

BIO-TECHNE Corp  
Form 10-Q  
May 09, 2018

Table of Contents

---

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

---

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2018, or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 0-17272**

---

**BIO-TECHNE CORPORATION**

**(Exact name of registrant as specified in its charter)**

---

**Minnesota**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**41-1427402**  
**(I.R.S. Employer**  
**Identification No.)**

**614 McKinley Place N.E.**

**(612) 379-8854**

**Minneapolis, MN 55413**

**(Address of principal executive offices) (Zip Code) (Registrant's telephone number, including area code)**

---

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes No

At May 2, 2018, 37,573,865 shares of the Company's Common Stock (par value \$0.01) were outstanding.

---

Table of Contents

**TABLE OF CONTENTS**

|  | Page |
|--|------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>  |      |
| Item 1. <u>Financial Statements (Unaudited)</u>  | 1    |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 16   |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>                            | 23   |
| Item 4. <u>Controls and Procedures</u>   | 24   |
| <b><u>PART II: OTHER INFORMATION</u></b>   |      |
| Item 1. <u>Legal Proceedings</u>   | 25   |
| Item 1A. <u>Risk Factors</u>   | 25   |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 25   |
| Item 3. <u>Defaults Upon Senior Securities</u>   | 25   |
| Item 4. <u>Mine Safety Disclosures</u>   | 25   |
| Item 5. <u>Other Information</u>   | 25   |
| Item 6. <u>Exhibits</u>  | 25   |
| <u>SIGNATURES</u>  | 26   |

---

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS****AND COMPREHENSIVE INCOME***Bio-Techne Corporation and Subsidiaries**(in thousands, except per share data)**(unaudited)*

|   | <i>Quarter Ended</i> |             | <i>Nine Months Ended</i> |             |
|---|----------------------|-------------|--------------------------|-------------|
|   | <i>March 31,</i>     |             | <i>March 31,</i>         |             |
|   | <i>2018</i>          | <i>2017</i> | <i>2018</i>              | <i>2017</i> |
| Net sales   | \$163,973            | \$144,037   | \$462,739                | \$406,425   |
| Cost of sales   | 53,712               | 47,355      | 152,777                  | 134,256     |
| Gross margin  | 110,261              | 96,682      | 309,962                  | 272,169     |
| Operating expenses:   |                      |             |                          |             |
| Selling, general and administrative   | 53,285               | 49,409      | 175,349                  | 151,814     |
| Research and development  | 13,892               | 13,771      | 41,350                   | 39,817      |
| Total operating expenses  | 67,177               | 63,180      | 216,699                  | 191,631     |
| Operating income  | 43,084               | 33,502      | 93,263                   | 80,538      |
| Other income (expense), net   | (18,102)             | (2,361)     | (23,581)                 | (6,425)     |
| Earnings before income taxes  | 24,982               | 31,141      | 69,682                   | 74,113      |
| Income tax expense (benefit)  | 5,244                | 8,974       | (14,767)                 | 25,637      |
| Net earnings  | \$19,738             | \$22,167    | \$84,449                 | \$48,476    |
| Other comprehensive income:   |                      |             |                          |             |
| Foreign currency translation adjustments  | 2,297                | 2,400       | 10,787                   | (10,899)    |
| Unrealized gain (loss) on available-for-sale investments, net of tax of \$(10,120), \$293, \$(4,745), and \$(1,767), respectively | 38,659               | (475)       | 22,286                   | 16,010      |
| Other comprehensive income  | 40,956               | 1,925       | 33,073                   | 5,111       |
| Comprehensive income  | \$60,694             | \$24,092    | \$117,522                | \$53,587    |
| Earnings per share:   |                      |             |                          |             |
| Basic   | \$0.53               | \$0.59      | \$2.25                   | \$1.30      |
| Diluted   | \$0.52               | \$0.59      | \$2.22                   | \$1.29      |
| Cash dividends per common share:  | \$0.32               | \$0.32      | \$0.96                   | \$0.96      |
| Weighted average common shares outstanding:   |                      |             |                          |             |
| Basic   | 37,503               | 37,320      | 37,450                   | 37,303      |

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Diluted | 38,142 | 37,494 | 37,933 | 37,486 |
|---------|--------|--------|--------|--------|

See Notes to Condensed Consolidated Financial Statements.

1

---

Table of Contents**CONDENSED CONSOLIDATED BALANCE SHEETS***Bio-Techne Corporation and Subsidiaries**(in thousands, except share and per share data)*

|   | <i>March 31,<br/>2018<br/>(unaudited)</i> | <i>June 30,<br/>2017</i> |
|---|---|--------------------------|
| <b>ASSETS</b>   |   |                          |
| Current assets:   |   |                          |
| Cash and cash equivalents   | \$ 86,608                                 | \$ 91,612                |
| Short-term available-for-sale investments   | 89,826                                    | 66,102                   |
| Accounts receivable, less allowance for doubtful accounts of \$822 and \$696, respectively                                      | 109,759                                   | 116,830                  |
| Inventories   | 88,586                                    | 60,151                   |
| Prepaid expenses and other  | 18,725                                    | 13,330                   |
| Total current assets  | 393,504                                   | 348,025                  |
| Property and equipment, net   | 142,779                                   | 135,124                  |
| Goodwill  | 610,667                                   | 579,026                  |
| Intangible assets, net  | 443,794                                   | 452,042                  |
| Other assets  | 27,064                                    | 44,002                   |
| Total assets  | \$ 1,617,808                              | \$ 1,558,219             |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |   |                          |
| Current liabilities:  |   |                          |
| Trade accounts payable  | \$ 14,530                                 | \$ 16,856                |
| Salaries, wages and related accruals  | 19,839                                    | 26,602                   |
| Accrued expenses  | 18,767                                    | 18,518                   |
| Deferred revenue  | 7,841                                     | 5,968                    |
| Income taxes payable  | 6,412                                     | 2,478                    |
| Contingent consideration payable  | 3,500                                     | 65,100                   |
| Total current liabilities   | 70,889                                    | 135,522                  |
| Deferred income taxes   | 86,987                                    | 120,596                  |
| Long-term debt obligations  | 392,500                                   | 343,771                  |
| Long-term contingent consideration payable  | -   | 3,300                    |
| Other long-term liabilities   | 9,140                                     | 5,403                    |
| Shareholders' equity:   |   |                          |
| Common stock, par value \$.01 per share; authorized 100,000,000; issued and outstanding 37,545,189 and 37,333,015, respectively | 375                                       | 374                      |
| Additional paid-in capital  | 226,469                                   | 199,161                  |
| Retained earnings   | 847,310                                   | 799,027                  |
| Accumulated other comprehensive loss  | (15,862 )                                 | (48,935 )                |
| Total shareholders' equity  | 1,058,292                                 | 949,627                  |
| Total liabilities and shareholders' equity  | \$ 1,617,808                              | \$ 1,558,219             |

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS***Bio-Techne Corporation and Subsidiaries**(in thousands)**(unaudited)*

|   | <i>Nine Months Ended</i> |             |
|---|--------------------------|-------------|
|   | <i>March 31,</i>         |             |
|   | <i>2018</i>              | <i>2017</i> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                          |             |
| Net earnings  | \$84,449                 | \$48,476    |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                          |             |
| Depreciation and amortization   | 47,311                   | 45,288      |
| Costs recognized on sale of acquired inventory                                      | 2,013                    | 2,770       |
| Deferred income taxes   | (48,030)                 | (5,323 )    |
| Stock-based compensation expense  | 13,587                   | 11,219      |
| Fair value adjustment to contingent consideration payable                           | 20,100                   | 14,100      |
| Payments of contingent consideration  | (26,200)                 | (9,117 )    |
| Impairment of investment  | 16,226                   | -           |
| Other operating activity  | 1,664                    | (911 )      |
| Change in operating assets and operating liabilities, net of acquisition:           |                          |             |
| Trade accounts and other receivables  | 9,399                    | (19,943 )   |
| Inventories   | (11,576)                 | (3,576 )    |
| Prepaid expenses  | 858                      | (1,913 )    |
| Trade accounts payable and accrued expenses   | 1,665                    | 7,298       |
| Salaries, wages and related accruals  | (4,159 )                 | 2,305       |
| Income taxes payable  | (1,779 )                 | 2,200       |
| Net cash provided by operating activities   | 105,528                  | 92,873      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                          |             |
| Acquisitions, net of cash acquired  | (65,066)                 | (253,941)   |
| Proceeds from maturities of available-for-sale investments                          | 6,563                    | 3,624       |
| Purchases of available-for-sale investments   | (3,061 )                 | (1,625 )    |
| Purchases of property and equipment   | (15,116)                 | (9,311 )    |
| Purchase of equity investment   | -                        | (40,000 )   |
| Net cash used in investing activities   | (76,680)                 | (301,253)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                          |             |
| Cash dividends  | (35,941)                 | (35,814 )   |
| Proceeds from stock option exercises  | 13,724                   | 3,630       |
| Excess tax benefit from stock option exercises                                      | -                        | 402         |
| Borrowings under line-of-credit agreement   | 55,000                   | 368,500     |
| Payments on line-of-credit  | (6,000 )                 | (116,500)   |

Edgar Filing: BIO-TECHNE Corp - Form 10-Q

|  |           |           |
|--|-----------|-----------|
| Payments of contingent consideration                         | (58,800 ) | (14,203 ) |
| Other financing  | (4,339 )  | (257 )    |
| Net cash (used in) provided by financing activities          | (36,356 ) | 205,758   |
| Effect of exchange rate changes on cash and cash equivalents | 2,504     | (1,775 )  |
| Net decrease in cash and cash equivalents                    | (5,004 )  | (4,397 )  |
| Cash and cash equivalents at beginning of period             | 91,612    | 64,237    |
| Cash and cash equivalents at end of period                   | \$86,608  | \$59,840  |
| Supplemental disclosure of cash flow information:            |           |           |
| Cash paid for interest                                       | \$6,877   | \$5,285   |
| Cash paid for income taxes                                   | \$31,103  | \$31,863  |

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*Bio-Techne Corporation and Subsidiaries*

*(unaudited)*

***Note 1. Basis of Presentation and Summary of Significant Accounting Policies:***

The interim consolidated financial statements of Bio-Techne Corporation and subsidiaries, (the Company) presented here have been prepared by the Company and are unaudited. They have been prepared in accordance with accounting principles generally accepted in the United States of America and with instructions to Form 10-Q and Article 10 of Regulation S-X. They reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These interim unaudited condensed consolidated financial statements should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto for the fiscal year ended *June 30, 2017*, included in the Company's Annual Report on Form 10-K for fiscal year 2017. A summary of significant accounting policies followed by the Company is detailed in the Company's Annual Report on Form 10-K for fiscal 2017. The Company follows these policies in preparation of the interim unaudited condensed consolidated financial statements.

