74,747	66,642
Total Revenues	418,170	414,186	397,930
Cost of Revenues			
Cost of product revenues	173,566	179,660	173,725
Cost of service revenues	48,325	42,606	37,933
Total Cost of Revenues	221,891	222,266	211,658
Gross Margin	196,279	191,920	186,272
Operating Expenses			
Sales and marketing	69,675	70,230	66,929
General and administrative	44,331	40,791	38,294
Research and development	14,750	12,805	10,855
Total Operating Expenses	128,756	123,826	116,078
Operating Income	67,523	68,094	70,194
Other Income			
Interest income, net	5,992	4,683	2,043
Royalty income	-	150	147
Other, net	(1,210)	32	1,081
Total Other Income	4,782	4,865	3,271
Income Before Income Taxes	72,305	72,959	73,465
Provision for Income Taxes	12,830	12,783	10,250
Net Income	59,475	60,176	63,215
Net Income Attributable to Non-controlling Interest	-	–	(70)
Net Income Attributable to Neogen	$ 59,475	$ 60,176	$ 63,145
Net Income Attributable to Neogen per Share			
Basic	$ 1.13	$ 1.16	$ 1.23
Diluted	$ 1.13	$ 1.15	$ 1.21
Weighted Average Shares Outstanding			
Basic	52,550	51,888	51,358
Diluted	52,860	52,425	52,149

See accompanying notes to consolidated financial statements.

Neogen Corporation and Subsidiaries: Consolidated Statements of Comprehensive Income

(In thousands)	Year Ended May 31 2020	2019	2018
Net Income	$ 59,475	$ 60,176	$ 63,215
Other comprehensive loss, net of tax: foreign currency translations	(8,495)	(1,894)	(2,543)
Other comprehensive income, net of tax: unrealized gain on marketable securities	426	–	–
Comprehensive income	51,406	58,282	60,672
Comprehensive loss attributable to non-controlling interest	–	–	(70)
Comprehensive income attributable to Neogen	$ 51,406	$ 58,282	$ 60,602

See accompanying notes to consolidated financial statements.

Neogen Corporation and Subsidiaries: Consolidated Statements of Equity

(In thousands, except shares)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-controlling Interest	Total Equity
Balance, June 1, 2017	50,932,489	$ 8,149	$ 174,742	$ (7,203)	$ 295,926	$ 143	$ 471,757
Exercise of options and share-based compensation expense	781,116	125	26,992	–	–	–	–
Issuance of shares under employee stock purchase plan	22,127	4	1,048	–	–	–	–
Purchase of minority interest	–		(210)	–	–	(213)	(423)
Net income for 2018	–	–	–	–	63,145	70	63,215
Other comprehensive loss	–	–	–	(2,543)	–	–	(2,543)
Balance, May 31, 2018	51,735,732	8,278	202,572	(9,746)	359,071	–	560,175
Exercise of options and share-based compensation expense	512,527	82	21,335	–	–	–	–
Issuance of shares under employee stock purchase plan	18,330	3	1,157	–	–	–	–
Shares repurchased	(50,000)	(8)	(3,127)	–	–	–	(3,135)
Net income for 2019	–	–	–		60,176	–	60,176
Other comprehensive loss	–	–	–	(1,894)	–	–	(1,894)
Balance, May 31, 2019	52,216,589	8,355	221,937	(11,640)	419,247	–	637,899
Exercise of options and share-based compensation expense	707,674	113	34,566	–	–	–	34,679
Issuance of shares under employee stock purchase plan	21,578	3	1,190	–	–	–	1,193
Net income for 2020	–	–	–	–	59,475		59,475
Other comprehensive loss	–	–	–	(8,069)	–	–	(8,069)
Balance, May 31, 2020	52,945,841	$ 8,471	$ 257,693	$ (19,709)	$ 478,722	–	$ 725,177

See accompanying notes to consolidated financial statements.

Neogen Corporation and Subsidiaries: Consolidated Statements of Cash Flows

(In thousands)	Year ended May 31 2020	2019	2018
Cash Flows From Operating Activities			
Net income	$ 59,475	$ 60,176	$ 63,215
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	18,396	17,624	17,058
Deferred income taxes	1,601	1,197	(2,996)
Share-based compensation	6,468	5,543	4,909
Changes in operating assets and liabilities, net of business acquisitions:			
Accounts receivable	(2,881)	(4,025)	(10,233)
Inventories	(10,011)	(10,437)	(2,647)
Prepaid expenses and other assets	(1,017)	(3,569)	(2,275)
Accounts payable	6,745	(1,461)	4,381
Accruals and other changes	7,102	(1,206)	(2,281)
Net Cash From Operating Activities	85,878	63,842	69,131
Cash Flows For Investing Activities			
Purchases of property, equipment and other non-current intangible assets	(24,052)	(14,661)	(20,946)
Proceeds from the sales of marketable securities	406,731	339,225	299,751
Purchases of marketable securities	(458,300)	(437,324)	(361,419)
Business acquisitions, net of cash acquired	(13,164)	(6,388)	(468)
Net Cash For Investing Activities	(88,785)	(119,148)	(83,082)
Cash Flows From Financing Activities			
Exercise of stock options and other	29,405	17,034	23,261
Repurchase of common stock	–	(3,135)	–
Purchase of non-controlling minority interest	–	–	(423)
Net Cash From Financing Activities	29,405	13,899	22,838
Effect of Foreign Exchange Rate on Cash	(1,917)	21	(3,380)
Net Increase (Decrease) In Cash and Cash Equivalents	24,581	(41,386)	5,507
Cash And Cash Equivalents, Beginning of Year	41,688	83,074	77,567
Cash And Cash Equivalents, End of Year	$ 66,269	$ 41,688	$ 83,074
Supplementary Cash Flow Information			
Income taxes paid, net of refunds	$ 7,364	$ 13,027	$ 14,966

See accompanying 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, all of which are wholly-owned as of May 31, 2020. Neogen Latinoamérica was 100% owned as of May 31, 2020 and May 31, 2019; Neogen purchased all shares owned by the minority interest owner on December 31, 2017, which increased its ownership in Neogen Latinoamérica from 90% to 100%. The non-controlling owners' proportionate share in the income or losses of the subsidiaries was subtracted from, or added to, Neogen's net income to calculate the net income attributable to Neogen Corporation.

All intercompany accounts and transactions have been eliminated in consolidation.

Share and per share amounts reflect the December 29, 2017 4-for-3 stock split as if it took place at the beginning of the periods presented.

Functional Currency

Our functional currency is the U.S. dollar. We translate our non-U.S. operations' assets and liabilities denominated in foreign currencies into U.S. dollars at current rates of exchange as of the balance sheet date and income and expense items at the average exchange rate for the reporting period. Translation adjustments resulting from exchange rate fluctuations are recorded in other comprehensive income (loss). Gains or losses from foreign currency transactions are included in other income (expense) on our consolidated statement of income.

Recently Adopted Accounting Standards

Leases

On June 1, 2019, the Company adopted ASU No. 2016-02—Leases (Topic 842). Refer to the Leases section of Note 1 for further information.

Recent Accounting Pronouncements Not Yet Adopted

Financial Instruments- Credit Losses

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. Adoption of this guidance will not have a material impact on our consolidated financial statements due to the Company's short-term contractual life of receivables and minimal expected losses.

