

Neogen Corporation (NEOG)

\$76.63 (As of 07/27/20)

Price Target (6-12 Months): **\$81.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: F

Summary

Neogen exited the fiscal fourth quarter on a mixed note with earnings beating the Zacks Consensus Estimate but revenues missing the mark. While revenues for the quarter were marginally flat, the company was still encouraged by the fact that despite the pandemic-led shutdowns and operational difficulties in many of the markets and with many of its customers, segmental performance was overall stable. Animal Safety segment particularly registered strong growth. European business too performed well in terms of product sales. Expansion in both margins was encouraging. Shares of Neogen have outperformed its industry over the past six months. However, disruption of the global food supply as a result of the pandemic was concerning. Unfavorable currency translation hampered international growth significantly in the quarter.

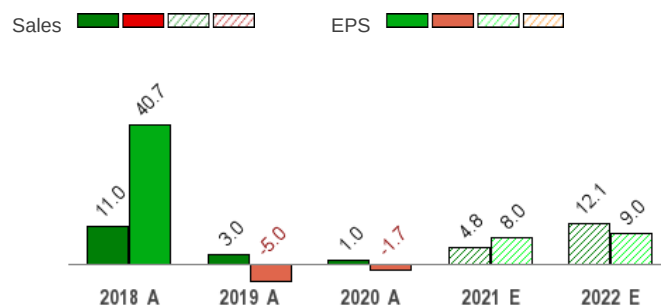
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$80.48 - \$48.91
20 Day Average Volume (sh)	168,909
Market Cap	\$4.0 B
YTD Price Change	17.4%
Beta	0.75
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Products
Zacks Industry Rank	Bottom 37% (159 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.3%
Last Sales Surprise	-1.7%
EPS F1 Est- 4 week change	-0.8%
Expected Report Date	09/22/2020
Earnings ESP	0.0%
P/E TTM	67.8
P/E F1	62.8
PEG F1	6.3
P/S TTM	9.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					491 E
2021	104 E	112 E	106 E	116 E	438 E
2020	101 A	108 A	100 A	109 A	418 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$1.33 E
2021	\$0.27 E	\$0.32 E	\$0.29 E	\$0.33 E	\$1.22 E
2020	\$0.28 A	\$0.31 A	\$0.23 A	\$0.31 A	\$1.13 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/27/2020. The reports text is as of 07/28/2020.

Overview

Neogen Corporation develops and markets food and animal safety products. The company's Food Safety Division markets culture media and diagnostic test kits to detect foodborne bacteria, natural toxins, food allergens, drug residues, plant diseases and sanitation concerns.

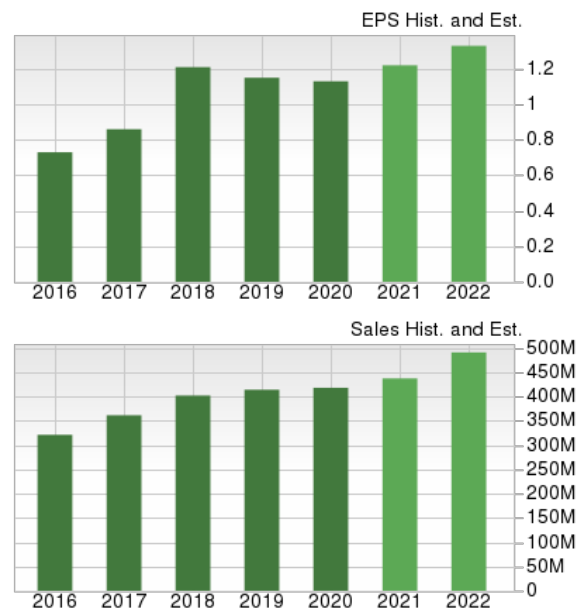
Neogen operates under two business segments — **Food Safety** and **Animal Safety**.

Food Safety (51.5% of total revenues in 2019, underlying growth rate was 9.8% from fiscal 2018): The products in the segment include tests for Mycotoxins, Food allergens, Dairy antibiotics, Foodborne pathogens, Spoilage microorganisms, Sanitation monitoring, Dehydrated culture media and Seafood contaminants. Revenues from Neogen's Food Safety segment accounted for 43.7% of the company's total revenues for fiscal 2018.