As disclosed in the *June 30, 2017* Form 10-K, during the *fourth* quarter of fiscal year 2017, management identified certain errors related to purchase accounting items for the Advanced Cell Diagnostics (ACD) acquisition recorded during the *first* quarter of fiscal year 2017. We concluded that these errors were *not* material to each of the respective periods. However, we elected to report the corrected amount for the *fourth* quarter of fiscal year 2017 and revise the previously reported fiscal 2017 quarterly information in future filings to reflect the properly stated amounts. In accordance with ASC 250, we have corrected the prior year financial statements herein.

The impact of this revision on our unaudited consolidated statement of earnings and comprehensive income was as follows:

*Quarter Ended March 31, 2017*  
*As*  
*Previously*

Edgar Filing: BIO-TECHNE Corp - Form 10-Q

|                                     | <i>Reported</i> | <i>Adjustment</i> | <i>As<br/>Revised</i> |
|-------------------------------------|-----------------|-------------------|-----------------------|
| Cost of sales                       | \$49,854        | \$ (2,499 )       | \$47,355              |
| Selling, general and administrative | 48,107          | 1,302             | 49,409                |
| Other (expense) income              | (2,275 )        | (86 )             | (2,361 )              |
| Earnings before income taxes        | 30,030          | 1,111             | 31,141                |
| Income taxes                        | 8,641           | 333               | 8,974                 |
| Net earnings                        | 21,389          | 778               | 22,167                |
| Comprehensive income                | 23,314          | 778               | 24,092                |

*Nine Months Ended March 31,  
2017*

*As*

*Previously*

|                                     | <i>Reported</i> | <i>Adjustment</i> | <i>As<br/>Revised</i> |
|-------------------------------------|-----------------|-------------------|-----------------------|
| Cost of sales                       | \$142,691       | \$ (8,435 )       | \$134,256             |
| Selling, general and administrative | 150,025         | 1,789             | 151,814               |
| Other (expense) income              | (6,196 )        | (229 )            | (6,425 )              |
| Earnings before income taxes        | 67,696          | 6,417             | 74,113                |
| Income taxes                        | 23,712          | 1,925             | 25,637                |
| Net earnings                        | 43,984          | 4,492             | 48,476                |
| Comprehensive income                | 49,095          | 4,492             | 53,587                |

Table of Contents

The revisions had *no* impact to net cash provided by operating, investing, or financing activities. The impact of this revision to the individual line items within our unaudited consolidated statement of cash flows for the *nine* months ended *March 31, 2017* was as follows:

|  | <i>Nine Months Ended March 31,<br/>2017</i> |                   |                       |
|--|---|-------------------|-----------------------|
|  | <i>As<br/>Previously</i>                    |                   |                       |
|  | <i>Reported</i>                             | <i>Adjustment</i> | <i>As<br/>Revised</i> |
| Costs recognized on the sale of acquired inventory | \$11,205                                    | \$ (8,435 )       | \$ 2,770              |
| Other operating (1)                                | 331   | (1,494 )          | (911 )                |
| Changes in salaries, wages and related accruals    | (1,207 )                                    | 3,512             | 2,305                 |
| Changes in income tax payable                      | 275   | 1,925             | 2,200                 |

(1) Does *not* cross-foot due to the retrospective adoption of the cash flow presentation of employee taxes paid for shares withheld as part of ASU 2016-09

***Recently Adopted Accounting Pronouncements***

In *March 2016*, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. This standard includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. We adopted this standard on *July 1, 2017*. The Company expects its reported provision for income taxes to become more volatile, dependent upon market prices and volume of share-based compensation exercises and vesting of options.

In *July 2015*, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*. This provision would require inventory that was previously recorded using *first-in, first-out* (“FIFO”) to be recorded at lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. We adopted this standard on *July 1, 2017*. The application of this standard did *not* have significant impact on our financial statements.

***Pronouncements Issued But Not Yet Adopted***

In *May 2014*, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The standard provides revenue recognition guidance for any entity that enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets, unless those contracts are within the scope of other accounting standards. The standard also expands the required financial statement disclosures regarding revenue

recognition. The new guidance is effective for us on *July 1, 2018*. In addition, in *March 2016*, the FASB issued ASU No. 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, in *April 2016*, the FASB issued ASU No. 2016-10, *Identifying Performance Obligations and Licensing*, and in *May 2016*, the FASB issued ASU No. 2016-12, *Narrow-Scope Improvements and Practical Expedients*. These standards are intended to clarify aspects of ASU No. 2014-09 and are effective for us upon adoption of ASU No. 2014-09.

The Company's approach to implementing the new standard includes performing a detailed review of key contracts representative of its different businesses and comparing historical accounting policies and practices to the new standard. The guidance permits *two* methods of adoption, retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). We will adopt the standards using cumulative catch-up transition method.

The Company is continuing to assess the impact on our consolidated financial statements by finalizing our location surveys, reviewing unique customer contract terms, and developing processes to manage the changes in the revenue recognition guidance and gather information for the required disclosures. The company expects this process will be complete during the *fourth* quarter of fiscal year 2018. A majority of the Company's revenue arrangements are routine sales transactions, which generally consist of a single performance obligation to transfer promised goods or service. Therefore, based on our procedures performed to date it is *not* expected that application of the new guidance will have a material impact to the Company's consolidated financial statements.

In *January 2016*, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The standard is intended to improve the recognition, measurement, presentation and disclosure of financial instruments. Among other changes, there will *no* longer be an available-for-sale classification for which changes in fair value are currently reported in other comprehensive income for equity securities with readily determinable fair values. This ASU is effective using the modified retrospective approach for annual periods and interim periods within those annual periods beginning after *December 15, 2017*, which for us is *July 1, 2018*. Early adoption is permitted. This ASU could increase income statement volatility, as changes in the fair value of our equity investments will flow through earnings after adoption.

Table of Contents

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which amends the existing guidance to require lessees to recognize lease assets and lease liabilities from operating leases on the balance sheet. This ASU is effective using the modified retrospective approach for annual periods and interim periods within those annual periods beginning after *December 15, 2018*, which for us is *July 1, 2019*. Early adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. The amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses. This update is intended to provide financial statement users with more decision-useful information about the expected credit losses. This ASU is effective for annual periods and interim periods for those annual periods beginning after *December 15, 2019*, which for us is *July 1, 2020*. Entities *may* early adopt beginning after *December 15, 2018*. We are currently evaluating the impact of the adoption of ASU 2016-13 on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Clarifying the Definition of a Business*. The standard revises the definition of a business, which affects many areas of accounting such as business combinations and disposals and goodwill impairment. The revised definition of a business will likely result in more acquisitions being accounted for as asset acquisitions, as opposed to business combinations. This ASU is effective for annual periods and interim periods for those annual periods beginning after *December 15, 2017*, which for us is *July 1, 2018*. The amendments in this guidance are required to be applied prospectively to transactions occurring on or after the effective date.

In May 2017, the FASB issued ASU No. 2017-09, *Scope of Modification Accounting*. The standard provides guidance about which changes to the terms or conditions of a share-based payment award require modification accounting, which *may* result in a different fair value for the award. This ASU is effective for annual periods and interim periods for those annual periods beginning after *December 15, 2017*, which for us is *July 1, 2018*. The guidance is required to be applied prospectively to awards modified on or after the effective date. Historically, modifications to our share-based payment awards have been rare. As such, we do *not* expect the application of this standard to have a significant impact on our results of operations or financial position.

In February 2018, the FASB issued ASU No. 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The standard allows companies to make an election to reclassify from accumulated other comprehensive income to retained earnings the stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. This ASU is effective for annual and interim periods beginning after *December 15, 2018*, which for us is *July 1, 2019*. Early adoption is permitted. We are currently evaluating this ASU and have *not* yet made a decision regarding our policy election or early adoption.

**Note 2. Selected Balance Sheet Data:**

*Available-For-Sale Investments:*

The fair value of the Company's available-for-sale investments at *March 31, 2018* and *June 30, 2017* were \$89.8 million and \$66.1 million, respectively. The \$23.7 million increase in the Company's available-for-sale investments was driven by a \$27.0 million increase in the fair value of the Company's investment in ChemoCentryx, Inc (CCXI) from \$59.6 million at *June 30, 2017* to \$86.6 million at *March 31, 2018*. This increase was partially offset by the maturity of \$2.1 million in corporate bond securities held by Advanced Cell Diagnostics (ACD) and \$1.4 million in certificate of deposits held in China. The cost basis of the Company's investment in CCXI at *March 31, 2018* and *June 30, 2017* was \$29.5 million.

*Inventories:*

Inventories consist of (in thousands):

|                  | <i>March<br/>31,<br/>2018</i> | <i>June 30,<br/>2017</i> |
|------------------|-------------------------------|--------------------------|
| Raw materials    | \$29,414                      | \$22,074                 |
| Finished goods   | 59,172                        | 38,077                   |
| Inventories, net | \$88,586                      | \$60,151                 |

*Property and Equipment:*

Property and equipment consist of (in thousands):

|   | <i>March 31,<br/>2018</i> | <i>June 30,<br/>2017</i> |
|---|---------------------------|--------------------------|
| Land                                      | \$7,064                   | \$6,270                  |
| Buildings and improvements                | 172,305                   | 158,495                  |
| Machinery and equipment                   | 106,058                   | 98,596                   |
| Property and equipment, cost              | 285,427                   | 263,361                  |
| Accumulated depreciation and amortization | (142,648)                 | (128,237)                |
| Property and equipment, net               | \$142,779                 | \$135,124                |

Table of Contents*Intangible Assets:*

Intangible assets consist of (in thousands):

|                          | <i>March 31,</i> | <i>June 30,</i> |
|--------------------------|------------------|-----------------|
|                          | <i>2018</i>      | <i>2017</i>     |
| Developed technology     | \$292,825        | \$276,959       |
| Trade names              | 88,961           | 87,092          |
| Customer relationships   | 214,107          | 204,243         |
| Non-compete agreements   | 3,286            | 3,264           |
| Patents                  | 1,242            | 633             |
| Intangible assets        | 600,421          | 572,191         |
| Accumulated amortization | (156,627)        | (120,149)       |
| Intangible assets, net   | \$443,794        | \$452,042       |

Changes to the carrying amount of net intangible assets for the *nine* months ended *March 31, 2018* consist of (in thousands):

|                      |           |
|----------------------|-----------|
| Beginning balance    | \$452,042 |
| Acquisitions         | 23,292    |
| Other additions      | 796       |
| Amortization expense | (34,611)  |
| Currency translation | 2,275     |
| Ending balance       | \$443,794 |

The estimated future amortization expense for intangible assets as of *March 31, 2018* is as follows (in thousands):

|            |           |
|------------|-----------|
| 2018       | \$11,953  |
| 2019       | 47,125    |
| 2020       | 46,422    |
| 2021       | 46,035    |
| 2022       | 44,213    |
| Thereafter | 248,046   |
| Total      | \$443,794 |

*Goodwill:*

Edgar Filing: BIO-TECHNE Corp - Form 10-Q

Changes to the carrying amount of goodwill for the *nine* months ended *March 31, 2018* consist of (in thousands):

|                       | <i>Biotechnology</i> | <i>Protein<br/>Platforms</i> | <i>Diagnostics</i> | <i>Total</i> |
|-----------------------|----------------------|------------------------------|--------------------|--------------|
| Beginning balance     | \$ 254,930           | \$ 220,826                   | \$ 103,270         | \$ 579,026   |
| Acquisitions (Note 3) | 27,686               | -                            | 113                | 27,799       |
| Currency translation  | 3,416                | 454                          | (28 )              | 3,842        |
| Ending balance        | \$ 286,032           | \$ 221,280                   | \$ 103,355         | \$ 610,667   |

We evaluate the carrying value of goodwill in the *fourth* quarter of each year and between annual evaluations if events occur or circumstances change that would indicate a possible impairment. The Company performed a quantitative assessment for all *three* of its reporting units during the *fourth* quarter of fiscal year *2017*. The quantitative assessment indicated that all of the reporting units had substantial headroom as of *June 30, 2017*.