Fair Value Measurements

In August 2018, the FASB issued ASU 2018-3, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements of fair value measurements. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019. Adoption of this guidance will not have an impact on our consolidated financial statements.

Cloud Computing Implementation Cost

In August 2018, the FASB issued ASU 2018-15, Intangible-Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Cost Incurred in a Cloud Computing Arrangement That Is a Service Contract, which clarifies the accounting for implementation costs in cloud computing arrangements. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019. Adoption of this guidance will not have an impact on our consolidated financial statements.

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 stockholders' equity. Accumulated other comprehensive income (loss) consists of foreign currency translation adjustments and unrealized gains and losses on our marketable securities.

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 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

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 are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has not experienced losses related to these balances and believes it is not exposed to significant credit risk regarding its cash and cash equivalents. Cash and cash equivalents were $66,269,000 and $41,688,000 at May 31, 2020 and 2019, respectively. The carrying value of these assets approximates fair value due to the short maturity of these instruments and is classified as Level 1 in the fair value hierarchy. Cash held by foreign subsidiaries was $13,060,000 and $8,711,000 at May 31, 2020 and 2019, respectively.

Marketable Securities

The Company has marketable securities held by banks or broker-dealers at May 31, 2020, consisting of short-term domestic certificates of deposit of $16,848,000 and commercial paper and U.S. treasuries rated at least A-1/P-1 (short-term) and A/A2 (long-term) with original maturities between 91 days and two years of $260,556,000. Total outstanding marketable securities at May 31, 2020 were $277,404,000; there were $225,836,000 in marketable securities outstanding at May 31, 2019. Changes in market value are monitored and recorded on a monthly basis; in the event of a downgrade in credit quality subsequent to purchase, the marketable security investment is evaluated to determine the appropriate action to take to minimize the overall risk to our marketable security portfolio. These securities are classified as available for sale. The primary objective of management'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 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. Adjustments in the fair value of these assets are recorded in other comprehensive income.

Marketable Securities as of May 31, 2020 and 2019 are listed below by classification and remaining maturities.

		May 31	
(In thousands)	Maturity	2020	2019
U.S. Treasuries	0 – 90 days	$ –	$ 2,470
	91 – 180 days	–	–
	181 days – 1 year	2,532	2,435
	1 – 2 years	–	2,505
Commercial Paper & Corporate Bonds	0 – 90 days	133,130	84,338
	91 – 180 days	73,824	47,960
	181 days – 1 year	43,231	34,369
	1 – 2 years	7,839	34,078
Certificates of Deposit	0 – 90 days	1,003	7,732
	91 – 180 days	5,184	5,000
	181 days – 1 year	6,069	750
	1 – 2 years	4,592	4,199
Total Marketable Securities		$ 277,404	$ 225,836

The components of marketable securities at May 31, 2020 are as follows:

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasuries	$ 2,502	$ 30	$ –	$ 2,532
Commercial Paper & Corporate Bonds	257,700	347	(23)	258,024
Certificates of Deposit	16,648	200	–	16,848
Total Marketable Securities	$ 276,850	$ 577	$ (23)	$ 277,404

Use of Estimates

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 disclosures of contingent assets and liabilities. On an ongoing basis, management evaluates the estimates, including, but not limited to, variable consideration related to revenue recognition, allowances for doubtful accounts, the market value of, and demand for, inventories, stock-based compensation, provision for income taxes and related balance sheet accounts, accruals, goodwill and other intangible assets. We believe that these estimates have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates. 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. Though the impact of the COVID-19 pandemic to our business and operating results presents additional uncertainty, we continue to use the best information available to inform our critical accounting estimates. Actual results may differ from these estimates under different assumptions or conditions.

Accounts Receivable and Concentrations of Credit Risk

Financial instruments which potentially subject Neogen to concentrations of credit risk consist principally of accounts receivable. Management attempts to minimize credit risk by reviewing customers' credit histories 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, generally after all collection efforts have been exhausted, that amount is charged against the allowance for doubtful accounts. No customer accounted for more than 10% of accounts receivable at May 31, 2020 or 2019, respectively. The activity in the allowance for doubtful accounts was as follows:

		May 31	
(In thousands)	2020	2019	2018
Beginning Balance	$ 1,700	$ 1,550	$ 2,000
Provision	393	263	152
Recoveries	49	38	40
Write-offs	(792)	(151)	(642)
Ending Balance	$ 1,350	$ 1,700	$ 1,550

Inventories

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

	May 31	
(In thousands)	2020	2019
Raw materials	$ 45,058	$ 41,594
Work-in-process	6,887	5,581
Finished goods	43,108	38,817
	$ 95,053	$ 85,992

The Company's inventories are analyzed for slow moving, expired and obsolete items on a quarterly basis and the valuation allowance is adjusted as required within cost of sales expense. The valuation allowance for inventory was $2,850,000 and $2,250,000 at May 31, 2020 and 2019, 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 as incurred. 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 $11,907,000, $11,315,000 and $10,315,000 in fiscal years 2020, 2019 and 2018, 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. Management 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.

In evaluating goodwill for impairment, we have the option to first assess the qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the goodwill impairment test. In contrast, we can opt to bypass the qualitative assessment for any reporting unit in any period and proceed directly to assessing the fair value of all of our reporting units and compare the fair value of the reporting unit to carrying value to determine if any impairment is necessary. Doing so does not preclude us from performing the qualitative assessment in any subsequent period. In the fourth quarter of fiscal 2020, we elected to bypass the qualitative approach that allows the assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount and instead proceeded directly to assessing the fair value of all of our reporting units and comparing the fair values of the reporting units to the carrying values to determine if any impairment is necessary.

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. No goodwill impairments were identified during the years ended May 31, 2020, 2019 and 2018, respectively. The remaining weighted-average amortization period for intangibles was 9 years and 10 years at May 31, 2020 and May 31, 2019, respectively.

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. No impairments of long-lived assets were identified during the years ended May 31, 2020, 2019 and 2018, respectively.

Reclassifications

Certain immaterial amounts in the fiscal 2019 and 2018 financial statements have been reclassified to conform with the fiscal 2020 presentation.

Equity Compensation Plans

At May 31, 2020, the Company had stock option plans which are described more fully in Note 5 to the consolidated financial statements.

The weighted-average fair value per share of stock options granted during fiscal years 2020, 2019 and 2018, estimated on the date of grant using the Black-Scholes option pricing model, was $15.56, $14.91 and $14.47, respectively. The fair value of stock options granted was estimated using the following weighted-average assumptions:

	Year ended May 31		
	2020	2019	2018
Risk-free interest rate	1.9%	2.6%	1.6%
Expected dividend yield	0.0%	0.0%	0.0%
Expected stock volatility	29.4%	27.0%	27.7%
Expected option life	3.5 years	3.5 years	4.0 years

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. We include recent historical experience in estimating our forfeitures. As employees terminate, grant tranches expire or as forfeitures are known, estimated expense is adjusted to actual. For options granted in fiscal years 2020, 2019 and 2018, the Company recorded charges in general and administrative expense based on the fair value of stock options using the straight-line method over the vesting period, generally five years.

Income Taxes

We account 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 carryforwards 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.

