

**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, 2019**, 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)

614 McKinley Place N.E.
Minneapolis, MN 55413
(Address of principal executive offices) (Zip Code)

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

(612) 379-8854
(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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At May 1, 2019, 37,872,753 shares of the Company's Common Stock (par value \$0.01) were outstanding.

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	TECH	NASDAQ

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. Condensed Consolidated Financial Statements (Unaudited)	1
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3. Quantitative and Qualitative Disclosures about Market Risk	25
Item 4. Controls and Procedures	26
<u>PART II: OTHER INFORMATION</u>	
Item 1. Legal Proceedings	27
Item 1A. Risk Factors	27
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 5. Other Information	28
Item 6. Exhibits	28
SIGNATURES	29

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
AND COMPREHENSIVE INCOME

Bio-Techne Corporation and Subsidiaries

(in thousands, except per share data)

(unaudited)

	Quarter Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Net sales	\$ 184,861	\$ 163,973	\$ 522,341	\$ 462,739
Cost of sales	60,251	53,712	177,110	152,777
Gross margin	124,610	110,261	345,231	309,962
Operating expenses:				
Selling, general and administrative	64,968	53,285	195,622	175,349
Research and development	15,552	13,892	46,154	41,350
Total operating expenses	80,520	67,177	241,776	216,699
Operating income	44,090	43,084	103,455	93,263
Other income (expense)	5,787	(18,102)	(14,226)	(23,581)
Earnings before income taxes	49,877	24,982	89,229	69,682
Income tax expense (benefit)	5,223	5,244	9,617	(14,767)
Net earnings	\$ 44,654	\$ 19,738	\$ 79,612	\$ 84,449
Other comprehensive income:				
Foreign currency translation gain (loss)	5,232	2,297	(4,368)	10,787
Unrealized gain (loss) on derivative instruments - cash flow hedges	(1,854)	-	(5,769)	-
Unrealized gain (loss) on available-for-sale investments	-	38,659	-	22,286
Other comprehensive income (loss)	3,378	40,956	(10,137)	33,073
Comprehensive income	\$ 48,032	\$ 60,694	\$ 69,475	\$ 117,522
Earnings per share:				
Basic	\$ 1.18	\$ 0.53	\$ 2.11	\$ 2.25
Diluted	\$ 1.15	\$ 0.52	\$ 2.05	\$ 2.22
Cash dividends per common share:	\$ 0.32	\$ 0.32	\$ 0.96	\$ 0.96
Weighted average common shares outstanding:				
Basic	37,772	37,503	37,745	37,450
Diluted	38,861	38,142	38,813	37,933

See Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

Bio-Techne Corporation and Subsidiaries
(in thousands, except share and per share data)
(unaudited)

	<i>March 31,</i> <i>2019</i>	<i>June 30,</i> <i>2018</i>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 95,561	\$ 121,990
Short-term available-for-sale investments	83,229	59,764
Accounts receivable, less allowance for doubtful accounts of \$1,037 and \$839, respectively	133,927	120,296
Inventories	93,839	85,648
Other current assets	16,877	10,668
Total current assets	423,433	398,366
Property and equipment, net	145,319	145,348
Goodwill	719,608	597,890
Intangible assets, net	579,142	446,332
Other assets	5,116	5,266
Total assets	<u>\$ 1,872,618</u>	<u>\$ 1,593,202</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 14,898	\$ 18,452
Salaries, wages and related accruals	23,523	23,710
Accrued expenses	28,296	20,361
Contract liabilities	10,112	8,109
Income taxes payable	5,318	8,878
Current portion of contingent consideration payable	3,400	-
Current portion of long-term debt obligations	12,500	-
Total current liabilities	98,047	79,510
Deferred income taxes	96,844	86,293
Long-term debt obligations, net of deferred financing costs of \$360 and \$0 respectively	509,765	339,000
Long-term contingent consideration payable	2,200	-
Other long-term liabilities	19,496	9,338
Shareholders' equity:		
Common stock, par value \$.01 per share; authorized 100,000,000; issued and outstanding 37,813,367 and 37,607,500, respectively	378	376
Additional paid-in capital	297,748	246,568
Retained earnings	927,773	876,931
Accumulated other comprehensive loss	(79,633)	(44,814)
Total shareholders' equity	1,146,266	1,079,061
Total liabilities and shareholders' equity	<u>\$ 1,872,618</u>	<u>\$ 1,593,202</u>

See Notes to Condensed Consolidated Financial Statements.