Table of Contents

No triggering events were identified during the quarter ended *March 31, 2018*. There has been *no* impairment of goodwill since the adoption of Financial Accounting Standards Board (“FASB”) ASC 350 guidance for goodwill and other intangibles on *July 1, 2002*.

*Other Assets:*

Other Assets consist of (in thousands):

|              | <i>March<br/>31,<br/>2018</i> | <i>June 30,<br/>2017</i> |
|--------------|-------------------------------|--------------------------|
| Investments  | \$24,181                      | \$40,385                 |
| Other        | 2,883                         | 3,617                    |
| Other assets | \$27,064                      | \$44,002                 |

As of *March 31, 2018*, the Company had \$27.1 million of other assets compared to \$44.0 million as of *June 30, 2017*. The Company holds a 16.4% ownership interest in Astute Medical, Inc. (Astute) and accounts for this investment under the cost method. During the *third* quarter the Company learned that Astute intended to accept an offer to sell the company to a *third* party. As a result of this triggering event, the Company completed an impairment assessment and determined that a portion of its investment in Astute was other-than-temporarily impaired and adjusted the carrying value of this investment by \$16.2 million during the *third* quarter to other income (expense) in the accompanying condensed consolidated Statement of Earnings and Comprehensive Income. The Company’s net investment in Astute was \$23.8 million at *March 31, 2018*.

***Note 3. Acquisitions:***

We periodically complete business combinations that align with our business strategy. Acquisitions are accounted for using the acquisition method of accounting, which requires, among other things, that assets acquired and liabilities assumed be recognized at fair value as of the acquisition date and that the results of operations of each acquired business be included in our consolidated statements of comprehensive income from their respective dates of acquisition. Acquisition costs are recorded in selling, general and administrative expenses as incurred.

*Trevigen*

Edgar Filing: BIO-TECHNE Corp - Form 10-Q

On *September 5, 2017* the Company acquired the stock of Trevigen Inc. for approximately *\$10.6* million, net of cash received. The Company has had a long-standing business relationship with Trevigen as a distributor of its product line. The goodwill recorded as a result of the acquisition represents the strategic benefits of growing the Company's product portfolio and the expected revenue growth from increased market penetration. The goodwill is *not* deductible for income tax purposes. The business became part of the Biotechnology reportable segment in the *first* quarter of fiscal *2018*.

Certain estimated fair values are *not* yet finalized and are subject to change, which could be significant. The Company expects to finalize these during the *fourth* quarter of fiscal year *2018* when our valuation models for acquired intangible assets are completed, including the determination of related estimated useful lives. Amounts for acquired inventory, intangible assets, and related deferred tax liabilities, and goodwill remain subject to change. The preliminary estimated fair values of the assets acquired and liabilities assumed are as follows (in thousands):

|                                      | <i>Preliminary</i> |                    | <i>Updated</i>    |
|--------------------------------------|--------------------|--------------------|-------------------|
|                                      |                    |                    | <i>Opening</i>    |
|                                      | <i>Allocation</i>  |                    | <i>Balance</i>    |
|                                      | <i>at</i>          | <i>Adjustments</i> | <i>Sheet</i>      |
|                                      | <i>Acquisition</i> | <i>to</i>          | <i>Allocation</i> |
|                                      | <i>Date</i>        | <i>Fair Value</i>  | <i>at</i>         |
|                                      |                    |                    | <i>March 31,</i>  |
|                                      |                    |                    | <i>2018</i>       |
| Current assets, net of cash          | \$ 1,662           |                    | \$ 1,662          |
| Equipment and other long-term assets | 154                | (101 )             | 53                |
| Intangible assets:                   |                    |                    |                   |
| Developed technology                 | 3,800              | 1,300              | 5,100             |
| Trade name                           | 1,400              | (1,240 )           | 160               |
| Customer relationships               | 1,900              | (1,640 )           | 260               |
| Goodwill                             | 4,595              | 1,396              | 5,991             |
| Total assets acquired                | 13,511             | (285 )             | 13,226            |
| Liabilities                          | 92                 | 295                | 387               |
| Deferred income taxes, net           | 2,785              | (590 )             | 2,195             |
| Net assets acquired                  | \$ 10,634          | 10                 | \$ 10,644         |
| Cash paid, net of cash acquired      | \$ 10,634          | 10                 | \$ 10,644         |

Table of Contents

As summarized in the table, there have been adjustments totaling \$1.4 million to goodwill during the measurement period. These adjustments primarily relate to refinements made to acquired intangible asset cash flow models, and updates to opening balance sheet deferred tax assets and liabilities upon completion of the pre-acquisition income tax return.

Tangible assets acquired, net of liabilities assumed, were recorded at fair value on the date of close based on management's assessment. The purchase price allocated to developed technology, trade names, and customer relationships was based on management's forecasted cash inflows and outflows and using a relief-from-royalty and a multi-period excess earnings method to calculate the fair value of assets purchased. The developed technology is being amortized with the expense reflected in cost of goods sold in the Condensed Consolidated Statement of Earnings and Comprehensive Income. Amortization expense related to trade names, and customer relationships is reflected in selling, general and administrative expenses in the Consolidated Statement of Earnings and Comprehensive Income. The preliminary amortization periods for intangible assets acquired in fiscal 2018 are estimated to be 13 years for developed technology, 11 years for customer relationships, and 1.5 years for trade names. The deferred income tax liability represents the net amount of the estimated future impact of adjustments for costs to be recognized upon the sale of acquired inventory that was written up to fair value and intangible asset amortization, both of which are *not* deductible for income tax purposes.

*Atlanta Biologicals*

On January 2, 2018, Bio-Techne acquired Atlanta Biologicals, Inc. and its affiliated company, Scientific Ventures, Inc., for approximately \$51.3 million, net of cash acquired. The transaction was financed through available cash on hand and an additional draw from the Company's line-of-credit. Atlanta Biologicals fetal bovine serum (FBS) product line strengthens and complements our current tissue culture reagents offering and furthers our efforts to provide more complete solutions to our research customers. The goodwill recorded as a result of the acquisition represents the strategic benefits of growing the Company's product portfolio and the expected revenue growth from increased market penetration. The goodwill is *not* deductible for income tax purposes. The business became part of the Biotechnology reportable segment in the *third* quarter of fiscal 2018.

Certain estimated fair values are *not* yet finalized and are subject to change, which could be significant. The Company expects to finalize these during the *fourth* quarter of fiscal year 2018 when our valuation models for acquired intangible assets are completed, including the determination of related estimated useful lives. Amounts for acquired inventory, fixed assets, intangible assets, and related deferred tax liabilities, and goodwill remain subject to change. The preliminary estimated fair values of the assets acquired and liabilities assumed are as follows (in thousands):

*Preliminary  
Allocation*

|                                      | <i>at</i>          |
|--------------------------------------|--------------------|
|                                      | <i>Acquisition</i> |
|                                      | <i>Date</i>        |
| Current assets, net of cash          | \$ 18,678          |
| Equipment and other long-term assets | 4,348              |
| Intangible assets:                   |                    |
| Developed technology                 | 9,000              |
| Trade name                           | 1,000              |
| Customer relationships               | 1,500              |
| Goodwill                             | 21,695             |
| Total assets acquired                | 56,221             |
| Liabilities                          | 90                 |
| Deferred income taxes, net           | 4,845              |
| Net assets acquired                  | \$ 51,286          |
| <br>                                 |                    |
| Cash paid, net of cash acquired      | \$ 51,286          |

Tangible assets acquired, net of liabilities assumed, were recorded at fair value on the date of close based on management's assessment. The purchase price allocated to developed technology, trade names, and customer relationships was based on management's forecasted cash inflows and outflows and using a relief-from-royalty and a multi-period excess earnings method to calculate the fair value of assets purchased. The developed technology is being amortized with the expense reflected in cost of goods sold in the Condensed Consolidated Statement of Earnings and Comprehensive Income. Amortization expense related to trade names, and customer relationships is reflected in selling, general and administrative expenses in the Consolidated Statement of Earnings and Comprehensive Income. The preliminary amortization periods for intangible assets acquired in fiscal 2018 are estimated to be 12 years for developed technology, 10 years for customer relationships, and 5 years for trade names. The deferred income tax liability represents the net amount of the estimated future impact of adjustments for costs to be recognized upon the sale of acquired inventory that was written up to fair value and intangible asset amortization, both of which are *not* deductible for income tax purposes.

Table of Contents*Eurocell Diagnostics*

On *February 1, 2018* Bio-Techne acquired Eurocell Diagnostics SAS a company based in Rennes, France for approximately \$4.5 million, net of cash acquired. \$3.1 million was paid on the acquisition date and the remaining \$1.4 million will be paid on *February 1, 2019*. The Company has had a long-standing business relationship with Eurocell as a distributor of its product line. Eurocell sells directly to the laboratory markets in the French region as well as servicing the EMEA markets via a network of distributors. The transaction was financed through cash on hand. The primary asset in this acquisition is the customer relationships, however, the acquisition resulted in some goodwill as we expect strategic benefits of revenue growth from increased market penetration. The goodwill is *not* deductible for income tax purposes. The business became part of the Company's Diagnostics reportable segment in the *third* quarter of fiscal 2018.