Animal Safety (48.5%, down 1.3%): The division is engaged in the development, manufacture, marketing and distribution of veterinary instruments, pharmaceuticals, vaccines, topicals, diagnostic products, rodenticides, cleaners, disinfectants, insecticides and genomics testing services for the worldwide animal safety market. The majority of these consumable products are marketed through a network of national and international distributors, as well as a number of large farm supply retail chains in the United States and Canada.

The animal safety products include Veterinary instruments, Veterinary pharmaceuticals, Veterinary biologics, Veterinary OTC products, Rodenticides, Cleaners and disinfectants, Insecticides, Animal genomics services and Life sciences. Revenues from Neogen's Animal Safety segment accounted for 51.2% of the company's total revenues for fiscal 2018.

Neogen acquired the assets of the Edmonton-based Delta Genomics Centre, an animal genomics laboratory in Canada, in January 2019. Delta's laboratory operations were renamed Neogen Canada post the acquisition, thus, becoming Neogen's sixth animal genomics laboratory. This is intended to help accelerate growth of Neogen's animal genomics business throughout Canada.



Reasons To Buy:

▲ **Share Price Performance:** Shares of Neogen have outperformed its industry over the past six months. The stock has gained 12.1% against the industry's 0.1% dip. The company exited the fiscal fourth quarter with better-than-expected earnings. Although revenues were flat year over year, the company was encouraged by the performance as sales held up well through the quarter in spite of the shutdowns and operating difficulties in many of Neogen's markets and with many of its customers. The company worked hard to connect with its customer base and tried to eliminate supply related hurdles. Neogen witnessed a solid performance by the Animal Safety segment (up 3%) led by \$3.5 million increase in sales of sanitizers and disinfectant products and \$1 million increase in sales of personal protective equipments as demand for these products exploded as a result of the pandemic.

Margin expansion was another major upside of the quarter.

▲ **Long-Term Growth Strategy Progresses Well:** Neogen in its mission to be the leading company in the development and marketing of solutions for food and animal safety follows a vision or a growth strategy consisting of the following elements: increasing sales of existing products; introducing new products and product lines; expanding international sales; and acquiring businesses and forming strategic alliances.

Going by the first leg of the growth strategy, Neogen is progressing well in terms of picking the right growth markets and gaining bigger share of those markets. In terms of the second leg of the growth strategy, Neogen continues well with its strong R&D activities. With respect to the third leg of international growth, the company is expanding well in other geographies.

Regarding the fourth leg of inorganic growth, in fiscal 2020, the company generated \$3 million revenues from acquisitions. Internationally, the company is currently integrating the acquisitions it completed in the past 34 quarters. Growth from these acquisitions were above the company's expectation generating \$1.9 million for the year.

▲ **Animal Safety Business Grows Well:** In the fiscal fourth quarter, Neogen's Animal Safety segment recorded a 3% revenue uptick, resulting from a \$3.5 million increase in sales of sanitizers and disinfectant products, which the company manufactures and a \$1 million increase in sales of personal protective equipment, which include gloves and gowns. In this period, the company registered an upsurge in demand for these products as a result of the pandemic.

For the full year, revenues grew on 13% rise in genomic service revenues at the laboratory operation in Lincoln, Nebraska, driven by strong market gains into the domestic companion animal service space, growth in the commercial beef market and increased volume in the domestic porcine market. Additionally, business in Australia rose 18% for the year on share gains in the sheep testing market in Australia, a \$390,000 increase in sales of biosecurity products and \$420,000 increase in sales of Food Safety Diagnostic products aided by the March acquisition of Cell Biosciences.

▲ **Food Safety Business Holds Potential:** Neogen continues to see rising revenues from the Food Safety business. Management believes that a rising population and growing awareness about higher-quality food among the middle-class group are stimulating the niche market. In fiscal 2020, within this business, Neogen registered 4% increases in sales of both natural toxin and allergen test kits. The company's AccuPoint product line, which monitors environmental sanitation and food processing environment, rose 7% and Listeria Right Now product rose 24% as the company continued to gain share with this fairly new pathogen detection product.

▲ **International Business Holds Solid Ground:** A major portion of Neogen's revenues (40%) came from international sources. In the fourth quarter, the European business finished strong with a 17% increase in cleaners and disinfectants and veterinary instruments and a 15% increase in cultural media products as orders delayed from the third quarter shipped in the fourth. Genomic services in Europe rose 25% in fourth quarter and increased poultry and beef cattle volume. For the full year, genomics business increased 7% in Europe. Overall, sales from the Scotland based operations rose 1% in U.S. dollars for the full year and were up 4% in local currency as the increased genomics revenues were partially offset by lower allergen revenues.