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

	<i>Nine Months Ended</i>	
	<i>March 31,</i>	
	<i>2019</i>	<i>2018</i>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 79,612	\$ 84,449
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	58,252	47,311
Costs recognized on sale of acquired inventory	2,804	2,013
Deferred income taxes	(11,114)	(48,030)
Stock-based compensation expense	24,151	13,587
Fair value adjustment to contingent consideration payable	(1,100)	20,100
Payments of contingent consideration	-	(26,200)
Impairment of investment	-	16,226
Fair value adjustment on available for sale investments	(2,907)	-
Other operating activity	2,255	1,664
Change in operating assets and operating liabilities, net of acquisition:		
Accounts receivable	(13,136)	9,399
Inventories	(11,550)	(11,576)
Prepaid expenses	(1,000)	858
Trade accounts payable and accrued expenses	7,977	1,665
Salaries, wages and related accruals	(102)	(4,159)
Income taxes payable	(8,469)	(1,779)
Net cash provided by operating activities	<u>125,673</u>	<u>105,528</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions, net of cash acquired	(272,286)	(65,066)
Proceeds from maturities of available-for-sale investments	17,215	6,563
Purchases of available-for-sale investments	(37,693)	(3,061)
Purchases of property and equipment	(13,719)	(15,116)
Net cash used in investing activities	<u>(306,483)</u>	<u>(76,680)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends	(36,237)	(35,941)
Proceeds from stock option exercises	27,029	13,724
Re-purchases of common stock	(15,405)	-
Borrowings under credit agreement	580,000	55,000
Payments on credit agreement	(396,375)	(6,000)
Payments of contingent consideration	-	(58,800)
Other financing	(4,731)	(4,339)
Net cash provided by (used in) financing activities	<u>154,281</u>	<u>(36,356)</u>
Effect of exchange rate changes on cash and cash equivalents	99	2,504
Net increase (decrease) in cash and cash equivalents	(26,429)	(5,004)
Cash and cash equivalents at beginning of period	121,990	91,612
Cash and cash equivalents at end of period	\$ 95,561	\$ 86,608
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 16,110	\$ 6,877
Cash paid for income taxes	\$ 26,637	\$ 31,103

See Notes to Condensed Consolidated Financial Statements.

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, 2018, included in the Company's Annual Report on Form 10-K for fiscal year 2018. A summary of significant accounting policies followed by the Company is detailed in the Company's Annual Report on Form 10-K for fiscal year 2018. The Company follows these policies in preparation of the interim unaudited condensed consolidated financial statements.

Effective in the first quarter of fiscal year 2019, the Company changed its reportable segments due to changes in its underlying organizational model designed to better support the business following recent acquisitions and to facilitate global growth. The Company did not operate under the realigned reportable segment structure prior to fiscal year 2019. As a result, the Company's new segment structure will focus on synergies between our existing businesses including sharing certain functions such as sales resources, with its five existing divisions aggregated into two reportable segments as follows:

- "Diagnostics and Genomics" will consist of the ACD division, the Diagnostics division, as well as the ExosomeDx acquisition. As part of the realignment, ACD will now be referred to as the Genomics division.
- "Protein Sciences" will consist of the Core Biotechnology division and the Protein Platforms division. As part of the realignment, Protein Platforms will now be referred to as the Analytical Solutions Division (ASD) and Core Biotechnology will now be referred to as the Reagent Solutions Division (RSD).

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASC 606). 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 core principle of ASC 606 is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

On July 1, 2018, the Company adopted ASC 606 using the modified retrospective method for all contracts. Results for reporting periods beginning July 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 605, *Revenue Recognition*.

The Company recorded a net increase to beginning retained earnings of \$98,000 as of July 1, 2018 due to the cumulative impact of adopting ASC 606. The impact to beginning retained earnings was primarily driven by the transition to over-time revenue recognition on custom development projects, partially offset by the deferral of revenue for unfulfilled performance obligations. The adoption of ASC 606 did not have a material impact on the Company's consolidated financial statements as of and for the quarter and nine month period ended March 31, 2019 and, as a result, comparisons of revenues and operating profit performance between periods are not affected by the adoption of this ASU. Refer to Note 2 for additional disclosures required by ASC 606.