Certain estimated fair values are *not* yet finalized and are subject to change, which could be significant. The Company expects to finalize these during fiscal year 2018 when our valuation models for acquired intangible assets are completed, including the determination of related estimated useful lives. Amounts for acquired inventory, intangible assets, and related deferred tax liabilities, and goodwill remain subject to change. The preliminary estimated fair values of the assets acquired and liabilities assumed are as follows (in thousands):

|                                      | <i>Preliminary<br/>Allocation</i>  |
|--------------------------------------|------------------------------------|
|                                      | <i>at<br/>Acquisition<br/>Date</i> |
| Current assets, net of cash          | \$ 512                             |
| Equipment and other long-term assets | 188                                |
| Intangible assets:                   |                                    |
| Customer relationships               | 6,272                              |
| Goodwill                             | 113                                |
| Total assets acquired                | 7,085                              |
| Liabilities                          | 483                                |
| Deferred income taxes, net           | 2,070                              |
| Net assets acquired                  | \$ 4,532                           |
| <br>                                 |                                    |
| Cash paid, net of cash acquired      | \$ 3,136                           |
| Consideration payable                | \$ 1,396                           |

Tangible assets acquired, net of liabilities assumed, were recorded at fair value on the date of close based on management's assessment. The purchase price allocated to customer relationships was based on management's forecasted cash inflows and outflows using a multi-period excess earnings method to calculate the fair value of assets purchased. Amortization expense related customer relationships is reflected in selling, general and administrative

expenses in the Consolidated Statement of Earnings and Comprehensive Income. The preliminary amortization period for customer relationships acquired in fiscal 2018 is estimated to be 7 years. The deferred income tax liability represents the net amount of the estimated future impact of intangible asset amortization, which is *not* deductible for income tax purposes.

***Note 4. Fair Value Measurements:***

The Company's financial instruments include cash and cash equivalents, available for sale investments, accounts receivable, accounts payable, contingent consideration obligations, and long-term debt.

Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. This standard also establishes a hierarchy for inputs used in measuring fair value. This standard maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability based on market data obtained from independent sources. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing the asset or liability based upon the best information available in the circumstances.

Table of Contents

The categorization of financial assets and liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy is broken down into *three* levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are *not* active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable for the asset or liability and their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least *one* significant model assumption or input is unobservable. Level 3 *may* also include certain investment securities for which there is limited market activity or a decrease in the observability of market pricing for the investments, such that the determination of fair value requires significant judgment or estimation.

The following tables provide information by level for financial assets and liabilities that are measured at fair value on a recurring basis (in thousands):

|                                  | <i>Total<br/>carrying</i> | <i>Fair Value<br/>Measurements Using</i> |                    |                |
|----------------------------------|---------------------------|--|--------------------|----------------|
|                                  | <i>value as<br/>of</i>    | <i>Inputs Considered as</i>              |                    |                |
|                                  | <i>March<br/>31, 2018</i> | <i>Level 1</i>                           | <i>Level<br/>2</i> | <i>Level 3</i> |
| Assets                           |                           |  |                    |                |
| Equity securities <sup>(1)</sup> | \$ 86,645                 | \$ 86,645                                | \$ -               | \$ -           |
| Liabilities                      |                           |  |                    |                |
| Contingent Consideration         | \$ 3,500                  | \$ -                                     | \$ -               | \$ 3,500       |

|  | <i>Total<br/>carrying</i> | <i>Fair Value Measurements<br/>Using</i> |                |                |
|--|---------------------------|--|----------------|----------------|
|  | <i>value as<br/>of</i>    | <i>Inputs Considered as</i>              |                |                |
|  | <i>June 30,<br/>2017</i>  | <i>Level 1</i>                           | <i>Level 2</i> | <i>Level 3</i> |
| Assets                                   |                           |  |                |                |
| Equity securities <sup>(1)</sup>         | \$ 59,616                 | \$ 59,616                                | \$ -           | \$ -           |
| Corporate bond securities <sup>(1)</sup> | 2,057                     | -  | 2,057          | -              |
| Total Assets                             | \$ 61,673                 | \$ 59,616                                | \$ 2,057       | \$ -           |
| Liabilities                              |                           |  |                |                |
| Contingent Consideration                 | \$ 68,400                 | \$ -                                     | \$ -           | \$ 68,400      |

(1) Included in available-for-sale investments on the balance sheet

Our available for sale securities are measured at fair value using quoted market prices in active markets for identical assets and are therefore classified as Level 1 assets. We value our Level 2 assets using inputs that are based on market indices of similar assets within an active market. All of our Level 2 assets have maturity dates of less than *one* year.

The use of different assumptions, applying different judgment to matters that inherently are subjective and changes in future market conditions could result in different estimates of fair value of our securities or contingent consideration, currently and in the future. If market conditions deteriorate, we *may* incur impairment charges for securities in our investment portfolio. We *may* also incur changes to our contingent consideration liability as discussed below.

In connection with the Advanced Cell Diagnostics (ACD) acquisition (fiscal 2017), as well as the Zephyrus and CyVek acquisitions (fiscal 2016), we are required to make contingent payments, subject to the entities achieving certain sales and revenue thresholds. The contingent consideration payments were up to \$75.0 million, \$7.0 million and \$35.0 million related to the ACD, Zephyrus and CyVek acquisitions, respectively. The fair value of the liabilities for the contingent payments recognized upon each acquisition as part of the purchase accounting opening balance sheet totaled \$78.5 million (\$37.0 million for ACD, \$6.5 million for Zephyrus and \$35.0 million for CyVek) and was estimated by discounting to present value the probability-weighted contingent payments expected to be made. Assumptions used in these calculations were units sold, expected revenue, discount rate and various probability factors. The ultimate settlement of contingent consideration could deviate from current estimates based on the actual results of these financial measures. This liability is considered to be a Level 3 financial liability that is re-measured each reporting period. The change in fair value of contingent consideration for these acquisitions is included in general and administrative expense.

As of *June 30, 2017* the remaining contingent consideration payments were up to \$50.0 million, \$3.5 million and \$35.0 million related to the ACD, Zephyrus and CyVek acquisitions, respectively. During the *first* quarter of fiscal 2018, a cash payment of \$35.0 million was made towards the contingent consideration liability relating to the CyVek acquisition. During the *third* quarter of fiscal 2018, a final cash payment of \$50.0 million was made towards contingent consideration liability relating to the ACD acquisition, after the Company determined that certain sales and revenue thresholds were met during the *second* quarter of fiscal 2018. Of the \$85.0 million of total payments, \$58.8 million is classified as financing on the statement of cash flows. The financing component represents the portion of the total liability that was recognized at the acquisition date. The remaining \$26.2 million is recorded within operating cash flows as it represents the consideration liability that exceeds the amount of the contingent consideration liability recognized at the acquisition date.

Table of Contents

The following table presents a reconciliation of the liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the *nine* months ended *March 31, 2018* (in thousands):

|  | <i>Quarter<br/>Ended<br/>March<br/>31, 2018</i> | <i>Nine<br/>Months<br/>Ended<br/>March<br/>31, 2018</i> |
|--|---|---|
| Fair value at the beginning of period            | \$53,300  | \$68,400  |
| Payments   | (50,000)  | (85,000)  |
| Change in fair value of contingent consideration | 200   | 20,100  |
| Fair value at the end of period                  | \$3,500   | \$3,500   |

*Fair value measurements of other financial instruments* – The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate fair value.

Cash and cash equivalents, certificates of deposit, accounts receivable, and accounts payable – The carrying amounts reported in the consolidated balance sheets approximate fair value because of the short-term nature of these items.

Long-term debt – The carrying amounts reported in the consolidated balance sheets for the amount drawn on our line-of-credit facility approximates fair value because our interest rate is variable and reflects current market rates.

***Note 5. Debt and Other Financing Arrangements:***

In fiscal 2017, the Company entered into a revolving line-of-credit facility governed by a Credit Agreement (the Credit Agreement) dated *July 28, 2016*. The Credit Agreement provides for a revolving credit facility of \$400 million, which can be increased by an additional \$200 million subject to certain conditions. Borrowings under the Credit Agreement *may* be used for working capital and expenditures of the Company and its subsidiaries, including financing permitted acquisitions. Borrowings under the Credit Agreement for base rate loans bear interest at a variable rate equal to the greater of (i) the prime commercial rate, (ii) the per annum federal funds rate plus 0.5%, or (iii) LIBOR + 1.00% - 1.75% depending on the existing total leverage ratio of Debt to Earnings Before Interest, Taxes, Depreciation and Amortization (as defined in the Credit Agreement). The annualized fee for any unused portion of the credit facility is currently 25 basis points.

The Credit Agreement matures on *July 28, 2021* and contains customary restrictive and financial covenants and customary events of default. As of *March 31, 2018*, the outstanding balance under the Credit Agreement was \$392.5 million.

**Note 6. Accumulated Other Comprehensive Income:**

Changes in accumulated other comprehensive income (loss), net of tax, for the *nine* months ended *March 31, 2018* consists of (in thousands):

|                                   | <i>Unrealized</i>  |                    |              |
|-----------------------------------|--------------------|--------------------|--------------|
|                                   | <i>Gains</i>       | <i>Foreign</i>     |              |
|                                   | <i>(Losses) on</i> | <i>Currency</i>    | <i>Total</i> |
|                                   | <i>Available-</i>  | <i>Translation</i> |              |
|                                   | <i>for-Sale</i>    | <i>Adjustments</i> |              |
|                                   | <i>Investments</i> |                    |              |
| Beginning balance                 | \$ 18,989          | \$ (67,924 )       | \$(48,935)   |
| Other comprehensive income (loss) | 22,286             | 10,787             | 33,073       |
| Ending balance                    | \$ 41,275          | \$ (57,137 )       | \$(15,862)   |

Table of Contents**Note 7. Earnings Per Share:**

The following table reflects the calculation of basic and diluted earnings per share (in thousands, except per share amounts):

|   | <i>Quarter Ended</i> |             | <i>Nine Months Ended</i> |             |
|---|----------------------|-------------|--------------------------|-------------|
|   | <i>March 31,</i>     |             | <i>March 31,</i>         |             |
|   | <i>2018</i>          | <i>2017</i> | <i>2018</i>              | <i>2017</i> |
| Earnings per share – basic:                                 |                      |             |                          |             |
| Net income  | \$19,738             | \$22,167    | \$84,449                 | \$48,476    |
| Income allocated to participating securities                | (18 )                | (20 )       | (70 )                    | (42 )       |
| Income available to common shareholders                     | \$19,720             | \$22,147    | \$84,379                 | \$48,434    |
| Weighted-average shares outstanding – basic                 | 37,503               | 37,320      | 37,450                   | 37,303      |
| Earnings per share – basic                                  | \$0.53               | \$0.59      | \$2.25                   | \$1.30      |
| Earnings per share – diluted:                               |                      |             |                          |             |
| Net income  | \$19,738             | \$22,167    | \$84,449                 | \$48,476    |
| Income allocated to participating securities                | (18 )                | (20 )       | (70 )                    | (42 )       |
| Income available to common shareholders                     | \$19,720             | \$22,147    | \$84,379                 | \$48,434    |
| Weighted-average shares outstanding – basic                 | 37,503               | 37,320      | 37,450                   | 37,303      |
| Dilutive effect of stock options and restricted stock units | 639                  | 174         | 483                      | 183         |
| Weighted-average common shares outstanding – diluted        | 38,142               | 37,494      | 37,933                   | 37,486      |
| Earnings per share – diluted                                | \$0.52               | \$0.59      | \$2.22                   | \$1.29      |

The dilutive effect of stock options and restricted stock units in the above table excludes all options for which the aggregate exercise proceeds exceeded the average market price for the period. The number of potentially dilutive option shares excluded from the calculation was 1.1 million and 2.0 million for the quarter ended *March 31, 2018* and *2017*, respectively and 1.6 million and 1.9 million for the *nine* months ended *March 31, 2018* and *2017*, respectively.