▲ **Partnerships and Acquisitions:** Of late, Neogen inked a series of partnership deals, which is expected to aid in the company's segmental growth as well as international expansion. Neogen partnered with Ripe Technology, which is a food industry blockchain pioneer, with the aim of adopting the blockchain technology for use in the company's animal genomics along with food safety diagnostics.

Further, it inked a partnership deal with Gencove to develop Neogen's next-generation of animal genomic tests. Neogen acquired Diessechem, an Italy-based food and feed safety diagnostics distributor, thus expanding Neogen's European operations.

Among recent acquisitions, Neogen purchased its food safety diagnostics distributor, Productos Quimicos Magiar (Magiar), having operations in Argentina and Uruguay. The acquisition is expected to expand Neogen's physical presence in the wider beef and dairy markets. Further, the company acquired Abtek Biologicals, a UK-based company to add to Neogen's current solutions portfolio.

▲ **Strong Solvency and Capital Structure:** Neogen exited the fiscal 2020 with cash and investments of \$343.7 million compared with \$328 million at the end of the fiscal third quarter. Notably, the company does not have any kind of debt on its balance sheet. This apparently indicates a strong solvency position for the company.

Neogen is well positioned to gain from its extensive global foothold and diverse product mix. The company's long-term growth strategy looks impressive.

Reasons To Sell:

- ▼ **Expensive Valuation:** Neogen's P/E (F12M) ratio is expensive in comparison to the broader industry. The company is currently trading at a forward P/E (F12M basis) ratio of 61.9 for the past year, whereas the current P/E ratio (F12 basis) for the industry it belongs to is 30.2.
- ▼ **Coronavirus Concern:** Over the past few months, the coronavirus pandemic has wreaked havoc on the company's stock. It faced a very volatile currency market and expects the negative impacts to continue in the first quarter as well. Due to the outbreak, the company's results fell below its expectations. Even though it is taking steps to protect its business, Neogen remains wary of future revenue prospects.
- ▼ **Currency Headwinds:** Per Neogen, persistent weakness in the global animal protein market and strongly negative currency conversion posed as headwinds in fiscal 2020. In the fourth quarter of fiscal 2020, Neogen's international business was significantly impacted by unfavorable currency movements. When the magnitude of the pandemic became evident and as it began moving around the world, there was a move toward the safety of the U.S. dollar, negatively impacting local currencies in the company's international locations, particularly those where the outbreaks were less controlled. The Brazilian reals and the Mexican peso were hit especially hard, depreciating against the dollar by 25% and 18% respectively. The Euro and pound also fell but by less than 5% for the comparative quarter.
- ▼ **Competitive Landscape Tough:** Neogen faces intense competition from companies ranging from small businesses to divisions of large multinational companies. Some of these organizations have substantially greater financial resources than the company. Historically, Neogen has faced intense competition resulting from the development of new technologies by the company's competitor which could affect the marketability and profitability of Neogen's products.

In this regard, we note that, in fiscal 2016, within Animal Care & Other product, the company was notified that a competitor had been granted approval on a new drug application for a competitive thyroid replacement product, effectively giving them exclusive rights to sell the product. As a result, Neogen is unable to sell its product into the domestic market effective July 2016, until it gets a similar regulatory approval.
- ▼ **Global Economic Problems Hamper Growth:** The current macroeconomic environment across the globe has adversely affected Neogen's financial operations. Governments and insurance companies continue to look for ways to contain the rising cost of healthcare. This might put pressure on players in the healthcare industry with Neogen being no exception. Moreover, fluctuating currency rates also hamper growth of companies like Neogen, given that it derives a substantial amount of its revenues from international markets. The company's sales are thus directly affected by unfavorable macroeconomic conditions. We are concerned that such macroeconomic softness might hamper the company's growth.

Global economic issues continue to put pressure on Neogen's vast international trade. Also, tough competitive landscape and pricing pressure also weigh on the stock.

Last Earnings Report

Neogen's Q4 Earnings Top, Revenues Miss Estimates

Neogen Corporation's (NEOG) fourth-quarter fiscal 2020 earnings per share (EPS) of 31 cents exceeded the year-ago figure as well as the Zacks Consensus Estimate by a penny. For the full year, the company reported \$1.13 of EPS, a 1.7% decline from the year-ago figure. However, it exceeded the Zacks Consensus Estimate by 1.8%.

