

**CEO
CFO**



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With Consumers Demanding Safer Foods, Neogen Is In The Right Place At The Right Time With Its Tests And Safety Products For The Food And Animal Safety Industries

**Healthcare
Diagnostics Substances
(NEOG-NASDAQ)**

Neogen Corporation

**620 Leshar Place
Lansing, MI 48912
Phone: 517-372-9200**



**James L. Herbert
Chairman and CEO**

BIO:
James L. Herbert is Chief Executive Officer and Chairman of Neogen Corporation, and was one of its founders in 1982. Mr. Herbert holds a B.S. degree in agriculture from the University of Tennessee and has completed advanced studies at Harvard University and Emory University. He previously held the position of Corporate Vice President of DeKalb Ag Research, a major agricultural genetics and energy company. He has management experience in animal biologics, specialized chemical research, medical instruments, aquaculture, animal nutrition, and poultry and livestock breeding and production. Mr. Herbert has served as a member of the Board of Directors or an officer of numerous U.S. corporations and has been active in a number of trade and community organizations.

Company Profile:

Neogen Corporation (NASDAQ: NEOG) develops and markets products dedicated to food and animal safety. The company's Animal Safety Division markets a complete line of diagnostics, veterinary instruments, veterinary pharmaceuticals, nutritional supplements, disinfectants, and rodenticides. Neogen's Food Safety Division markets dehydrated culture media, and diagnostic test kits to detect foodborne bacteria, natural toxins, genetic modifications, food allergens, drug residues, plant diseases and sanitation concerns.

**Interview conducted by:
Walter Banks, Publisher
CEOCFOinterviews.com**

CEOCFO: Mr. Herbert, please tell us about the startup of Neogen and what the vision is for the company today.

Mr. Herbert: “I was one of the initial people who started Neogen back in 1982. I had a background in the food and agricultural business as a senior officer with another company at about the time biotechnology had really began to come into its own. With the idea that things were going to change in the food and animal safety business, it seemed a good opportunity to start a company with that focus. In mid 1982, we started Neogen with no products and little money and built it to where we are today with revenues this past year of over \$100 million, and on a run rate this year to about \$120 million. It’s been a terrific experience and one that probably could only have been started because of the unusual situation surrounding the biotechnology area two decades ago.”

CEOCFO: You have two segments, food safety and animal safety; can you tell us what differentiates those segments and which is the most important segment for you and how they balance out for your revenues?

Mr. Herbert: “Our strategy was and continues to be to provide solutions for food and animal safety. Animal safety is in many ways food safety back inside the farm gate. With animal safety, we’re talking about safety in production of milk, meat, and egg products, which are animal derived and of course those find their way through the farm gate to processing and on to the consumer. The food safety group covers about 40 markets ranging from beverages, fruits, meats, food services and even pet food. Although we operate as two different divisions, the dividing line between the two becomes more and more blurred each year.

It has always been our strategy to be a high growth company and we’ve been able to maintain that objective with a compound annual growth rate of almost 20% a year over the last 5 years. Being a publicly held company, we have the opportunity to report our results on a quarterly basis. In the last 18 years there’s only been 5 quarters that we were not able to report revenues in excess of the quarter of the prior year. It’s been the right strategy and certainly in these financial times, it’s nice to be in marketplaces where the overall market is growing. We benefit from some of the things that we do right in order to grow, but it’s much easier to do that if you’re in a growing market. Both of our market segments have a lot of components for growth.”

CEOCFO: It appears that Neogen is in the right place at the right time.

Mr. Herbert: “When I look back over 26 years, it was a bit slower developing than we had expected in those very early years. But, we stuck to our guns and continued to work in the areas that we thought would grow, and time has rewarded us.”

CEOCFO: Tell us about the challenges, and if awareness about your products is an issue.

Mr. Herbert: “The challenges for our customers are greater than they’ve ever been before. For food companies, the challenge is to produce food products in larger quantities in larger facilities. In the case of animal agriculture, we have large numbers of animals that are confined in the same area and it’s much more difficult to hold down some of the disease problems. But, an even greater problem is created with food safety as those animal-derived products from potentially diseased animals reach the marketplace. With this awareness, our biggest challenge is being international. We are a significant player in several international markets. About 40% of our total revenues now are derived from sales outside of the USA, and for a small company like ours, that’s not insignificant.”

CEOCFO: Do you grow organically or through acquisitions?

Mr. Herbert: “Our growth strategy from the beginning has been to grow in three ways. First by increasing market share; as I mentioned, the markets themselves are growing but we believe that we are also making competitive gains. We track how we’re doing in our markets and how we think our competitors are doing. The first leg of that stool is to increase our revenues through gain in market share. The second way is technology sector in which new products are being developed everyday. We still are in a products are being developed everyday. We have a number of near coming out of the pipeline. Those opportunities continue to grow and we recently doubled our R&D staff. Going back eight months ago, we made the decision that there were more opportunities in new product development than we had the resources to take care of, so we doubled our R&D staff. We have I think in the range of 55 people in R&D now.

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- James L. Herbert

Bringing new products to the marketplace is the second leg of that stool, and the third way is acquisitions. We continue to do pretty well with spotting opportunities and making acquisitions. We’ve done 14 acquisitions in the past seven years and all of those have been synergistic. We’ve had some that have been better than others, but we haven’t had any bad ones. We haven’t made any acquisitions that we didn’t have a pretty good idea on the day that we signed the deal as to exactly how we would integrate it, and we began immediately integrating the new business within our existing product groups and market groups. I think all three of our growth strategies have certainly aided our growth, and has made it easier

to grow even more. If we happen to miss an introduction of a new product by a quarter, then hopefully we've got enough growth coming out of an acquisitions that we made two or three quarters ago to make up for that."