**Note 8. Share-based Compensation:**

During the *nine* months ended *March 31, 2018* and *2017*, the Company granted 1.1 million stock options at weighted average grant prices of \$120.34 and \$107.38 and weighted average fair values of \$21.98 and \$18.13, respectively. During the *nine* months ended *March 31, 2018* and *2017*, the Company granted 65,924 and 64,931 restricted stock units at weighted average fair values of \$128.30 and \$109.36, respectively. During the *nine* months ended *March 31, 2018* and *2017*, the Company granted 20,106 and 23,965 shares of restricted stock at grant date fair values of \$125.05

and \$104.94, respectively.

Stock options for 139,602 and 39,579 shares of common stock with total intrinsic values of \$6.3 million and \$1.4 million were exercised during the *nine* months ended *March 31, 2018* and *2017*, respectively.

Stock-based compensation expense of \$4.7 million and \$4.0 million was included in selling, general and administrative expenses for the quarter ended *March 31, 2018* and *2017*, respectively. Stock-based compensation expense of \$13.6 million and \$11.2 million was included in selling, general and administrative expenses for the *nine* months ended *March 31, 2018* and *2017*, respectively. As of *March 31, 2018*, there was \$39.0 million of unrecognized compensation cost related to non-vested stock options, non-vested restricted stock units and non-vested restricted stock. The weighted average period over which the compensation cost is expected to be recognized is 2.4 years.

**Note 9. Other Income / (Expense):**

The components of other income (expense) in the accompanying Statement of Earnings and Comprehensive Income are as follows:

|   | <i>Quarter Ended</i> |             | <i>Nine Months</i> |             |
|---|----------------------|-------------|--------------------|-------------|
|   | <i>March 31,</i>     |             | <i>March 31,</i>   |             |
|   | <i>2018</i>          | <i>2017</i> | <i>2018</i>        | <i>2017</i> |
| Interest expense                          | \$(2,560 )           | \$(2,108)   | \$(7,135 )         | \$(5,430)   |
| Interest income                           | 162                  | 73          | 307                | 211         |
| Impairment of investment                  | (16,246)             | -           | (16,246)           | -           |
| Other non-operating income (expense), net | 542                  | (326 )      | (507 )             | (1,206)     |
| Total other income (expense)              | \$(18,102)           | \$(2,361)   | \$(23,581)         | \$(6,425)   |

During the *third* quarter of fiscal *2018*, the Company recognized a \$16.2 million impairment on the write-down of its investment in Astute Medical, Inc. This loss is included in other income (expense) on the condensed consolidated Statement of Earnings and Comprehensive Income.

Table of Contents**Note 10. Income Taxes:**

The Company's effective income tax rate was 21.0% and 28.8% for the *third* quarter of fiscal 2018 and fiscal 2017, respectively and (21.2)% and 34.6% for the *first nine* months of fiscal 2018 and fiscal 2017, respectively. The changes in the company's tax rate for the *third* quarter and *first nine* months of fiscal 2018 compared to *third* quarter and *first nine* months of fiscal 2017 are due primarily to recording the items attributable to the new tax legislation in the U.S. as described below. Also included in the 2018 effective tax rate is discrete tax benefit of \$0.7 million and \$1.4 million for the *third* quarter and *first nine* months of fiscal year 2018 for the tax benefit of stock option exercises offset by a net discrete tax expense of \$3.2 million for *first nine* months of fiscal 2018 related to the revaluation of contingent consideration, which is *not* tax deductible. Discrete tax expense for the *third* quarter and *first nine* months of fiscal 2017 included \$0.7 million and \$5.3 million related to the revaluation of contingent consideration.

On *December 22, 2017*, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code which will impact our fiscal year ended *June 30, 2018* including, but *not* limited to (1) reducing the U.S. federal corporate tax rate, (2) requiring a *one-time* transition tax on certain unrepatriated earnings of foreign subsidiaries that *may* electively be paid over *eight* years, and (3) accelerated *first* year expensing of certain capital expenditures. The Tax Act reduces the federal corporate tax rate from 35% to 21% effective *January 1, 2018*. Internal Revenue Code Section 15 provides that for our fiscal year ended *June 30, 2018* we calculate a blended corporate tax rate of 28.1%, which is based on a proration of the applicable tax rates before and after effective date of the Tax Act. The statutory tax rate of 21% will apply for fiscal 2019 and beyond.

The Tax Act also puts in place new tax laws that will impact our taxable income beginning in fiscal 2019, which include, but are *not* limited to (1) creating a Base Erosion Anti-abuse Tax (BEAT), which is a new minimum tax, (2) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries, (3) a new provision designed to tax currently global intangible low-taxed income (GILTI), which allows for the possibility of utilizing foreign tax credits and a deduction equal to 50 percent to offset the income tax liability (subject to some limitations), (4) a provision that could limit the amount of deductible interest expense, (5) the repeal of the domestic production activity deduction, (6) limitations on the deductibility of certain executive compensation, and (7) limitations on the utilization of foreign tax credits to reduce the U.S. income tax liability.

Shortly after the Tax Act was enacted, the SEC staff issued Staff Accounting Bulletin *No. 118*, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118) which provides guidance on accounting for the Tax Act's impact. SAB 118 provides a measurement period, which in *no* case should extend beyond *one* year from the Tax Act enactment date, during which a company acting in good faith *may* complete the accounting for the impacts of the Tax Act under ASC Topic 740. In accordance with SAB 118, the Company must reflect the income tax effects of the Tax Act in the reporting period in which the accounting under ASC Topic 740 is complete.

To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete, the Company can determine a reasonable estimate for those effects and record a provisional estimate in the financial statements in the *first* reporting period in which a reasonable estimate can be determined. If a Company cannot determine a provisional estimate to be included in the financial statements, the Company should continue to apply ASC 740 based on the provisions of the tax laws that were in effect immediately prior to the Tax Act being enacted. If a Company is unable to provide a reasonable estimate of the impacts of the Tax Act in a reporting period, a provisional amount must be recorded in the *first* reporting period in which a reasonable estimate can be determined.

The Company recorded a provisional net tax benefit of \$33.5 million related to the Tax Act in the period ended *December 31, 2017*. This provisional net benefit primarily consists of a net benefit of \$37.0 million due to the re-measurement of our deferred tax accounts to reflect the corporate rate reduction impact to our net deferred tax balances and a net expense for the transition tax of \$3.5 million. There have been *no* material changes to these estimates during the *third* quarter.

Reduction in U.S. Corporate Rate: The Act reduces the U.S. federal statutory corporate tax rate to a blended 28.1% in fiscal year ending *June 30, 2018* and 21.0% for fiscal year ending *June 30, 2019* and beyond. While we are able to make a reasonable estimate of the impact of the reduction in corporate rate, we are continuing to analyze the temporary differences that existed on the date of enactment, the temporary differences originating in the current fiscal year prior to *December 22, 2017*, and the temporary differences we expect will reverse prior to *June 30, 2018*.

Table of Contents

Transition Tax: The transition tax is a tax on the previously untaxed accumulated and current earnings and profits (E&P) of certain of our foreign subsidiaries as of *December 22, 2017*. In order to determine the amount of the Transition Tax, we must determine, in addition to other factors, the amount of post-1986 E&P of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. E&P is similar to retained earnings of the subsidiary, but requires other adjustments to conform to U.S. tax rules. We are able to make a reasonable estimate of the transition tax and recorded a provisional transition tax obligation of \$3.5 million which the Company expects to elect to pay, net of certain tax credit carryforwards, over *eight* years beginning in fiscal year 2019. Of this liability, \$0.3 million is recorded as a current liability with the remaining \$3.2 million classified as a long-term liability within our *March 31, 2018* balance sheet. However, we are awaiting further interpretative guidance including information regarding state income tax implications and continuing to gather additional information to more precisely compute the amount of the transition tax. We expect that our estimate will be finalized in advance of the filing of our Form 10-K for fiscal 2018.

As of *June 30, 2017*, our practice and intention was to reinvest the earnings in our subsidiaries outside of the U.S., and no U.S. deferred income taxes or foreign withholding taxes were recorded. As of *March 31, 2018* we continue to assert that we plan to reinvest these earnings. The transition tax noted above will result in the previously untaxed foreign earnings being included in the federal and state fiscal 2018 taxable income. We are currently analyzing our global working capital requirements and the potential tax liabilities that would be incurred if the non-U.S. subsidiaries distribute cash to the U.S. parent, which include local country withholding tax and potential U.S. state taxation. Therefore, we are *not* yet able to reasonably estimate the effect of this provision of the Tax Act and have *not* recorded any withholding or state tax liabilities.

We are also continue to analyze other provisions of the Tax Act that come into effect for tax years starting *July 1, 2018* to determine if these items would impact the effective tax rate. These provisions include Global intangibles low-taxed income (GILTI), Foreign Derived Intangible Income (FDII), Base Erosion Anti-abuse Tax (BEAT), eliminating U.S. federal income taxes on dividends from foreign subsidiaries, the new provision that could limit the amount of deductible interest expense, the limitations on the deductibility of certain executive compensation, and state tax implications of this federal tax legislation.

**Note 11. Segment Information:**

The Company's management evaluates segment operating performance based on operating income before certain charges to cost of sales and selling, general and administrative expenses, principally associated with acquisition accounting related to inventory, amortization of acquisition-related intangible assets and other acquisition-related expenses.