Revenues in the fourth quarter declined 0.6% on a year-over-year basis to \$109.1 million, missing the Zacks Consensus Estimate by 1.69%. Fiscal 2020 revenues were \$418.2 million, up 1% from the year-ago period. However, it lagged the Zacks Consensus Estimate by 0.4%.

Segments in Detail

In the quarter, the company registered Food Safety revenues of \$54.3 million, a 3.7% drop year over year, significantly affected by the currency impacts of the stronger dollar, a slowdown in the global restaurant and food service industries and disruption of the global food supply.

Animal Safety revenues in the fourth quarter were \$54.8 million, a 3% increase year over year backed by strong sales of cleaners, disinfectants and sanitizers used in the fight against COVID-19.

Margin Details

Gross margin expanded 139 basis points (bps) to 47.4% in the fiscal fourth quarter. The improvement was driven by opportunistic sales of sanitizers and disinfectants in response to COVID-19 and continued strength in genomic service revenues, in particular to the companion animal market.

Sales and marketing expenses fell 7.4% to \$16.5 million, whereas administrative expenses rose 13.4% to \$11.9 million. Research & development expenses were \$3.5 million, down 3.1%. All these expenses culminated into operating costs of \$31.8 million, a reduction of 0.4% year over year.

During the reported quarter, operating income was \$19.9 million, which improved 6.4% from the year-ago quarter. Operating margin expanded 122 bps to 18.2%.

Cash position

The company ended the fiscal with cash and investments of \$343.7 million, an improvement from the year-ago \$267.5 million. The has no debt in its balance sheet.

Quarter Ending 05/2020

Report Date	Jul 21, 2020
Sales Surprise	-1.69%
EPS Surprise	3.33%
Quarterly EPS	0.31
Annual EPS (TTM)	1.13

Recent News

NEOGEN Acquires Elanco's StandGuard Insecticide: Jul 16, 2020

NEOGEN Corporation plans to acquire the U.S. (including territories) rights to Elanco's StandGuard Pour-on for horn fly and lice control in beef cattle, and related assets. Closing remains subject to a final FTC consent decree for closing of Elanco's acquisition of Bayer AG's global animal health business.

NEOGEN Launches Soleris Next Generation: Jul 15, 2020

NEOGEN announced today the launch of an advanced test system called Soleris Next Generation (NG) that automatically detects microorganisms in a fraction of the time of traditional testing methods. It provides accurate and rapid microbiological answers in a complete system approach.

NEOGEN Launches Enganced Igenity: May 18, 2020

NEOGEN announced the launch of an enhanced version of its Igenity Beef profile, which is a genomic test for commercial cattle.

AquaPrime NeoKlor Gets Favorable Review: May 12, 2020

NEOGEN announced that the Organic Materials Review Institute (OMRI) has reviewed its AquaPrime NeoKlor and has determined that the water disinfectant is in compliance with the USDA National Organic Program, with usage restrictions.

Viroxide Super disinfectant Gets Canadian Nod: May 6, 2020

Neogen announced the receipt of Health Canada's temporary approval to supply its Viroxide Super disinfectant to aid in the country's fight against the coronavirus outbreak.

Launches Igenity Branded: Apr 30, 2020

Neogen, in association with Superior Livestock Auction launched the Igenity Branded, which is a commercial beef certification program verified by a genomic test.

Valuation

Neogen shares are up 17.4% in the year-to-date period and up 8.4% in the trailing 12-month period. Stocks in the Zacks sub-industry are down 2.6% while the Zacks Medical sector up 1.1% in the year-to-date period. Over the past year, the Zacks sub-industry is down 3.9% and sector is up 6.6%.

The S&P 500 index is up 0.8% in year-to-date period and rose 7.7% in the past year.

The stock is currently trading at 61.9X Forward 12-months earnings, which compares to 30.2X for the Zacks sub-industry, 23X for the Zacks sector and 22.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 75.6X and as low as 37.9X, with a 5-year median 51.1X. Our Neutral recommendation indicates that the stock will perform in-line market. Our \$81 price target reflects 64.6X forward 12-months earnings.