Our wholly-owned foreign subsidiaries are comprised of Neogen Europe, Lab M Ltd, Quat-Chem Ltd, Abtek (Biologicals) Ltd, Neogen Italia S.r.l., Neogen do Brasil, Rogama Industria e Comercio Ltda, Neogen Latinoamérica, Productos Quimicos Magiar S.A., Neogen Uruguay, Neogen Chile SpA, Neogen Bio-Scientific Technology Co (Shanghai), Neogen Food and Animal Security (India), Neogen Canada, and Neogen Australasia Pty Limited. Based on historical experience, as well as management's future plans, earnings from these subsidiaries are expected to be re-invested indefinitely for future expansion and working capital needs. Furthermore, our domestic operations have historically produced sufficient operating cash flow to mitigate the need to remit foreign earnings. On an annual basis, we evaluate 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. It is not practicable to determine the income tax liability that would be payable if such earnings were not reinvested indefinitely.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "U.S. Tax Act") was signed into law making significant changes to the Internal Revenue Code. Changes include a federal corporate tax rate reduced from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. The U.S. Tax Act also includes a provision to tax global intangible low-taxed income (GILTI) of foreign subsidiaries and a deduction for foreign derived intangible income (FDII), both of which became effective for us beginning June 1, 2018. See Note 6 to the consolidated financial statements for further information.

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 within sales and marketing as incurred and totaled $1,454,000, $1,471,000 and $1,411,000 in fiscal years 2020, 2019 and 2018, 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 is based on the weighted average number of common shares and dilutive potential common shares outstanding. Our dilutive potential common shares outstanding during the years result entirely from dilutive stock options. The following table presents the net income per share calculations:

	Year Ended May 31		
(In thousands, except per share)	2020	2019	2018
Numerator for basic and diluted net income per share – Net income attributable to Neogen	$ 59,475	$ 60,176	$ 63,145
Denominator for basic net income per share – Weighted average shares	52,550	51,888	51,358
Effect of dilutive stock options	310	537	791
Denominator for diluted net income per share	52,860	52,425	52,149
Net income attributable to Neogen per share			
Basic	$ 1.13	$ 1.16	$ 1.23
Diluted	$ 1.13	$ 1.15	$ 1.21

At May 31, 2020, 28,000 potential shares from option exercises were excluded from the computation of diluted net income per share, as the option exercise prices exceeded the average market price of the common shares. At May 31, 2019, 5,000 potential shares were excluded from the computation. At May 31, 2018, all potential shares were included in the computation.

Leases

On June 1, 2019, we adopted Topic 842 using the prospective approach and did not retrospectively apply to prior periods. Topic 842 requires the Company to 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. Upon adoption of Topic 842, we recognized all leases with terms greater than 12 months in duration on our consolidated balance sheets as right-of-use assets and lease liabilities, each at an approximate balance of $2.0 million. Right-of-use assets are recorded in other assets on our consolidated balance sheets. Current and non-current lease liabilities are recorded in other accruals within current liabilities and other non-current liabilities, respectively, on our consolidated balance sheets. 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.

We lease various manufacturing, laboratory, warehousing and distribution facilities, administrative and sales offices, equipment and vehicles under operating leases. We evaluate our contracts to determine if an arrangement is a lease at inception and classify it as a finance or operating lease. Currently, all of our leases are classified as operating leases. Leased assets and corresponding liabilities are recognized based on the present value of the lease payments over the lease term. Our lease terms may include options to extend when it is reasonably certain that we will exercise that option.

We have made certain assumptions and judgments when applying ASC 842, the most significant of which are:

- We elected the package of practical expedients available for transition that allow us to not reassess whether expired or existing contracts contain leases under the new definition of a lease, lease classification for expired or existing leases and whether previously capitalized initial direct costs would qualify for capitalization under ASC 842.
- We did not elect to use hindsight when considering judgments and estimates such as assessments of lessee options to extend or terminate a lease or purchase the underlying asset.
- For all asset classes, we elected to not recognize a right-of-use asset and lease liability for short-term leases (i.e. leases with a term of 12 months or less).
- For all asset classes, we elected to not separate non-lease components from lease components to which they relate and have accounted for the combined lease and non-lease components as a single lease component.
- The determination of the discount rate used in a lease is our incremental borrowing rate that is based on what we would normally pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments.

Supplemental balance sheet information related to operating leases was as follows:

(In thousands)		May 31, 2020
Right of use - assets	$	1,952
Lease liabilities - current		1,054
Lease liabilities - non-current		913

The weighted average remaining lease term and weighted average discount rate were as follows:

	May 31, 2020
Weighted average remaining lease term	2.5 years
Weighted average discount rate	3.2%

Operating lease expenses are classified as cost of revenues or operating expenses on the consolidated statements of income. The components of lease expense were as follows:

(In thousands)		Year Ended May 31, 2020
Operating leases	$	1,207
Short term leases		166
Total lease expense	$	1,373

Cash paid for amounts included in the measurement of lease liabilities for operating leases included in cash flows from operations on the statement of cash flows were approximately $1,178,000 for the year ended May 31, 2020. There were no non-cash additions to right-of-use assets obtained from new operating lease liabilities for the year ended May 31, 2020.

Undiscounted future minimum lease payments as of May 31, 2020 were as follows:

(In thousands)	
Years ending May 31,	Amount
2021	$ 1,080
2022	546
2023	286
2024	141
2025 and thereafter	41
Total lease payments	2,094
Less: imputed interest	(112)
Total lease liabilities	$ 1,982

At May 31, 2019, under ASC 840, Leases, the minimum annual rental payments under our lease agreements were as follows: $1,112,000 in 2020; $810,000 in 2021; $297,000 in 2022; $101,000 in 2023; and none thereafter.

Revenue Recognition

On June 1, 2018, Neogen adopted ASC Topic 606—Revenue from Contracts with Customers (Topic 606) using the full retrospective approach.

We determine the amount of revenue to be recognized through application of the following steps:

- Identification of the contract with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when or as the Company satisfies the performance obligations.

Essentially all of Neogen's revenue is generated through contracts with its customers. A performance obligation is a promise in a contract to transfer a product or service to a customer. We generally recognized revenue at a point in time when all of our performance obligations under the terms of a contract are satisfied. Revenue is recognized upon transfer of control of promised products and services in an amount that reflects the consideration we expect to receive in exchange for those products or services. The collectability of consideration on the contract is reasonably assured before revenue is recognized. To the extent that customer payment has been received before all recognition criteria are met, these revenues are initially deferred in other accruals on the balance sheet and the revenue is recognized in the period that all recognition criteria have been met.

Certain agreements with customers include discounts or rebates on the sale of products and services applied retrospectively, such as volume rebates achieved by purchasing a specified purchase threshold of goods and services. We account for these discounts as variable consideration and estimate the likelihood of a customer meeting the threshold in order to determine the transaction price using the most predictive approach. We typically use the most-likely-amount method, for incentives that are offered to individual customers, and the expected-value method, for programs that are offered to a broad group of customers. Variable consideration reduces the amount of revenue that is recognized. Rebate obligations related to customer incentive programs are recorded in accrued liabilities; the rebate estimates are adjusted at the end of each applicable measurement period based on information currently available.