CEOCFO: Is your R&D spending going up then?

Mr. Herbert: "It is but as a total of our overall revenues, it's still fairly modest because we have a number of products that don't have a high R&D input. We focus on the operating profit line. We think if we can bring revenues through with good operating profit, then there's less concern about the exact gross margins. But of course the R&D comes out before you get to the operating profit line, so our overall financial plan is pretty integrated."

CEOCFO: How difficult is it to initiate a sale and how do you reach the marketplace?

Mr. Herbert: "We reach the marketplace in a couple of different ways. On our food safety side in the United States, Canada, Mexico and parts of Europe, we have our own direct sales force. We have about 50 people there that call directly on the food side of the industry and that's everything from beer and carbonated beverage manufacturers all the way to anything that you can imagine; even pet foods. Internationally we have our own sale organization that operates similarly in part of the EU. We have our own sales organization on France, Germany, Holland and the UK. For the rest of the world, we use distributors. Some of those distributors have been with us now for 20 years. These are people who already had or developed a business with the same kind of customer base that we work with. On the animal safety side, there was a distribution system that had been established through the years. This made it a little easier and not quite so manpower dependant. We work with a number of distributors that are our pathway to farmers, ranchers, dairy men, and to the veterinarians and veterinary clinics. We have a sales organization there that works with that set of distributors to make sure we reach the producers of poultry, eggs, pork, or beef."

CEOCFO: How big is the market, what is your position in the market and what separates you from the competition?

Mr. Herbert: "There are a number of guesses as to how big the market is. We think the food safety market on a worldwide basis is probably somewhere near the billion dollar level. Because of all of the things that get thrown into animal safety, such as the vaccines and pharmaceutical products, it is perhaps ten times that big. We have selected niches where we can be a player and have an opportunity to be dominant, so we haven't gone head long against the large, multi-national corporations in their particular product areas or their particular market areas."

What has helped us from a competitive position is the background of some of the early members of our management team. We had a pretty good idea of what the market looked like. We had been in the marketplace before, and we saw there was not a good distribution channel particularly on the food safety side to carry our products to market, so we built our own sales and marketing team.

Twenty years of building a sales and marketing group to reach the customer has given us an advantage and we had a good head start over most of our competitors. That also gives us the opportunity to continue to grow. We try to make sure that we're totally aware of what the industry needs are going to be and try to anticipate those hopefully a little bit in advance. We're there to help solve their problems and provide solutions to help solve them. That's probably one of the greatest differences between us and our competition."

CEOCFO: What would you say is your most recent and exciting news and the next step of growth for Neogen?

Mr. Herbert: "We've had a number of pieces of exciting news. I guess one is the recent approval of a product by the FDA for sales into the dairy industry. We had a product that we have been selling for the past several years internationally for the detection of antibiotics in milk, which is a worldwide concern. Our product had not been approved in the USA by the FDA, but it was more a matter of the amount of time that it took to get through all of the hoops, and not a question of whether the product was satisfactory. The US market is about a \$10 million market annually and we had not been a player. This now opens that piece of the market for us in addition to the markets that we've had worldwide. I think our continued success with our full line of products, which includes tests for drugs, bacterial pathogens, natural toxins and food allergens. About half of the food recalls in this country and in Europe are not because of pathogenic bacteria, but because there's an allergenic food in that product that is not listed on the label. That would be things like peanuts, milk, or eggs. It's very easy for one of those ingredients to inadvertently slip into a product and therefore it requires some testing to make sure it didn't happen at the food processing level. That area continues to grow. We were the first ones to spot that as an opportunity of developing a test to help the manufacturers and the regulators. The overall food allergy market is an exciting new growth area."

CEOCFO: Are dairy farmers turning to you for test kits to find out if their milk had hormones or antibiotics or do they need to be convinced?

Mr. Herbert: "I think that there's a worldwide concern among producers that they're doing adequate testing to deliver a safe product to the market. Each year, we consider things from a safety standpoint differently. We now are far more concerned about antibiotic residues than we were 10 years ago, because we've learned that there are bacteria that develop a resistance to certain antibiotics and we could develop that resistance because of residues in the food we eat. Should we need those as humans as a therapeutic solu-

tion for a health problem, we don't want to end up with antibiotics that don't work. I think the worldwide awareness among food producers and processors is heightened."

CEOCFO: What is the financial position of the company?

Mr. Herbert: "We continue to grow. Through the first two quarters of the year total revenues are about \$60 million. We strive toward a 20% operating profit. We're in the high teens now. From a balance sheet standpoint, the company is very solid. We are cash flow positive each month, with a cash balance in the neighborhood of \$13 to \$14 million. We have no bank borrowing and a significant bank line of credit. We have the financial strength to do the kind of things we need to do to grow the business including synergistic acquisition opportunities. We're solid from a financial standpoint, both from cash flow and continued profitable growth."

CEOCFO: In closing, why should potential investors consider Neogen?

Mr. Herbert: "We're probably the only pure play among public companies today that are both in the food and animal safety business. We have competitors who compete with us in certain product areas and certain markets, but none of our competitors has anywhere near our breadth of products."

More than anything, in the difficult economic climate that we find ourselves in these days, Neogen has a mission that matters. Regardless of how difficult times may be, consumers will always demand the safest food possible and of the highest quality possible. That is exactly where Neogen's products are positioned."



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