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. Equity investments with readily determinable fair values will be measured at fair value with changes in fair value recognized in net income. ASU 2016-01 was effective for us on July 1, 2018 which required a cumulative effect adjustment to opening retained earnings to be recorded for equity investments with readily determinable fair values. As of the adoption date, we held publicly traded equity investments with a fair value of \$54.3 million in a net unrealized gain position of \$35.4 million, and having an associated deferred tax liability of \$8.3 million. We recorded a cumulative-effect adjustment of \$27.1 million to decrease Accumulated Other Comprehensive Income (AOCI) with a corresponding increase to retained earnings for the amount of unrealized gains, net of tax as of the beginning of fiscal year 2019. As a result of the implementation of ASU 2016-01, effective on July 1, 2018 unrealized gains and losses in equity investments with readily determinable fair values are recorded on the Consolidated Statement of Income within other (expense) income. We recorded a gain in other (expense) income of \$12.3 million and \$2.9 million for the quarter and nine month period ended March 31, 2019 as a result of adopting this standard. The implementation of ASU 2016-01 is expected to increase volatility in our net income as the volatility previously recorded in Other Comprehensive Income (OCI) related to changes in the fair market value of available-for-sale equity investments will now be reflected in net income effective with the adoption date.

[Table of Contents](#)

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 (AOCI) 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 elected to early adopt ASU 2018-02 on July 1, 2018. We use a specific identification approach to release the income tax effects in AOCI. As a result of adopting this standard, we recorded a cumulative effect adjustment to increase AOCI by \$2.4 million with a corresponding decrease to retained earnings. We recorded the impacts of adopting ASU 2018-02 prior to recording the impacts of adopting ASU 2016-01 and included state income tax related effects in the amounts reclassified to retained earnings.

The following table presents a summary of cumulative effect adjustments to retained earnings due to the adoption of new accounting standards on July 1, 2018 as noted above:

	Cumulative Effect Adjustments to Retained Earnings on July 1, 2018 Increase / (Decrease)
Cumulative effect adjustment to retained earnings due to the adoption of the following new accounting standards:	
ASU 2014-09	\$ 98
ASU 2016-01	27,053
ASU 2018-02	(2,371)
Net cumulative effect adjustments to retained earnings on July 1, 2018 due to the adoption of new accounting standards	<u>\$ 24,780</u>

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. We adopted this standard on July 1, 2018, applying the guidance to transactions occurring on or after this date.

In August 2017, the FASB issued ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*. The standard changes the designation and measurement guidance for qualifying hedging relationships to better align financial reporting to risk management activities. As part of the guidance, the entire change in fair value of a qualifying hedging instrument will be recorded within other comprehensive income which is then reclassified into earnings in the same period or periods during which the hedged item impacts earnings. Additionally, the gain or loss resulting from the hedging activity will be presented in the same income statement line item as the hedged item. The standard is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2018, which for us is July 1, 2019. Early adoption is permitted. We elected to early adopt ASU 2017-12 on October 1, 2018, prior to the Company entering into cash flow hedges as described in Note 5. The adoption of this standard did not have a material impact on our consolidated financial statements.

Pronouncements Issued But Not Yet Adopted

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. The FASB has issued narrow codification improvements to *Leases (Topic 842)* through *ASU No. 2018-10* and *ASU 2019-01*. Additionally, the FASB issued *ASU 2018-11*, allowing an entity to elect a transition method where they do not recast prior periods presented in the financial statements in the period of adoption. The Company plans to elect the transition method allowed for under ASU 2018-11 when adopting *Leases (Topic 842)*. The Company is finalizing our assessment of the impact of the leasing standard, including performing reviews over lease agreements and finalizing the practical expedients to be elected. The Company is not able to quantify the impact of the standard at this time.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. The amendment in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses on instruments within its scope, including trade and loan receivables and available-for-sale debt securities. 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 August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The standard aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The accounting for the service element of a hosting arrangement that is a service contract is not affected by the new standard. 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 and may be adopted retrospectively or prospectively to eligible costs incurred on or after the date the guidance is first applied. We are currently evaluating the impact of the adoption of ASU 2018-15 on our consolidated financial statements and anticipate that we will adopt the standard prospectively.