The performance obligations in Neogen's contracts are generally satisfied well within one year of contract inception. In such cases, management has elected the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component. Management has elected to utilize the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred because the amortization period for the prepaid costs that would otherwise have been deferred and amortized is one year or less. We account for shipping and handling for products as a fulfillment activity when goods are shipped. Shipping and handling costs that are charged to and reimbursed by the customer are recognized as revenues, while the related expenses incurred by Neogen are recorded in sales and marketing expense; these expenses totaled $13,514,000, $13,503,000 and $12,147,000 in fiscal years 2020, 2019 and 2018, respectively. Revenue is recognized net of any tax collected from customers; the taxes are subsequently remitted to governmental authorities. Our terms and conditions of sale generally do not provide for returns of product or reperformance of service except in the case of quality or warranty issues. These situations are infrequent; due to immateriality of the amount, warranty claims are recorded in the period incurred.

The Company derives revenue from two primary sources — product revenue and service revenue.

Product revenue consists primarily of shipments of:

- Diagnostic test kits, culture media and related products used by food producers and processors to detect harmful natural toxins, foodborne bacteria, allergens and levels of general sanitation;
- Consumable products marketed to veterinarians, retailers, livestock producers and animal health product distributors; and
- Rodenticides, disinfectants and insecticides to assist in the control of rodents, insects and disease in and around agricultural, food production and other facilities.

Revenue for Neogen's products are recognized and invoiced when the product is shipped to the customer.

Service revenue consists primarily of:

- Genomic identification and related interpretive bioinformatic services; and
- Other commercial laboratory services.

Revenues for Neogen's genomics and commercial laboratory services are recognized and invoiced when the applicable laboratory service is performed and the results are conveyed to the customer.

Payment terms for products and services are generally 30 to 60 days.

The following table presents disaggregated revenue by major product and service categories for the years ended May 31, 2020, 2019 and 2018:

	Year Ended May 31				
(Dollars in thousands)	2020	Change	2019	Change	2018
Food Safety:					
Natural Toxins, Allergens & Drug Residues	$ 76,207	(3)%	$ 78,373	7%	$ 72,962
Bacterial & General Sanitation	41,780	(0)%	41,966	10%	38,156
Culture Media & Other	47,847	(4)%	49,857	13%	44,271
Rodenticides, Insecticides & Disinfectants	28,890	13%	25,584	7%	23,821
Genomics Services	17,967	2%	17,694	16%	15,267
	212,691	(0)%	213,474	10%	194,477
Animal Safety:					
Life Sciences	6,322	(20)%	7,858	(25)%	10,411
Veterinary Instruments & Disposables	42,941	(4)%	44,582	(7)%	47,749
Animal Care & Other	28,389	(5)%	29,941	(3)%	30,930
Rodenticides, Insecticides & Disinfectants	68,815	4%	66,389	(2)%	67,646
Genomics Services	59,012	14%	51,942	11%	46,717
	205,479	2%	200,712	(1)%	203,453
Total Revenue	$ 418,170	1%	$ 414,186	4%	$ 397,930

See Note 9 to the consolidated financial statements for disaggregated revenues by geographical location.

Revision of Previously Issued Financial Statements

The Company has historically classified certain variable consideration components resulting from volume rebates, distributor support, and other marketing discounts as cost of revenues or sales and marketing expense in its consolidated financial statements of income. These amounts should have been classified as contra revenue in product or service revenues. We had determined in prior periods that the misstatements were clearly immaterial, individually and in the aggregate, to each of the reporting periods affected. The Company began properly classifying these items as contra revenues beginning in the fiscal year ended May 31, 2019 and revised the financials for fiscal year 2018 to conform to the current period presentation. These immaterial adjustments had no impact on Neogen's operating income, income before taxes, net income or reported earnings per share, and no change to stockholders' equity.

Presented below are the effects of the revisions on the line items within our previously issued consolidated statements of income for the year ended May 31, 2018. Revised consolidated statements of income related to these periods are presented in this Form 10-K.

	Year Ended May 31, 2018		
(In thousands)	As Previously Reported	Adjustments	As Revised
Revenues:			
Product revenues	$ 335,554	$ (4,266)	$ 331,288
Service revenues	66,698	(56)	66,642
Total revenues	402,252	(4,322)	397,930
Cost of revenues:			
Cost of product revenues	174,067	(342)	173,725
Cost of service revenues	37,933	–	37,933
Total cost of revenues	212,000	(342)	211,658
Gross margin	190,252	(3,980)	186,272
Operating expenses:			
Sales and marketing	70,909	(3,980)	66,929
Total operating expenses	120,058	(3,980)	116,078
Operating income	$ 70,194	$ –	$ 70,194

The revisions had no impact on our audited consolidated statement of equity or audited consolidated statement of cash flows for the year ended May 31, 2018.

2. Goodwill and Other Intangible Assets

Management 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 2020, 2019 and 2018, respectively, and determined that recorded amounts were not impaired and that no write-down was necessary.

The following table summarizes goodwill by reportable segment:

(In thousands)	Food Safety	Animal Safety	Total
Balance, May 31, 2018	$ 40,001	$ 59,557	$ 99,558
Goodwill acquired	3,796	1,196	4,992
Goodwill and/or currency adjustments (1)	(1,244)	313	(931)
Balance, May 31, 2019	42,553	61,066	103,619
Goodwill acquired	6,254	2,095	8,349
Goodwill and/or currency adjustments (1)	(1,592)	(36)	(1,628)
Balance, May 31, 2020	$ 47,215	$ 63,125	$ 110,340

(1) Includes final purchase price allocation adjustments and currency adjustments for goodwill recorded at international locations.

At May 31, 2020, non-amortizable intangible assets included licenses of $569,000, trademarks of $13,424,000 and other intangibles of $1,224,000. At May 31, 2019, non-amortizable intangible assets included licenses of $569,000, trademarks of $13,717,000 and other intangibles of $1,224,000.

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

(In thousands)	Gross Carrying Amount	Less Accumulated Amortization	Net Carrying Amount
Licenses	$ 10,346	$ 3,330	$ 7,016
Covenants not to compete	706	407	299
Patents	8,509	4,118	4,391
Customer-based intangibles	59,847	29,898	29,949
Other product and service-related intangibles	16,646	6,937	9,709
Balance, May 31, 2020	96,054	44,690	51,364
Licenses	9,813	3,182	6,631
Covenants not to compete	862	542	320
Patents	8,158	3,570	4,588
Customer-based intangibles	57,634	28,017	29,617
Other product and service-related intangibles	16,464	5,524	10,940
Balance, May 31, 2019	$ 92,931	$ 40,835	$ 52,096

Amortization expense for intangibles totaled $6,489,000, $6,309,000 and $6,743,000 in fiscal years 2020, 2019, and 2018, respectively. The estimated amortization expense for each of the five succeeding fiscal years is as follows: $6,573,000 in 2021, $6,445,000 in 2022, $6,006,000 in 2023, $5,700,000 in 2024 and $5,370,000 in 2025. The amortizable intangible assets useful lives are 2 to 20 years for licenses, 3 to 13 years for covenants not to compete, 5 to 25 years for patents, 5 to 20 years for customer-based intangibles and 5 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 either a straight-line or 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 2018

On September 1, 2017, the Company acquired the assets of The University of Queensland Animal Genetics Laboratory, an animal genomics laboratory located near Brisbane, Australia. This acquisition is intended to accelerate the growth of Neogen's animal genomics business in Australia and New Zealand.