The following is financial information relating to the Company's reportable segments (in thousands):

|   | <i>Quarter Ended</i> |             | <i>Nine Months Ended</i> |             |
|---|----------------------|-------------|--------------------------|-------------|
|   | <i>March 31,</i>     |             | <i>March 31,</i>         |             |
|   | <i>2018</i>          | <i>2017</i> | <i>2018</i>              | <i>2017</i> |
| Net sales:  |                      |             |                          |             |
| Biotechnology   | \$110,029            | \$94,516    | \$306,516                | \$267,256   |
| Protein Platforms                                       | 25,539               | 23,586      | 79,566                   | 64,707      |
| Diagnostics   | 28,548               | 25,978      | 76,963                   | 74,542      |
| Intersegment  | (143 )               | (43 )       | (306 )                   | (80 )       |
| Consolidated net sales                                  | \$163,973            | \$144,037   | \$462,739                | \$406,425   |
| Operating income:                                       |                      |             |                          |             |
| Biotechnology   | \$53,013             | \$45,242    | \$143,826                | \$127,195   |
| Protein Platforms                                       | 2,461                | 3,256       | 11,636                   | 5,308       |
| Diagnostics   | 7,988                | 6,004       | 17,594                   | 18,108      |
| Segment operating income                                | \$63,462             | \$54,502    | \$173,056                | \$150,611   |
| Costs recognized on sale of acquired inventory          | (1,431 )             | (637 )      | (2,013 )                 | (2,770 )    |
| Amortization of acquisition related intangible assets   | (11,872 )            | (11,689 )   | (34,547 )                | (33,504 )   |
| Acquisition related expenses                            | (1,312 )             | (3,993 )    | (23,994 )                | (19,581 )   |
| Stock based compensation                                | (4,748 )             | (3,974 )    | (13,587 )                | (11,219 )   |
| Corporate general, selling, and administrative expenses | (1,015 )             | (707 )      | (5,652 )                 | (2,999 )    |
| Consolidated operating income                           | \$43,084             | \$33,502    | \$93,263                 | \$80,538    |

**Note 12. Subsequent Events:**

In April 2018 we received an initial payment of \$22.5 from the sale of our investment in Astute Medical, Inc to a *third* party.

Table of Contents

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS**

The following management discussion and analysis (“MD&A”) provides information that we believe is useful in understanding our operating results, cash flows and financial condition. We provide quantitative information about the material sales drivers including the effect of acquisitions and changes in foreign currency at the corporate and segment level. We also provide quantitative information about discrete tax items and other significant factors we believe are useful for understanding our results. The MD&A should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Form 10-Q, and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended June 30, 2017. This discussion contains various “Non-GAAP Financial Measures” and also contains various “Forward-Looking Statements” within the meaning of the Private Securities Litigation Reform Act of 1995. We refer readers to the statements entitled “Non-GAAP Financial Measures” and “Forward-Looking Information and Cautionary Statements” located at the end of Item 2 of this report.

**OVERVIEW**

Bio-Techne Corporation and its subsidiaries operate worldwide with three reportable business segments, Biotechnology, Protein Platforms and Diagnostics, all of which service the life science and diagnostic markets. The Biotechnology reporting segment develops, manufactures and sells proteins, antibodies, immunoassays, flow cytometry products, intracellular signaling products, as well as biologically active chemical compounds used in biological research and ACD’s *in situ* hybridization detection products. The Protein Platforms reporting segment develops and commercializes proprietary systems and consumables for protein analysis. The Diagnostics reporting segment develops, manufactures and sells a range of controls and calibrators for various blood chemistry and blood gas clinical instruments, as well as quality controls, diagnostic immunoassays and other bulk and custom reagents for the *in vitro* diagnostic market. The Diagnostics segment also provides bulk purified proteins, enzymes, disease-state plasmas, infectious disease antigens and processed sera to the clinical diagnostic industry.

**RECENT ACQUISITIONS**

A key component of the Company's strategy is to augment internal growth at existing businesses with complementary acquisitions.

On September 5, 2017 the Company acquired Trevigen Inc. for approximately \$10.6 million, net of cash received. The Company has had a long-standing business relationship with Trevigen as a distributor of its product line.

On January 2, 2018, the Company acquired Atlanta Biologicals, Inc. and its affiliated company, Scientific Ventures, Inc for approximately \$51.3 million, net of cash received. Atlanta Biologicals fetal bovine serum (FBS) product line strengthens and complements our current tissue culture reagents offering and furthers our efforts to provide more complete solutions to our research customers.

On February 1, 2018 Bio-Techne acquired Eurocell Diagnostics SAS a company based in Rennes, France for approximately \$4.5 million, net of cash received. The Company has had a long-standing business relationship with Eurocell as a distributor of our products. Eurocell sells to the laboratory markets in the French region and services the EMEA markets via a network of distributors.

## **RESULTS OF OPERATIONS**

Consolidated net sales increased 14% for both the quarter and nine months ended March 31, 2018 compared to the same prior year periods. Organic growth was 7% and 9% for quarter and nine months ended March 31, 2018, respectively, compared to the same prior year periods, with acquisitions contributing 3% and 2%, respectively, and foreign currency translation having positive impacts of 4% and 3%, respectively.

## Table of Contents

Consolidated net earnings decreased 11% and increased 74% for the quarter and nine months ended March 31, 2018, compared to the same prior year periods. The decrease in net earnings for the quarter ended March 31, 2018 was driven by a loss recognized on the write-down of the Company's investment in Astute Medical, Inc. This loss was partially offset by increased operating income and lower taxes due to the tax legislation enacted under the Tax Act. The increase in net earnings for the nine-months ended March 31, 2018 was primarily due to lower taxes resulting from the impact of recent tax legislation, including a \$31.7 million one-time net tax benefit from applying the changes identified within the Tax Act. This net benefit consists of a net benefit of \$35.2 million due to the re-measurement of our deferred tax accounts to reflect the corporate rate reduction impact to our net deferred tax balance offset by expense for the transition tax of \$3.5 million.

### *Net Sales*

Consolidated net sales for the quarter and nine months ended March 31, 2018 were \$164.0 million and \$462.7 million, respectively, increases of 14% from the same prior year periods. Organic growth for quarter and nine months ended March 31, 2018 was 7% and 9%, respectively. Reported net sales for the quarter and nine months ended March 31, 2018 included growth from acquisitions of 3% and 2%, respectively, and positive impacts from foreign currency translation of 4% and 3%, respectively.

Sales by geography for the quarter ended March 31, 2018 grew mid-single digits in the U.S., driven by strong growth in Academic end-markets. Europe organic sales growth was in the high-single digits, also driven by strong growth in the Academic end-markets. China sales grew over 20% organically and sales growth in Japan was in the high-single digits, while the rest of the Asia-Pacific region grew in the low-teens. For the nine months ended March 31, 2018, sales in the U.S. grew high-single digits, with growth in both the BioPharma and Academic end-markets. Europe organic sales growth was in the mid-teens, with comparable contributions from both the BioPharma and Academic end-markets. China sales grew nearly 25% organically and sales growth in Japan grew in the mid-teens, while the rest of the Asia-Pacific region grew in the high-teens. Note that all references made to growth rates by region and end-market exclude OEM sales, which primarily occur in our Diagnostics segment.

### *Gross Margins*

Consolidated gross margins for the quarter and nine months ended March 31, 2018 were 67.2% and 67.0%, respectively, compared to 67.1% and 67.0% for the same prior year periods. The increase in consolidated gross margin for the quarter ended March 31, 2018 was primarily due to favorable product mix.

A reconciliation of the reported consolidated gross margin percentages, adjusted for acquired inventory sold and intangible amortization included in cost of sales, is as follows:

|  | <i>Quarter<br/>Ended<br/>March 31,</i> |             | <i>Nine Months<br/>Ended<br/>March 31,</i> |             |
|--|--|-------------|--|-------------|
|  | <i>2018</i>                            | <i>2017</i> | <i>2018</i>                                | <i>2017</i> |
| Consolidated gross margin percentage             | 67.2%                                  | 67.1%       | 67.0%                                      | 67.0%       |
| Identified adjustments:                          |  |             |  |             |
| Costs recognized upon sale of acquired inventory | 0.9 %                                  | 0.4 %       | 0.4 %                                      | 0.7 %       |
| Amortization of intangibles                      | 3.9 %                                  | 3.3 %       | 4.0 %                                      | 3.2 %       |
| Non-GAAP adjusted gross margin percentage        | 72.0%                                  | 70.8%       | 71.4%                                      | 70.9%       |

Consolidated non-GAAP adjusted gross margins for the quarter and nine months ended March 31, 2018, were 72.0% and 71.4%, respectively, compared to 70.8% and 70.9% for the same prior year periods. Consolidated non-GAAP adjusted gross margins for the quarter ended March 31, 2018 were favorably impacted by product mix.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses for the quarter and nine months ended March 31, 2018 increased \$3.9 million (7.8%) and \$23.5 million (15.5%) from the same prior year periods.

The increase for the quarter ended March 31, 2018 was driven by additional investments in global commercial resources and administrative infrastructure, including increased stock-based compensation. The increase for the nine months ended March 31, 2018 was driven by additional investments in global commercial resources and administrative infrastructure, including stock-based compensation, and increases in acquisition-related expenses. Acquisition-related expenses for the nine months ended March 31, 2018 included a \$20.1 million change in the fair value of contingent consideration related to ACD and Zephyrus, compared to a \$14.1 million change in the fair value of contingent consideration for the same prior year period.

Table of Contents***Research and Development Expenses***

Research and development expenses for the quarter and nine months ended March 31, 2018 increased \$0.1 million (0.9%) and \$1.5 million (3.9%) from the same prior year periods.

***Segment Results******Biotechnology***

|                                    | <i>Quarter Ended</i> |             | <i>Nine Months Ended</i> |             |
|------------------------------------|----------------------|-------------|--------------------------|-------------|
|                                    | <i>March 31,</i>     |             | <i>March 31,</i>         |             |
|                                    | <i>2018</i>          | <i>2017</i> | <i>2018</i>              | <i>2017</i> |
| Net sales (in thousands)           | 110,029              | 94,516      | \$306,516                | \$267,256   |
| Operating income margin percentage | 48.2 %               | 47.9 %      | 46.9 %                   | 47.6 %      |

Biotechnology's net sales for the quarter and nine months ended March 31, 2018 were \$110.0 million and \$306.5 million, respectively, with reported growth of 16% and 15% compared to the same prior year periods. Organic growth for the quarter and nine months ended March 31, 2018 were 7% and 9%, respectively, with acquisitions contributing 4% and 3%, respectively, and currency translation having favorable impacts of 5% and 3%, respectively. Segment growth for the quarter and nine months ended March 31, 2018 was broad-based regionally and by product category.

Operating income margins for the quarter and nine months ended March 31, 2018 were 48.2% and 46.9%, respectively, compared to 47.9% and 47.6% for the same prior year periods. The increase in operating margin for the quarter ended March 31, 2018 was driven by strong volume leverage, partially offset by lower margin due to the change in product mix as a result of acquisitions made in the segment and additional investments in global commercial resources and administrative infrastructure. The decrease in operating income margin for the nine months ended March 31, 2018 was the result of lower margin acquisitions made in this segment, namely ACD, as well as additional investments in global commercial resources and administrative infrastructure.