Note 2. Revenue Recognition:

Consumables revenues consist of single-use products and are recognized at a point in time following the transfer of control of such products to the customer, which generally occurs upon shipment. Instruments revenues typically consist of longer-lived assets that, for the substantial majority of sales, are recognized at a point in time in a manner similar to consumables. The vast majority of service revenues consist of extended warranty contracts, post contract support ("PCS"), and custom development projects that are recognized over time as either the customers receive and consume the benefits of such services simultaneously or the underlying asset being developed has no alternative use for the Company at contract inception and the Company has an enforceable right to payment for the portion of the performance completed. The remaining service revenues were not material to the period and consist of laboratory services recognized at point in time. Given the Company does not have significant historical experience collecting payments from Medicare or insurance providers, the Company considered the variable consideration for such services to be constrained as it would not be probable that a significant amount of revenue would not need to be reversed in future periods for the services provided. Accordingly, the Company did not record revenue upon completion of the performance obligation, but rather upon cash receipt, which was subsequent to the performance obligation being satisfied. Royalty revenues are based on net sales of the Company's licensed products by a third party. We recognize royalty revenues in the period the sales occur using third party evidence. The Company has also elected the "right to invoice" practical expedient based on the Company's right to invoice a customer at an amount that approximates the value to the customer and the performance completed to date.

The Company has elected the exemption to not disclose the unfulfilled performance obligations for contracts with an original length of one year or less and the exemption to exclude future performance obligations that are accounted under the sales-based or usage-based royalty guidance. The Company's unfulfilled performance obligations were not material as of March 31, 2019.

Contracts with customers that contain instruments may include multiple performance obligations. For these contracts, the Company allocates the contract's transaction price to each performance obligation on a relative standalone selling price basis. Allocation of the transaction price is determined at the contracts' inception.

Payment terms for shipments to end-users are generally net 30 days. Payment terms for distributor shipments may range from 30 to 90 days. Service arrangements commonly call for payments in advance of performing the work (e.g. extended warranty and service contracts), upon completion of the service (e.g. custom development manufacturing) or a mix of both.

Contract assets include revenues recognized in advance of billings. Contract assets are included within other current assets in the accompanying balance sheet as the amount of time expected to lapse until the company's right to consideration becomes unconditional is less than one year. We elected the practical expedient allowing us to expense costs of obtaining contracts less than one year that would otherwise be capitalized and amortized over the contract period. Contract assets as of March 31, 2019 are not material.

Contract liabilities include billings in excess of revenues recognized, such as those resulting from customer advances and deposits and unearned revenue on warranty contracts. Contract liabilities as of March 31, 2019 and June 30, 2018 were approximately \$11.5 million and \$9.3 million, respectively. Contract liabilities as of June 30, 2018 subsequently recognized as revenue during the quarter and nine month period ended March 31, 2019 were approximately \$0.9 million and \$6.5 million, respectively. Contract liabilities in excess of one year are included in Other long-term liabilities on the balance sheet.

Any claims for credit or return of goods must be made within 10 days of receipt. Revenues are reduced to reflect estimated credits and returns. Although the amounts recorded for these revenue deductions are dependent on estimates and assumptions, historically our adjustments to actual results have not been material.

Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from revenue. Amounts billed to customers for shipping and handling are included in revenue, while the related shipping and handling costs are reflected in cost of products. We have elected the practical expedient that allows us to account for shipping and handling activities that occur after the customer has obtained control of a good as a fulfillment cost, and we accrue costs of shipping and handling when the related revenue is recognized.

The following tables present our disaggregated revenue for the periods presented.

Revenue by type is as follows:

	<i>Quarter Ended March 31,</i>		<i>Nine Months Ended March 31,</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Consumables	\$ 153,783	\$ 139,416	\$ 429,340	385,164
Instruments	16,104	13,197	51,116	44,047
Services	9,565	8,362	27,027	25,400
Total product and services revenue, net	179,452	160,975	\$ 507,483	454,611
Royalty revenues	5,409	2,998	14,858	8,128
Total revenues, net	\$ 184,861	\$ 163,973	\$ 522,341	462,739

Revenue by geography is as follows:

	<i>Quarter Ended March 31,</i>		<i>Nine Months Ended March 31,</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
United States	\$ 98,228	\$ 86,447	\$ 281,585	\$ 246,857
EMEA, excluding United Kingdom	42,339	39,318	116,018	107,082
United Kingdom	10,737	9,164	26,703	24,276
APAC, excluding Greater China	14,943	13,107	39,990	36,439
Greater China	12,993	11,097	42,727	35,006
Rest of World	5,621	4,840	15,318	13,079
Total revenues, net	\$ 184,861	\$ 163,973	\$ 522,341	\$ 462,739