Consideration for the purchase was $2,063,000; $468,000 was initially paid in cash with the remainder due in annual installments over the next five years. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included inventory of $19,000, equipment of $419,000, non-current liabilities of $1,629,000, intangible assets of $902,000 (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. The business, renamed Neogen Australasia, continues to operate in its current location, reporting within the Animal Safety segment.

Fiscal 2019

On August 1, 2018, the Company acquired all of the stock of Clarus Labs, Inc., a manufacturer of water testing products. Neogen has distributed Clarus' Colitag water test to the food and beverage industries since 2004; this acquisition has given the Company the ability to sell this product to new markets. Consideration for the purchase was $4,204,000 in cash and $1,256,000 of contingent consideration, due semiannually for the first five 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 inventory of $32,000, machinery and equipment of $120,000, accounts payable of $53,000, contingent consideration accrual of $1,256,000, non-current deferred tax liability of $544,000, non-amortizable intangible assets of $878,000, intangible assets of $1,487,000 (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. Since February 2019, $270,000 has been paid to the former owners as contingent consideration from the accrual. Manufacturing of these products was moved to the Company's Lansing, Michigan location in October 2018, reporting within the Food Safety segment.

On September 4, 2018, the Company acquired the assets of Livestock Genetic Services, LLC, a Virginia-based company that specializes in genetic evaluations and data management for cattle breeding organizations. Livestock Genetic Services had been a long-time strategic partner of Neogen and the acquisition enhanced the Company's in-house genetic evaluation capabilities. Consideration for the purchase was $1,100,000 in cash, with $700,000 paid at closing and $400,000 payable to the former owner on September 1, 2019, and up to $585,000 of contingent consideration, payable over the next three years. The final purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included office equipment of $15,000, contingent consideration accrual of $385,000, intangible assets of $942,000 (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. In September 2019, the former owner was paid the $400,000 installment of the purchase price owed and was also paid $107,000 in contingent consideration based on the achievement of sales targets in the first year. Services provided by this operation are now performed at the Company's Lincoln, Nebraska location, reporting within the Animal Safety segment.

On January 1, 2019, the Company acquired the assets of Edmonton, Alberta based Delta Genomics Centre, an animal genomics laboratory in Canada. Delta's laboratory operations were renamed Neogen Canada and the acquisition was intended to accelerate growth of the Company's animal genomics business in Canada. Consideration for the purchase was $1,485,000 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 $38,000, machinery and equipment of $371,000, unearned revenue liability of $125,000, intangible assets of $532,000 (with an estimated life of 5 to 10 years) and the remainder to goodwill (deductible for tax purposes). These values are Level 3 fair value measurements. Services provided by this operation continue to be performed in Edmonton, reporting within the Animal Safety segment.

Fiscal 2020

On January 1, 2020, the Company acquired all of the stock of Productos Quimicos Magiar, a distributor of Neogen's Food Safety products for the past 20 years, located in Argentina. This acquisition gives Neogen a direct sales presence in Argentina. Consideration for the purchase was $3,776,000 in net cash, with $3,237,000 paid at closing and $540,000 payable to the former owner on January 1, 2022, and up to $979,000 of contingent consideration, payable in one year, based upon an excess net sales formula. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $603,000, inventory of $446,000, machinery and equipment of $36,000, other current assets of $221,000, accounts payable of $383,000, other current liabilities of $312,000, contingent consideration accrual of $640,000, non-current deferred tax liabilities of $441,000, intangible assets of $1,471,000 (with an estimated life of 5-10 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. This operation continues to operate from its current location in Buenos Aires, Argentina, reporting within the Food Safety segment. It is managed through Neogen's Latin America operation.

On January 1, 2020, the Company acquired all of the stock of Productos Quimicos Magiar, a distributor of Neogen's Food Safety products for the past 20 years, located in Uruguay. This acquisition gives Neogen a direct sales presence in Uruguay. Consideration for the purchase was $1,488,000 in net cash, with $1,278,000 paid at closing and $210,000 payable to the former owner on January 1, 2022, and up to $241,000 in contingent consideration, payable in one year, based upon an excess net sales formula. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $280,000, inventory of $174,000, machinery and equipment of $16,000, other current assets of $68,000, accounts payable of $204,000, other current liabilities of $11,000, contingent consideration accrual of $159,000, non-current deferred tax liabilities of $99,000, intangible assets of $398,000 (with an estimated life of 5-10 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. This operation continues to operate from its current location in Montevideo, Uruguay, reporting within the Food Safety segment. It is managed through Neogen's Latin America operation.

On January 9, 2020, the Company acquired all of the stock of Diessechem Srl, a distributor of food and feed diagnostics for the past 27 years, located in Italy. This acquisition gives Neogen a direct sales presence in Italy. Consideration for the purchase was $3,455,000 in net cash. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $780,000, inventory of $5,000, other current assets of $160,000, accounts payable of $140,000, other current liabilities of $305,000, non-current deferred tax liabilities of $294,000, intangible assets of $1,225,000 (with an estimated life of 5-10 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. This operation continues to operate from its current location in Milan, Italy, reporting within the Food Safety segment. It is managed through Neogen's Scotland operation.

On January 31, 2020, the Company acquired all of the stock of Abtek Biologicals Limited, a manufacturer and supplier of culture media supplements and microbiology technologies. This acquisition enhances the Company's culture media product line offering for the worldwide industrial microbiology markets. Consideration for the purchase was $1,401,000 in net cash, with $1,282,000 paid at closing and $119,000 payable to the former owner on January 31, 2021. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included accounts receivable of $135,000, inventory of $207,000, machinery and equipment of $105,000, prepayments of $6,000, accounts payable of $118,000, other current liabilities of $34,000, non-current deferred tax liabilities of $92,000, intangible assets of $484,000 (with an estimated life of 5-10 years) and the remainder to goodwill (non-deductible for tax purposes). These values are Level 3 fair value measurements. This manufacturing operation continues to operate from its current location in Liverpool, England, reporting within the Food Safety segment. It is managed through Neogen's Scotland operation.

On February 28, 2020, the Company acquired the assets of Cell BioSciences, an Australian distributor of food safety and industrial microbiology products. This acquisition gave Neogen a direct sales presence across Australasia for its entire product portfolio. Consideration for the purchase was $3,768,000 in cash, with $3,596,000 paid at closing and $172,000 payable in one year. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included inventory of $420,000, unearned revenue liability of $13,000, intangible assets of $1,338,000 (with an estimated life of 3 to 10 years) and the remainder to goodwill (non-deductible for tax purposes). The business operates in Gatton, Australia, reporting within the Australian operations in the Animal Safety segment.

On March 26, 2020, the Company acquired the assets of Chile-based Magiar Chilena, a distributor of food, animal and plant diagnostics, including Neogen products. This acquisition gives Neogen a direct sales presence in Chile. Consideration for the purchase was $400,000 in cash, with $350,000 paid at closing and $50,000 payable to the former owner on March 26, 2021. The preliminary purchase price allocation, based upon the fair value of these assets and liabilities determined using the income approach, included inventory of $164,000, machinery and equipment of $53,000, and intangible assets of $183,000 (with an estimated life of 5-10 years). The business is operated from its current location in Santiago, Chile, reporting within the Food Safety segment. It is managed through Neogen's Latin America operation.

For each acquisition listed above, the revenues and net income were not considered material and were therefore not disclosed.