***Protein Platforms***

|  | <i>Quarter Ended</i> | <i>Nine Months Ended</i> |
|--|----------------------|--------------------------|
|  | <i>March 31,</i>     | <i>March 31,</i>         |

Edgar Filing: BIO-TECHNE Corp - Form 10-Q

|                                    | 2018   | 2017   | 2018     | 2017     |
|------------------------------------|--------|--------|----------|----------|
| Net sales (in thousands)           | 25,539 | 23,586 | \$79,566 | \$64,707 |
| Operating income margin percentage | 9.6    | % 13.8 | % 14.6   | % 8.2    |

Protein Platforms' net sales for the quarter and nine months ended March 31, 2018 were \$25.5 million and \$79.6 million, respectively, with reported growth of 8% and 23% compared to the same prior year periods. Organic growth for the quarter and nine months ended March 31, 2018 was 4% and 20%, respectively, with currency translation having favorable impacts of 4% and 3%, respectively. For the quarter and nine months ended March 31, 2018, growth for the segment was broad-based both by region and by product, with Simple Western, and Simple Plex product lines contributing the most.

Operating income margins for the quarter and nine months ended March 31, 2018 were 9.6% and 14.6%, respectively, compared to 13.8% and 8.2% for the same prior year periods. The decrease in operating income margin for the quarter ended March 31, 2018 was driven by the timing of additional investments in global commercial resources and administrative infrastructure, which have supported the segment's year-to-date 20% organic growth. The increase in operating income margin for the nine months ended March 31, 2018 was driven by strong volume leverage and operational productivity.

*Diagnostics*

|                                    | <i>Quarter Ended</i> |        | <i>Nine Months Ended</i> |          |
|------------------------------------|----------------------|--------|--------------------------|----------|
|                                    | <i>March 31,</i>     |        | <i>March 31,</i>         |          |
|                                    | 2018                 | 2017   | 2018                     | 2017     |
| Net sales (in thousands)           | 28,548               | 25,978 | \$76,963                 | \$74,542 |
| Operating income margin percentage | 28.0                 | % 23.1 | % 22.9                   | % 24.3   |

## Table of Contents

Diagnostics' net sales for the quarter and nine months ended March 31, 2018 were \$28.5 million and \$77.0 million, respectively, with reported growth of 10% and 3% compared to the same prior year periods. Organic growth for the quarter and nine months ended March 31, 2018 was 7% and 2%, respectively, with acquisitions contributing 2% and 1%, respectively.

Operating income margins for the quarter and nine months ended March 31, 2018 were 28.0% and 23.1%, respectively, compared to 22.9% and 24.3% for the same prior year periods. The increase in operating income margin for the quarter ended March 31, 2018 was driven by strong volume leverage and favorable product mix while the decrease in operating income margin for the nine months ended March 31, 2018 was driven by decreased volume leverage, margin mix of product sales and additional investments in facilities and administrative infrastructure.

### *Income Taxes*

Income taxes for the quarter ended March 31, 2018 were at an effective rate of 21.0% of consolidated earnings before income taxes compared to 28.8% to the same prior year period. Income taxes for the nine months ended March 31, 2018 were at an effective rate of (21.2)% compared to 34.6% for the same prior year period. The change in the Company's tax rate for the third quarter of fiscal 2018 compared to third quarter of fiscal 2017 was driven by a reduction in the Company's U.S. federal corporate tax rate as a result of the legislation enacted under the Tax Act. The change in the Company's tax rate for the nine months ended March 31, 2018 compared to the same prior year period was due to the impact of discrete items, primarily due to the net tax benefit of \$31.7 million related to the Tax Act recorded in the period ended December 31, 2017. This net benefit consists of a net benefit of \$35.2 million due to the re-measurement of our deferred tax accounts to reflect the corporate rate reduction impact to our net deferred tax balances offset by expense for the transition tax of \$3.5 million.

The forecasted tax rate as of the third quarter of fiscal 2018 before discrete items is 24.4% compared to the prior year forecasted tax rate as of the third quarter of fiscal 2017 before discrete items of 27.8%. The 3.4% reduction in the rate is due changes in the U.S. tax law under the Tax Cuts and Jobs Act of 2017 and jurisdictional mix of earnings. Excluding the impact of discrete items, the Company expects the consolidated income tax rate for the remainder of fiscal 2018 to range from 24% to 26%.

### *Net Earnings*

Non-GAAP adjusted consolidated net earnings are as follows:

Edgar Filing: BIO-TECHNE Corp - Form 10-Q

|  | <i>Quarter Ended</i> |                           | <i>Nine Months Ended</i> |                           |
|--|----------------------|---------------------------|--------------------------|---------------------------|
|  | <i>March 31,</i>     |                           | <i>March 31,</i>         |                           |
|  | <i>2018</i>          | <i>2017<sup>(1)</sup></i> | <i>2018</i>              | <i>2017<sup>(1)</sup></i> |
| Net earnings   | \$19,738             | \$22,167                  | \$84,449                 | \$48,476                  |
| Identified adjustments:                                    |                      |                           |                          |                           |
| Costs recognized upon sale of acquired inventory           | 1,431                | 637                       | 2,013                    | 2,770                     |
| Amortization of acquisition intangibles                    | 11,872               | 11,689                    | 34,547                   | 33,504                    |
| Acquisition related expenses                               | 1,398                | 4,079                     | 24,253                   | 19,810                    |
| Stock based compensation                                   | 4,748                | 3,974                     | 13,587                   | 11,219                    |
| Impairment of investment                                   | 16,246               | -                         | 16,246                   | -                         |
| Tax impact of above adjustments                            | (8,565 )             | (5,356 )                  | (17,210 )                | (15,707 )                 |
| Tax impact of discrete tax items and other adjustments (1) | (726 )               | (737 )                    | (36,667 )                | (1,569 )                  |
| Non-GAAP adjusted net earnings                             | \$46,142             | \$36,453                  | \$121,218                | \$98,503                  |
| Non-GAAP adjusted net earnings growth                      | 26.6 %               | (3.0 )%                   | 23.1 %                   | (1.3 )%                   |

The fiscal 2017 net earnings, costs recognized upon sale of acquired inventory, acquisition related expenses, and (1)tax impact of above adjustments line items have been updated for the revisions discussed in Note 1. There was no impact to the total previously reported non-GAAP adjusted net earnings.

Depending on the nature of discrete tax items, our reported tax rate may not be consistent on a period to period basis. The Company independently calculates a non-GAAP adjusted tax rate considering the impact of discrete items and jurisdictional mix of the identified non-GAAP adjustments. The following table summarizes the reported GAAP tax rate and the effective Non-GAAP adjusted tax rate for the quarter and nine months ended March 31, 2018 and March 31, 2017.

|  | <i>Quarter Ended</i> |             | <i>Nine Months Ended</i> |             |
|--|----------------------|-------------|--------------------------|-------------|
|  | <i>March 31,</i>     |             | <i>March 31,</i>         |             |
|  | <i>2018</i>          | <i>2017</i> | <i>2018</i>              | <i>2017</i> |
| Reported GAAP tax rate                   | 21.0%                | 28.8%       | (21.2)%                  | 34.6%       |
| Tax rate impact of:                      |                      |             |                          |             |
| Identified non-GAAP adjustments          | (0.2 )%              | (1.4 )%     | (7.0 )%                  | (5.6 )%     |
| Discrete tax items and other adjustments | 3.0 %                | 1.8 %       | 52.6 %                   | 1.4 %       |
| Non-GAAP adjusted tax rate               | 23.8 %               | 29.2 %      | 24.4 %                   | 30.4 %      |

Table of Contents

The difference between the reported GAAP tax rate and non-GAAP tax rate applied to the identified non-GAAP adjustments for the quarter and nine months ended March 31, 2018 as well as the quarter and nine months ended March 31, 2017 is primarily a result of the discrete income tax expenses recorded for the revaluation of contingent consideration which is not tax deductible.

**LIQUIDITY AND CAPITAL RESOURCES**

As of March 31, 2018, cash and cash equivalents and available-for-sale investments were \$176.4 million compared to \$157.7 million as of June 30, 2017. Included in available-for-sale-investments as of March 31, 2018 was the fair value of the Company's investment in ChemoCentryx, Inc. (CCXI) of \$86.6 million. The fair value of the Company's CCXI investment at June 30, 2017 was \$59.6 million.

The Company has a revolving line of credit governed by a Credit Agreement dated July 28, 2016. See Note 5 to the Condensed Consolidated Financial Statements for a description of the Credit Agreement. The remaining availability on our line of credit as of March 31, 2018 is up to \$207.5 million.

The Company has a contingent consideration payment of up to \$3.5 million related to Zephyrus acquisition. The fair value of this payment as of March 31, 2018 was \$3.5 million. The Company expects to make full payment towards this contingent consideration liability in the fourth quarter of fiscal 2018.

Management of the Company expects to be able to meet its cash and working capital requirements for operations, facility expansion, capital additions, and cash dividends for the foreseeable future, and at least the next 12 months, through currently available cash, cash generated from operations, and remaining credit available on its existing revolving line of credit.

***Cash Flows From Operating Activities***

The Company generated cash of \$105.5 million from operating activities during the first nine months fiscal 2018 compared to \$92.9 million during the first nine months of fiscal 2017. The increase from the prior year was primarily due to decreases in operating assets driven by strong collections of trade accounts receivable and increases in operating liabilities, net of acquisitions.

***Cash Flows From Investing Activities***

We continue to make investments in our business, including capital expenditures. Cash paid for acquisitions was lower during the first nine months of fiscal 2018 compared to the first nine months of fiscal 2017 with net cash paid of \$65.1 million for the Trevigen, Atlanta Biologicals and Eurocell acquisitions during the first nine months fiscal 2018 compared to \$253.9 million for the ACD and Space acquisitions, which occurred during the first nine months of fiscal 2017.

Capital expenditures for fixed assets for the first nine months of fiscal 2018 and 2017 were \$15.1 million and \$9.3 million, respectively. Capital expenditures for the first nine months of fiscal 2018 were mainly for facility expansion as well as laboratory and computer equipment. Capital expenditures for the remainder of fiscal 2018 are expected to be approximately \$5.7 million. Capital expenditures are expected to be financed through currently available funds and cash generated from operating activities.

***Cash Flows From Financing Activities***

During the first nine months of fiscal 2018 and 2017, the Company paid cash dividends of \$35.9 million to all common shareholders. On May 2, 2018, the Company announced the payment of a \$0.32 per share cash dividend, or approximately \$12.0 million, will be payable May 25, 2018 to all common shareholders of record on May 14, 2018.

Cash of \$13.7 million and \$3.6 million was received during the first nine months of fiscal 2018 and 2017, respectively, from the exercise of stock options.

During the first nine months of fiscal 2018, the Company drew \$55.0 million under its revolving line-of-credit facility to fund its acquisition of Atlanta Biologicals and made repayments on the line-of-credit of \$6.0 million. During the first nine months of fiscal 2017, the Company paid the balance of its previous line-of-credit facility in an amount of approximately \$116.5 million and drew \$368.5 million under its new revolving line-of-credit facility to fund operations and its acquisition of ACD.