Note 3. Selected Balance Sheet Data:*Inventories:*

Inventories consist of (in thousands):

	<i>March 31,</i> <i>2019</i>	<i>June 30,</i> <i>2018</i>
Raw materials	\$ 37,176	\$ 30,956
Finished goods	56,663	54,692
Inventories, net	<u>\$ 93,839</u>	<u>\$ 85,648</u>

Property and Equipment:

Property and equipment consist of (in thousands):

	<i>March 31,</i> <i>2019</i>	<i>June 30,</i> <i>2018</i>
Land	\$ 7,065	\$ 7,065
Buildings and improvements	172,826	170,110
Machinery and equipment	117,105	107,625
Property and equipment, cost	296,996	284,800
Accumulated depreciation and amortization	(151,677)	(139,452)
Property and equipment, net	<u>\$ 145,319</u>	<u>\$ 145,348</u>

Intangible Assets:

Intangible assets consist of (in thousands):

	<i>March 31,</i> <i>2019</i>	<i>June 30,</i> <i>2018</i>
Developed technology	\$ 422,039	\$ 305,303
Trade names	147,340	89,608
Customer relationships	212,996	212,228
Patents	1,981	1,401
Intangible assets	784,356	608,540
Accumulated amortization	(205,214)	(162,208)
Intangible assets, net	<u>\$ 579,142</u>	<u>\$ 446,332</u>

[Table of Contents](#)

Changes to the carrying amount of net intangible assets for the nine months ended March 31, 2019 consist of (in thousands):

Beginning balance	\$	446,332
Acquisitions		177,500
Other additions		558
Amortization expense		(43,797)
Currency translation		(1,451)
Ending balance	\$	<u>579,142</u>

The estimated future amortization expense for intangible assets as of March 31, 2019 is as follows (in thousands):

2019 (remainder)	\$	14,868
2020		58,873
2021		58,518
2022		56,822
2023		54,942
Thereafter		335,119
Total	\$	<u>579,142</u>

Goodwill:

Changes to the carrying amount of goodwill for the nine months ended March 31, 2019 consist of (in thousands):

	<i>Protein Sciences</i>	<i>Diagnostics and Genomics</i>	<i>Total</i>
Beginning balance	\$ 347,918	\$ 249,972	\$ 597,890
Acquisitions (Note 4)	13,582	110,066	123,648
Currency translation	(1,821)	(108)	(1,930)
Ending balance	<u>\$ 359,679</u>	<u>\$ 359,929</u>	<u>\$ 719,608</u>

We evaluate the carrying value of goodwill in the fourth quarter of each fiscal 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 of its reporting units during the fourth quarter of fiscal 2018. The quantitative assessment indicated that all of the reporting units had substantial headroom as of June 30, 2018.

During the quarter ended March 31, 2019, the Company realigned the management of certain business processes between reporting units within the same reportable segment. A goodwill allocation was performed between the impacted reporting units based on the relative fair value of the processes realigned. In conjunction with the realignment, a quantitative goodwill impairment assessment was performed both prior to and subsequent to the realignment. The quantitative assessment indicated that all of the impacted reporting units had substantial headroom both prior to and subsequent to the realignment. No triggering events or items beyond the realignment that would require a goodwill impairment assessment were identified during the nine months ended March 31, 2019. 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.

Note 4. 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 the results of operations of each acquired business are included in our Condensed Consolidated Statement of Earnings and Comprehensive Income from their respective dates of acquisition. Acquisition costs are recorded in selling, general and administrative expenses as incurred.

Quad Technologies

On July 2, 2018, the Company acquired QT Holdings Corporation (Quad) for approximately \$20.5 million, net of cash acquired, plus contingent consideration of up to \$51.0 million, subject to certain product development milestones and revenue thresholds. 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 Protein Sciences reportable segment in the first quarter of fiscal year 2019.