4. Long-Term Debt

The Company has a financing agreement with a bank providing for a $15,000,000 unsecured revolving line of credit, which expires on September 30, 2021. There were no advances against the line of credit during fiscal years 2020 and 2019; there was no balance outstanding at May 31, 2020. Interest on any borrowings is LIBOR plus 100 basis points (rate under the terms of the agreement was 1.24% at May 31, 2020). Financial covenants include maintaining specified levels of tangible net worth, debt service coverage, and funded debt to EBITDA; the Company believes it was in compliance with these covenants at May 31, 2020.

5. Equity Compensation Plans

Incentive and non-qualified options to purchase shares of common stock have been granted to directors, officers and employees of Neogen under the terms of the Company's stock option plans. These options were 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 3,501,000, 3,997,000 and 1,913,000 at May 31, 2020, 2019 and 2018, respectively. Options vest ratably over three and five-year periods and the contractual terms are generally five or ten years.

(Options in thousands)	Options	Weighted-Average Exercise Price	Weighted-Average Grant Date Fair Value
Outstanding at May 31, 2017 (661 exercisable)	2,699	$ 32.88	$ 9.51
Granted	829	59.37	14.47
Exercised	(821)	28.18	8.20
Forfeited	(208)	39.57	11.12
Outstanding at May 31, 2018 (508 exercisable)	2,499	42.63	11.44
Granted	527	62.92	14.91
Exercised	(513)	31.28	8.92
Forfeited	(128)	47.08	12.42
Outstanding at May 31, 2019 (617 exercisable)	2,385	49.37	12.70
Granted	562	63.91	15.56
Exercised	(719)	40.24	11.05
Forfeited	(66)	57.44	14.20
Outstanding at May 31, 2020 (486 exercisable)	2,162	$ 55.96	$ 13.95

The following is a summary of stock options outstanding at May 31, 2020:

(Options in thousands)	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number	Average Contractual Life (in years)	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
$16.82 - $40.91	507	1.4	$ 37.26	208	$ 34.94
$40.92 - $61.56	605	2.6	58.59	183	57.43
$61.57 - $62.88	465	3.5	62.70	85	62.70
$62.89 - $64.05	539	4.4	63.90	–	–
$64.06 - $68.96	46	3.6	66.48	10	67.98
	2,162	3.0	$ 55.96	486	$ 48.94

The weighted average exercise price of shares that were exercisable at May 31, 2020 and 2019 was $48.94 and $40.68, respectively.

Compensation expense related to share-based awards was $6,468,000, $5,543,000 and $4,909,000 in fiscal years 2020, 2019 and 2018, respectively. Remaining compensation cost to be expensed in future periods for non-vested options was $16,949,000 at May 31, 2020, with a weighted average expense recognition period of 3.2 years.

	May 31		
(In thousands)	2020	2019	2018
Aggregate intrinsic value of options outstanding	$ 32,988	$ 22,798	$ 82,649
Aggregate intrinsic value of options exercisable	10,814	10,222	22,572

	Year Ended May 31		
(In thousands)	2020	2019	2018
Aggregate intrinsic value of options exercised	$ 19,597	$ 21,382	$ 25,844

The Company offers 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 under the terms of the 2011 Employee Stock Purchase Plan; 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 through this program were 21,578 in fiscal 2020, 18,330 in fiscal 2019 and 22,127 in fiscal 2018. Common stock totaling 343,817 of the 712,500 authorized shares are reserved for issuance under the plan.

6. Income Taxes

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

(In thousands)	Year Ended May 31 2020	2019	2018
U.S.	$ 62,329	$ 58,479	$ 62,310
Foreign	9,976	14,480	11,155
	$ 72,305	$ 72,959	$ 73,465

The provision for income taxes consists of the following:

(In thousands)	Year Ended May 31 2020	2019	2018
Current			
Domestic			
Federal	$ 6,886	$ 7,173	$ 9,715
Uncertain tax provision	269	13	(963)
State	1,262	1,265	1,377
Foreign	2,475	3,758	3,066
Deferred			
Domestic			
Federal	1,964	1,031	(1,981)
State	195	98	(355)
Foreign	(221)	(555)	(609)
Provision for Income Taxes	$ 12,830	$ 12,783	$ 10,250

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

(In thousands)	Year Ended May 31 2020	2019	2018
Tax at U.S. statutory rate	$ 15,184	$ 15,321	$ 21,459
Permanent differences	360	(56)	–
Section 199 domestic production deduction	–	–	(1,167)
Global intangible low-taxed income (GILTI)	438	840	–
Foreign derived intangible income deduction (FDII)	(1,120)	(1,531)	–
Foreign rate differential	(182)	495	(461)
Subpart F income	634	842	816
Tax benefits on stock-based compensation	(1,998)	(2,586)	(4,816)
Changes in tax contingencies - Increase/(Release)	269	13	(1,035)
Provision for state income taxes, net of federal benefit	1,412	1,251	975
Remeasurement of deferred taxes	–	–	(6,022)
Transition tax on foreign earnings and profits	–	–	1,223
Tax credits	(1,417)	(1,726)	(1,151)
Other	(750)	(80)	429
Income Tax Expense	$ 12,830	$ 12,783	$ 10,250

On June 1, 2017, the Company adopted ASU No. 2016-09—Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which simplifies the accounting for share-based payments to employees. The guidance requires the recognition of the income 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 a policy election to account for forfeitures as they occur, rather than on an estimated basis, and requires that excess tax benefits be classified as an operating activity on the Statement of Cash Flows. The adoption of this ASU decreased income tax expense by $2.0 million in fiscal 2020, by $2.6 million in fiscal 2019 and by $4.8 million in fiscal 2018.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the U.S. Tax Act) was signed into law, making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings. The U.S. Tax Act also includes a provision to tax global intangible low-taxed income (GILTI) of foreign subsidiaries and a deduction for foreign derived intangible income (FDII), both of which became effective for the Company beginning June 1, 2018.

In fiscal 2018, the Company recorded a net benefit of $4.8 million related to the U.S. Tax Act, due to the impact of the reduction in the tax rate on deferred tax assets and liabilities of $6.0 million, partially offset by $1.2 million of one-time transition tax on the deemed repatriation of foreign earnings. In fiscal 2019, the Company finalized its calculation of these amounts and recorded immaterial adjustments to income tax expense; the Company also recorded expense of $840,000 related to GILTI and a tax benefit of $1.5 million related to FDII.

Foreign tax credits, primarily offsetting taxes associated with Subpart F and GILTI income, were $945,000, $1,296,000 and $791,000 in fiscal years 2020, 2019 and 2018, respectively. The Company's U.S. research and development credits were $472,000, $430,000 and $422,000 in fiscal years 2020, 2019 and 2018, respectively.