The table below shows summary valuation data for NEOG

Valuation Multiples - NEOG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	61.92	30.15	23	22.63
	5-Year High	75.56	31.01	23.17	22.63
	5-Year Low	37.9	17.09	15.89	15.25
	5-Year Median	51.13	20.27	18.98	17.52
P/S F12M	Current	9.06	3.91	2.84	3.57
	5-Year High	11.19	3.92	3.74	3.57
	5-Year Low	4.82	2.9	2.22	2.53
	5-Year Median	6.96	3.29	2.9	3.02
P/B TTM	Current	5.57	3.05	4.41	4.43
	5-Year High	8.63	3.48	5.07	4.56
	5-Year Low	4	2.2	2.94	2.83
	5-Year Median	5.39	2.81	4.3	3.71

As of 07/27/2020

Industry Analysis Zacks Industry Rank: Bottom 37% (159 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Laboratory Corporation of America Holdings (LH)	Outperform	2
Thermo Fisher Scientific Inc. (TMO)	Outperform	1
BioRad Laboratories, Inc. (BIO)	Neutral	3
Elanco Animal Health Incorporated (ELAN)	Neutral	3
3M Company (MMM)	Neutral	3
MerckCo., Inc. (MRK)	Neutral	3
Phibro Animal Health Corporation (PAHC)	Neutral	4
Zoetis Inc. (ZTS)	Neutral	2

Industry Comparison Industry: Medical - Products				Industry Peers		
	NEOG	X Industry	S&P 500	BIO	LH	MMM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	D	-	-	C	B	B
Market Cap	4.04 B	324.85 M	22.74 B	15.73 B	19.57 B	93.90 B
# of Analysts	3	3	14	1	8	6
Dividend Yield	0.00%	0.00%	1.8%	0.00%	0.00%	3.60%
Value Score	D	-	-	C	B	C
Cash/Price	0.09	0.10	0.07	0.07	0.02	0.05
EV/EBITDA	40.80	0.25	13.03	6.51	12.16	14.96
PEG Ratio	6.08	5.35	3.03	NA	2.46	2.15
Price/Book (P/B)	5.57	3.58	3.17	2.50	2.78	9.20
Price/Cash Flow (P/CF)	51.34	17.45	12.05	74.50	10.35	13.57
P/E (F1)	60.82	40.96	21.90	73.68	18.41	20.42
Price/Sales (P/S)	9.66	5.28	2.38	6.75	1.69	2.90
Earnings Yield	1.59%	-1.07%	4.30%	1.36%	5.43%	4.89%
Debt/Equity	0.00	0.13	0.76	0.03	0.92	1.94
Cash Flow (\$/share)	1.49	-0.00	7.01	7.12	19.44	12.02
Growth Score	B	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	14.48%	13.05%	10.85%	21.14%	9.93%	5.11%
Proj. EPS Growth (F1/F0)	7.96%	7.72%	-7.56%	1.98%	-3.42%	-12.16%
Curr. Cash Flow Growth	-3.00%	4.32%	5.47%	20.61%	12.16%	-11.15%
Hist. Cash Flow Growth (3-5 yrs)	15.82%	7.87%	8.55%	19.12%	17.70%	1.67%
Current Ratio	11.08	2.73	1.31	2.40	1.18	1.65
Debt/Capital	0.00%	17.31%	44.41%	2.90%	48.11%	66.04%
Net Margin	14.22%	-25.53%	10.45%	67.81%	2.77%	15.37%
Return on Equity	8.53%	-8.55%	15.13%	3.95%	15.03%	50.24%
Sales/Assets	0.55	0.54	0.54	0.30	0.65	0.75
Proj. Sales Growth (F1/F0)	4.62%	0.00%	-2.00%	-1.72%	2.67%	-3.97%
Momentum Score	F	-	-	F	B	C
Daily Price Chg	2.32%	0.00%	0.48%	2.85%	1.29%	2.13%
1 Week Price Chg	-4.01%	-0.18%	0.37%	-0.18%	2.63%	0.01%
4 Week Price Chg	1.89%	3.12%	5.61%	22.70%	24.24%	4.93%
12 Week Price Chg	24.48%	18.22%	13.36%	22.22%	27.69%	10.00%
52 Week Price Chg	8.40%	0.50%	-3.30%	65.29%	20.32%	-7.65%
20 Day Average Volume	168,909	249,454	1,917,592	188,786	764,673	2,206,790
(F1) EPS Est 1 week change	-1.61%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.81%	0.00%	0.21%	0.00%	5.79%	1.07%
(F1) EPS Est 12 week change	-0.20%	-4.74%	-2.00%	-5.88%	43.16%	1.49%
(Q1) EPS Est Mthly Chg	-3.57%	0.00%	0.00%	0.00%	-1.13%	1.93%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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