## Table of Contents

During the first nine months of fiscal 2018, the Company made \$85.0 million in cash payments towards the ACD and CyVek contingent consideration liabilities. Of the \$85.0 million in payments, \$58.8 million is classified as financing on the statement of cash flows. The remaining \$26.2 million is recorded as operating on the statement of cash flows as it represents the consideration liability that exceeds the amount of the contingent consideration liability recognized at the acquisition date. The Company made \$23.3 million in cash payments towards the ACD and Zephyrus contingent consideration liabilities during the first nine months of fiscal 2017. Of the \$23.3 million in payments, \$14.2 million was classified as financing and \$9.1 million was classified as operating.

In accordance with the terms of the purchase agreement, during the first quarter of fiscal 2018, the Company made the final \$2.3 million payment for the Space acquisition. This payment is included within other financing activities.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no reportable off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

## **CONTRACTUAL OBLIGATIONS**

There were no material changes outside the ordinary course of business in the Company's contractual obligations during the quarter ended March 31, 2018.

## **CRITICAL ACCOUNTING POLICIES**

The Company's significant accounting policies are discussed in the Company's Annual Report on Form 10-K for fiscal 2017 and are incorporated herein by reference. The application of certain of these policies requires judgments and estimates that can affect the results of operations and financial position of the Company. Judgments and estimates are used for, but not limited to, valuation of available-for-sale investments, inventory valuation and allowances, valuation of intangible assets and goodwill and valuation of investments in unconsolidated entities. There have been no significant changes in estimates in the third quarter of fiscal 2018 that would require disclosure nor have there been any changes to the Company's policies.

## **NON-GAAP FINANCIAL MEASURES**

This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operation” in Item 2, contains financial measures that have not been calculated in accordance with accounting principles generally accepted in the U.S. (GAAP). These non-GAAP measures include:

- Adjusted gross margin
- Adjusted net earnings
- Adjusted effective tax rate

We provide these measures as additional information regarding our operating results. We use these non-GAAP measures internally to evaluate our performance and in making financial and operational decisions, including with respect to incentive compensation. We believe that our presentation of these measures provides investors with greater transparency with respect to our results of operations and that these measures are useful for period-to-period comparison of results.

Our non-GAAP financial measures for adjusted gross margin and adjusted net earnings exclude the costs recognized upon the sale of acquired inventory, amortization of acquisition intangibles, and acquisition related expenses. The Company excludes amortization of purchased intangible assets and purchase accounting adjustments, including costs recognized upon the sale of acquired inventory and acquisition-related expenses, from this measure because they occur as a result of specific events, and are not reflective of our internal investments, the costs of developing, producing, supporting and selling our products, and the other ongoing costs to support our operating structure. Additionally, these amounts can vary significantly from period to period based on current activity.

The Company’s non-GAAP adjusted net earnings also excludes stock-based compensation expense, impairments of equity investments, and certain adjustments to income tax expense. Stock based compensation is excluded from non-GAAP adjusted earnings because of the nature of this charge, specifically the varying available valuation methodologies, subjective assumptions, and the variety of award types. Impairments of equity investments are excluded as we do not have significant influence over these investments and they are not part of our day to day operating decisions. The Company independently calculates a non-GAAP adjusted tax rate to be applied to the identified non-GAAP adjustments considering the impact of discrete items on these adjustments and the jurisdictional mix of the adjustments. In addition, the tax impact of other discrete and non-recurring charges which impact our reported GAAP tax rate are adjusted from net earnings. We believe these tax items can significantly affect the period-over period assessment of operating results and not necessarily reflect costs and/or income associated with historical trends and future results.

Table of Contents

The Company periodically reassesses the components of our non-GAAP adjustments for changes in how we evaluate our performance, changes in how we make financial and operational decisions, and considers the use of these measures by our competitors and peers to ensure the adjustments are still relevant and meaningful.

**FORWARD LOOKING INFORMATION AND CAUTIONARY STATEMENTS**

This quarterly report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include those regarding the Company's expectations as to the effect of changes to accounting policies, the amount of capital expenditures for the remainder of the fiscal year, the source of funding for capital expenditure requirements, the sufficiency of currently available funds for meeting the Company's needs, the impact of fluctuations in foreign currency exchange rates, and expectations regarding gross margin fluctuations, increasing research and development expenses, increasing selling, general and administrative expenses and income tax rates. These statements involve risks and uncertainties that may affect the actual results of operations. The following important factors, among others, have affected and, in the future, could affect the Company's actual results: the introduction and acceptance of new products, general national and international economic conditions, increased competition, the reliance on internal manufacturing and related operations, the impact of currency exchange rate fluctuations, economic instability in Eurozone countries, the recruitment and retention of qualified personnel, the impact of governmental regulation, maintenance of intellectual property rights, credit risk and fluctuation in the market value of the Company's investment portfolio, unseen delays and expenses related to facility improvements, and the success of financing efforts by companies in which the Company has invested. For additional information concerning such factors, see the Company's Annual Report on Form 10-K for fiscal 2017 as filed with the Securities and Exchange Commission and Part II. Item 1A below.

Table of Contents**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As of March 31, 2018, the Company held an investment in the common stock of CCXI. The investment was included in short-term available-for-sale investments at its fair value of \$86.6 million. As of March 31, 2018, the potential loss in fair value due to a 10% decrease in the market value of CCXI was \$8.7 million.

The Company operates internationally, and thus is subject to potentially adverse movements in foreign currency exchange rates. For the quarter ended March 31, 2018, approximately 28% of consolidated net sales were made in foreign currencies, including 15% in euros, 5% in British pound sterling, 3% in Chinese yuan and the remaining 5% in other currencies. The Company is exposed to market risk mainly from foreign exchange rate fluctuations of the euro, British pound sterling, the Chinese yuan, and the Canadian dollar, as compared to the U.S. dollar as the financial position and operating results of the Company's foreign operations are translated into U.S. dollars for consolidation.

Month-end average exchange rates between the British pound sterling, euro, Chinese yuan and Canadian dollar, which have not been weighted for actual sales volume in the applicable months in the periods, to the U.S. dollar were as follows:

|                        | <i>Quarter<br/>Ended</i> |             | <i>Nine Months<br/>Ended</i> |             |
|------------------------|--------------------------|-------------|------------------------------|-------------|
|                        | <i>March 31,</i>         |             | <i>March 31,</i>             |             |
|                        | <i>2018</i>              | <i>2017</i> | <i>2018</i>                  | <i>2017</i> |
| Euro                   | \$1.23                   | \$1.07      | \$1.20                       | \$1.09      |
| British pound sterling | 1.40                     | 1.24        | 1.35                         | 1.26        |
| Chinese yuan           | 0.16                     | 0.15        | 0.15                         | 0.15        |
| Canadian dollar        | 0.79                     | 0.76        | 0.79                         | 0.76        |

The Company's exposure to foreign exchange rate fluctuations also arises from trade receivables, trade payables and intercompany payables denominated in one currency in the financial statements, but receivable or payable in another currency. The effects of a hypothetical simultaneous 10% appreciation in the U.S. dollar from March 31, 2018 levels against the euro, British pound sterling, Chinese yuan and Canadian dollar are as follows (in thousands):

|  |         |
|--|---------|
| Decrease in translation of earnings of foreign subsidiaries (annualized) | \$3,693 |
| Decrease in translation of net assets of foreign subsidiaries            | 40,893  |
| Additional transaction losses  | 744     |



Table of Contents

**ITEM 4. CONTROLS AND PROCEDURES**

*(a) Evaluation of disclosure controls and procedures.*

The Company maintains disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). The Company's management has evaluated, with the participation of its Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered in this Quarterly Report on Form 10-Q. The material weaknesses in internal control over financial reporting identified in connection with the Company's consolidated financial statements for the year ended June 30, 2017 and described in the Company's Annual Report on Form 10-K for the year ended June 30, 2017 were not fully remediated as of March 31, 2018. The detailed remediation action plan for fiscal 2018 included implementation of additional monitoring controls and strengthening those in existence in the prior year. Actions taken have included but were not limited to the hiring of a new Internal Audit Director and expansion of the existing Internal Audit team. We have completed this portion of the action plan with the new monitoring controls implemented no later than the third quarter. In addition, management has focused on frequent testing of Information Technology General Controls to validate continued operating effectiveness. We continue to stay on track with this component of the remediation action plan and are seeing positive test results. However, further testing of the effectiveness of the Company's controls occurring during the remainder of fiscal 2018 is necessary to validate the completion of the remediation plan. Accordingly, based upon their evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were not effective as of March 31, 2018.

*(b) Changes in internal controls over financial reporting.*

The Company continues its on-going remediation efforts to address the material weaknesses in internal control over financial reporting described in the Company's Annual Report on Form 10-K for the year-ended June 30, 2017.

As previously announced, we acquired Trevigen during the first quarter of fiscal 2018 and Atlanta Biological and Eurocell Diagnostics during the third quarter of fiscal 2018. We have not fully evaluated any changes in internal control over financial reporting associated with these acquisitions and therefore, any material changes that may result from these acquisitions have not been disclosed in this report. We intend to disclose all material changes resulting from these acquisitions within or prior to the time of our first annual assessment of internal control over financial reporting that is required to include these entities.

The results reported in this quarterly report include those of Trevigen, Atlanta Biologicals and Eurocell Diagnostics.



Table of Contents

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

As of February 8, 2018, the Company is not a party to any legal proceedings that, individually or in the aggregate, are reasonably expected to have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

**ITEM 1A. RISK FACTORS**

There have been no other material changes from the risk factors previously disclosed in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 and the risk factors found in Part I, Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended June 30, 2017.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

There was no share repurchase activity by the Company in the quarter ended March 31, 2018. The maximum approximate dollar value of shares that may yet be purchased under the Company's existing stock repurchase plan is approximately \$125 million. The plan does not have an expiration date.

**ITEM 3. DEFAULT ON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

See "exhibit index" following the signature page.

25

---

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BIO-TECHNE CORPORATION  
(Company)

Date: May 9, 2018 /s/ Charles R. Kummeth  
Charles R. Kummeth  
Principal Executive Officer

Date: May 9, 2018 /s/ James Hippel  
James Hippel  
Principal Financial Officer

Table of Contents

**EXHIBIT INDEX**

**TO**

**FORM 10-Q**

**BIO-TECHNE CORPORATION**

Exhibit # Description

- 31.1 Certificate of Chief Executive Officer pursuant to section 302 of the Sarbanes Oxley Act of 2002
- 31.2 Certificate of Chief Financial Officer pursuant to section 302 of the Sarbanes Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to section 906 of the Sarbanes Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to section 906 of the Sarbanes Oxley Act of 2002

101 The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Earnings and Comprehensive Income, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) Notes to the Condensed Consolidated Financial Statements.