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 our deferred income tax liabilities and assets are as follows:

(In thousands)	May 31 2020	May 31 2019
Deferred income tax liabilities		
Indefinite and long-lived assets	$ (20,867)	$ (18,963)
Prepaid expenses	(795)	(586)
	(21,662)	(19,549)
Deferred income tax assets		
Stock options	1,479	1,497
Inventories and accounts receivable	1,336	1,315
Tax loss carryforwards	484	417
Accrued expenses and other	657	1,109
Valuation allowance on tax loss carryforwards	(419)	(407)
	3,537	3,931
Net deferred income tax liabilities	$ (18,125)	$ (15,618)

The Company has the following net operating loss carryforwards:

Jurisdiction	May 31, 2020	Expiry
U.S.	$ 408	2037 to indefinite
Foreign	1,354	2024 to 2039
	$ 1,762	

We are subject to income taxes in the U.S. (federal and state) and in numerous foreign jurisdictions. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when we believe that certain positions might be challenged despite our belief that our tax return positions are fully supportable. We adjust these reserves in light of changing facts and circumstances, such as the outcome of tax audits. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

The reconciliation of our tax contingencies is as follows:

(In thousands)	May 31 2020	May 31 2019	May 31 2018
Beginning balance	$ 611	$ 598	$ 1,633
Increase/(decrease) related to prior periods	56	(106)	(1,157)
Increase to current period	213	119	122
Ending balance	$ 880	$ 611	$ 598

The Company is no longer subject to examination by the Internal Revenue Service for fiscal year 2016 and preceding years.

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 currently utilizes a pump and treat remediation strategy, which includes semi-annual monitoring and reporting, consulting, and maintenance of monitoring wells. We expense these annual costs of remediation, which have ranged from $38,000 to $131,000 per year over the past five years. The Company's estimated liability for these costs was $916,000 at both May 31, 2020 and 2019, measured on an undiscounted basis over an estimated period of 15 years; $100,000 of the liability is recorded within current liabilities and the remainder is recorded within other non-current liabilities in the consolidated balance sheet. In fiscal 2019, the Company performed an updated Corrective Measures Study (CMS) on the site, per a request from the Wisconsin Department of Natural Resources (WDNR), and is currently in discussion with the WDNR regarding potential alternative remediation strategies going forward. The Company believes that the current pump and treat strategy is appropriate for the site. At this time, the outcome in terms of approach and future costs is unknown, but a change in the current remediation strategy, depending on the alternative selected, could require an increase in the currently recorded liability, with an offsetting charge to operations in the period recorded.

The Company has agreements with unrelated third parties that provide for the payment of royalties on the sale of certain products. Royalty expense, recorded in sales and marketing, under the terms of these agreements was $2,524,000, $2,795,000 and $2,876,000 for fiscal years 2020, 2019 and 2018, 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: 2021—$182,000, 2022—$110,000, 2023—$105,000, 2024—$105,000 and 2025—$105,000.

We lease office and manufacturing facilities, vehicles and equipment under non-cancelable operating leases. Rent expense for fiscal years 2020, 2019 and 2018 was $1,373,000, $1,633,000 and $1,083,000, respectively.

The Company is subject to certain legal and other proceedings in the normal course of business that, in the opinion of management, are not expected to 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 domestic employees. Employees are permitted to defer compensation up to IRS limits, with Neogen matching 100% of the first 3% of deferred compensation and 50% of the next 2% of deferred compensation. Neogen's expense under this plan was $1,535,000, $1,361,000, and $1,325,000 in fiscal years 2020, 2019 and 2018, 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 the 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 sales and marketing of our 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.

Neogen's operation in Australia originally focused on providing genomics services and sales of animal safety products and reports through the Animal Safety segment. With the acquisition of Cell BioSciences in February 2020, this operation has expanded to offer our complete line of products and services, including those usually associated with the Food Safety segment. These additional products are managed and directed by existing management at Neogen Australasia and report through the Animal Safety segment.

The accounting policies of each of the segments are the same as those described in Note 1.

Segment information is as follows:

(In thousands)	Food Safety	Animal Safety	Corporate and Eliminations[1]	Total
Fiscal 2020				
Product revenues to external customers	$ 189,893	$ 145,646	$ –	$ 335,539
Service revenues to external customers	22,798	59,833	–	82,631
Total revenues to external customers	212,691	205,479	–	418,170
Operating income (loss)	33,526	39,051	(5,054)	67,523
Depreciation and amortization	10,173	8,223	–	18,396
Total assets	222,331	231,178	343,673	797,182
Expenditures for long-lived assets	15,867	8,185	–	24,052
Fiscal 2019				
Product revenues to external customers	$ 190,675	$ 148,764	$ –	$ 339,439
Service revenues to external customers	22,799	51,948	–	74,747
Total revenues to external customers	213,474	200,712	–	414,186
Operating income (loss)	39,020	33,875	(4,801)	68,094
Depreciation and amortization	9,525	8,099	–	17,624
Total assets	206,267	221,950	267,523	695,740
Expenditures for long-lived assets	8,916	5,745	–	14,661
Fiscal 2018				
Product revenues to external customers	$ 174,553	$ 156,735	$ –	$ 331,288
Service revenues to external customers	19,924	46,718	–	66,642
Total revenues to external customers	194,477	203,453	–	397,930
Operating income (loss)	34,561	39,529	(3,896)	70,194
Depreciation and amortization	9,083	7,975	–	17,058
Total assets	186,570	220,629	210,810	618,009
Expenditures for long-lived assets	10,538	10,408	–	20,946

[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 non-controlling interests.

The following table presents the Company's revenue disaggregated by geographical location:

	Year ended May 31	
(In thousands)	2020	2019
Domestic	$ 253,458	$ 248,304
International	164,712	165,882
Total revenue	$ 418,170	$ 414,186

10. Stock Repurchases

In October 2018, the Company's Board of Directors passed a resolution terminating the Company's prior stock buyback program, which had been approved in December 2008, and authorized a new program to purchase, subject to market conditions, up to 3,000,000 shares of the Company's common stock. In December 2018, the Company purchased 50,000 shares under the new program in open market transactions for a total price, including commissions, of $3,134,727. Shares acquired under the program were retired. A total of 2,950,000 shares of common stock remained available for repurchase under this program as of May 31, 2020.

11. Summary of Quarterly Data (Unaudited)

	Quarter Ended			
(In thousands, except per share)	August 31, 2019	November 30, 2019	February 29, 2020	May 31, 2020
Total revenues	$ 101,424	$ 107,803	$ 99,869	$ 109,074
Gross margin	48,194	51,026	45,330	51,729
Net income	14,652	16,276	12,200	16,347
Basic net income per share	0.28	0.31	0.23	0.31
Diluted net income per share	0.28	0.31	0.23	0.31

	Quarter Ended			
(In thousands, except per share)	August 31, 2018	November 30, 2018	February 28, 2019	May 31, 2019
Total revenues	$ 99,626	$ 107,098	$ 97,700	$ 109,762
Gross margin	46,729	50,033	44,628	50,530
Net income	15,237	16,051	13,073	15,815
Net income attributable to Neogen	0.29	0.31	0.25	0.31
Basic net income per share	0.29	0.31	0.25	0.30

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

Stockholders and Board of Directors
Neogen Corporation
Lansing, Michigan

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Neogen Corporation (the Company) and subsidiaries as of May 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended May 31, 2020, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at May 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2020, 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) ("PCAOB"), the Company's internal control over financial reporting as of May 31, 2020, 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 30, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Evaluation of the Accounting for Income Taxes

As described in Notes 1 and 6 to the consolidated financial statements, the Company recorded income tax expense related to US and Foreign tax paying jurisdictions totaling $12.83 million for the year ended May 31, 2020 and deferred income tax liabilities totaling $18.13 million at May 31, 2020. The Company's accounting for income taxes involves the application of tax regulations in each of the foreign tax paying jurisdictions in which it operates. The determination of income subject to income tax in each tax paying jurisdiction requires management to apply transfer pricing guidelines for certain intercompany transactions. Additionally, the Company is entitled to claim foreign tax credits for taxes paid in international tax paying jurisdictions. Management's assumptions and allocations used in the determination of the foreign tax credits are based on current interpretations of complex income tax regulations and can have a material effect on the calculation of US income taxes.

We identified the assumptions and allocations used to calculate foreign taxes and international components of US income taxes to be a critical audit matter. These assumptions and allocations include: (i) interpretation of tax laws in multiple tax paying jurisdictions, (ii) technical merit of tax positions including considerations related to transfer pricing guidelines for certain intercompany transactions, and (iii) allocation methodologies that are subjective in nature. Auditing these assumptions and allocations involved subjective auditor judgment due to the complexity and the extent of specialized knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Assessing the design and testing operating effectiveness of certain controls over the Company's income tax provision process, including controls over the identification and application of tax laws over earnings from multiple tax jurisdictions and the process to assess the technical merits of tax positions taken.
- Evaluating the reasonableness and appropriateness of the data used to develop the assumptions and allocations made by management against relevant evidence obtained in other areas of the audit.
- Utilizing professionals with specialized skills and knowledge in taxation to evaluate the Company's application of the applicable tax laws, the technical merit of tax positions taken, and the reasonableness of the Company's apportionment methodologies used.

BDO USA, LLP

We have served as the Company's auditor since 2014.

Grand Rapids, Michigan
July 30, 2020

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 our management, including the Chief Executive Officer and Chief Financial Officer, an evaluation was conducted as to the effectiveness of internal control over financial reporting as of May 31, 2020, 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, 2020. The effectiveness of internal control over financial reporting as of May 31, 2020 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, 2020 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

John E. Adent, President and CEO

Steven J. Quinlan, Vice President and CFO

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
Neogen Corporation
Lansing, Michigan

Opinion on Internal Control over Financial Reporting

We have audited Neogen Corporation's (the Company's) internal control over financial reporting as of May 31, 2020, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of May 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended May 31, 2020, and the related notes and our report dated July 30, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control over Financial Reporting

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.

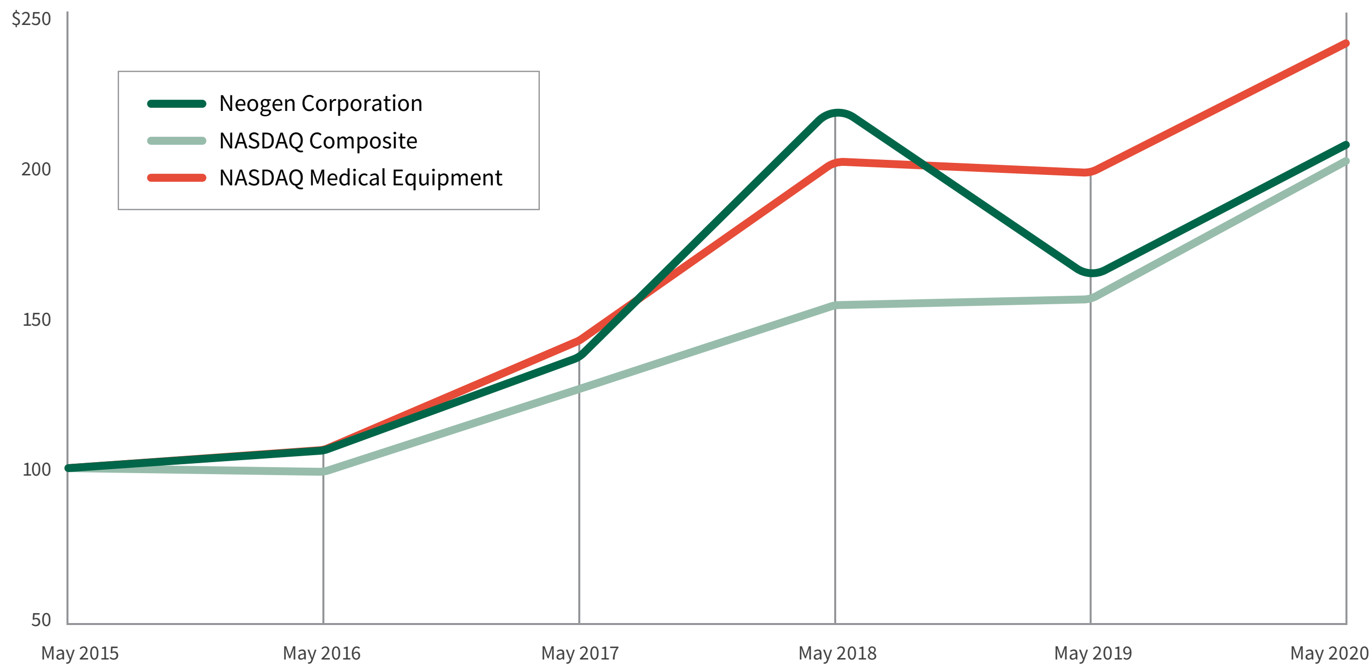
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree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

BDO USA, LLP

Grand Rapids, Michigan
July 30, 2020

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 our common stock and in each index (with the reinvestment of all dividends) from 5/31/2015 to 5/31/2020.



	May 31 of					
	2015	2016	2017	2018	2019	2020
Neogen Corporation	$ 100.00	$ 105.63	$ 135.41	$ 215.97	$ 160.75	$ 203.17
NASDAQ Composite	100.00	98.82	125.26	152.00	153.87	197.98
NASDAQ Medical Equipment	100.00	105.80	140.72	197.84	194.22	235.57

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.

Holders

As of June 30, 2020, there were approximately 245 stockholders of record of Common Stock and management believes there are a total of approximately 10,000 beneficial holders.

Dividends

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

Officers

John E. Adent
President and Chief Executive Officer

Joseph A. Corbett
Vice President, Animal Safety Sales

Robert S. Donofrio, Ph.D.
Vice President, Food Safety R&D

Shane M. Fitzwater
Vice President, Animal Safety Operations

Jerome L. Hagedorn
Vice President, Food Safety Operations

Jason W. Lilly, Ph.D.
Vice President, International Business

Julie A. Mann
Vice President, Chief Human Resources Officer

Terri A. Morrical
Vice President, Animal Safety

Marylinn Munson
Vice President, Agrigenomics

Steven J. Quinlan
Vice President, Chief Financial Officer and Secretary

Directors

James C. Borel
Chairman of the Board
E.I.DuPont de Nemours
Former Executive Vice President

William T. Boehm, Ph.D.
Kroger Company
Former Senior Vice President
President's Council of Economic Advisors
Former Senior Economist

Ronald D. Green, Ph.D.
University of Nebraska–Lincoln
Chancellor

James L. Herbert
Neogen Corporation
Founder and Former Chief Executive Officer

G. Bruce Papesh
Dart, Papesh & Co.
President

James P. Tobin
Monsanto
Former Vice President

Darci L. Vetter
Edelman
General Manager and Vice Chair for Food, Agriculture and Trade
Former Chief Agricultural Negotiator for the U.S. Trade Representative

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 Lesher Place
Lansing, MI 48912

Annual Meeting

October 8, 2020 at 10:00 a.m.
www.virtualshareholdermeeting.com/NEOG2020

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

NEOGEN
CORPORATION

NASDAQ: NEOG