Certain estimated fair values are not yet finalized and are subject to change, which could be significant. The Company expects to finalize by the end of the fourth quarter of fiscal year 2019 when we have completed our valuation models for acquired intangible assets, including the determination of related estimated useful lives, and finalized our income tax assessment of acquired net operating losses (NOLs). Amounts for intangible assets and related deferred tax liabilities, acquired NOLs, and goodwill also remain subject to change. The preliminary estimated fair values of the assets acquired and liabilities assumed are as follows (in thousands):

	<i>Preliminary Allocation at Acquisition Date</i>	<i>Adjustments to Fair Value</i>	<i>Adjusted Preliminary Allocation at March 31, 2019</i>
Current assets, net of cash	\$ 36	\$ -	\$ 36
Equipment and other long-term assets	284	-	284
Intangible assets:			
Developed technology	20,000	(7,800)	12,200
Goodwill	9,790	3,792	13,582
Total assets acquired	30,110	(4,008)	26,102
Liabilities	765	(469)	296
Deferred income taxes, net	3,741	(3,296)	445
Net assets acquired	<u>\$ 25,604</u>	<u>\$ (243)</u>	<u>\$ 25,361</u>
Cash paid, net of cash acquired	\$ 20,404	\$ 57	\$ 20,461
Fair value of contingent consideration	5,200	(300)	4,900
Net assets acquired	<u>\$ 25,604</u>	<u>\$ (243)</u>	<u>\$ 25,361</u>

As summarized in the table, there were adjustments totaling \$3.8 million to goodwill during the measurement period. These adjustments primarily relate to refinements made to acquired intangible asset cash flow models, an update in the discount rate used in the contingent consideration calculation based on refinements made in the acquired intangible asset cash flow models, and adjustments to preliminary deferred tax amounts based on updated assessments of the applicability of certain NOLs.

Tangible assets and liabilities acquired were recorded at fair value on the date of close based on management's assessment. The purchase price allocated to developed technology was estimated based on management's forecasted cash inflows and outflows using a multi-period excess earnings method to calculate the fair value of assets purchased. The preliminary amount recorded for developed technology is being amortized with the expense reflected in cost of goods sold in the Condensed Consolidated Statement of Earnings and Comprehensive Income. The preliminary amortization periods for intangible assets acquired in fiscal 2019 are estimated to be 14 years for developed technology. The net deferred income tax liability represents the net amount of the estimated future impact of adjustments for costs to be recognized as intangible asset amortization, which is not deductible for income tax purposes offset by the deferred tax asset for the preliminary calculation of acquired NOLs.

Exosome Diagnostics

On August 1, 2018, the Company acquired Exosome Diagnostics, Inc. (ExosomeDx) for approximately \$251.8 million, net of cash acquired, plus contingent consideration of up to \$325.0 million as follows:

- Up to \$250 million if calendar year 2020 EBITA is between \$45 million and \$58 million or greater.
- Up to \$45 million if calendar year 2022 EBITA for a new instrument product is between \$54 million and \$70 million or greater.
- Up to \$30 million if calendar year 2022 EBITA for the remaining business is between \$150 million and \$190 million or greater.

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 Diagnostics and Genomics reportable segment in the first quarter of fiscal year 2019.

Certain estimated fair values are not yet finalized and are subject to change, which could be significant. The Company expects to finalize these by the end of fourth quarter of fiscal year 2019 when we have completed our assessment of the working capital adjustment, completed our valuation models for acquired intangible assets, and finalized our income tax assessment of acquired NOLs. Amounts for acquired current assets and liabilities, intangible assets, related deferred tax liabilities, and goodwill also remain subject to change. The preliminary estimated fair values of the assets acquired and liabilities assumed are as follows (in thousands):

	<i>Preliminary Allocation at Acquisition Date</i>	<i>Adjustments to Fair Value</i>	<i>Adjusted Preliminary Allocation at March 31, 2019</i>
Current assets, net of cash	\$ 5,118	\$ (2,554)	\$ 2,564
Equipment and other long-term assets	2,212	-	2,212
Intangible assets:			
Developed technology	180,000	(75,000)	105,000
Trade Name	-	58,000	58,000
Customer Relationships	-	2,300	2,300
Goodwill	96,592	13,474	110,066
Total assets acquired	283,922	(3,780)	280,142
Liabilities	2,624	210	2,834
Deferred income taxes, net	27,673	(3,990)	23,683
Net assets acquired	<u>\$ 253,625</u>	<u>\$ -</u>	<u>\$ 253,625</u>
Cash paid, net of cash acquired	\$ 251,825	\$ -	\$ 251,825
Fair value of contingent consideration	1,800	-	1,800
Net assets acquired	<u>\$ 253,625</u>	<u>\$ -</u>	<u>\$ 253,625</u>

As summarized in the table, there were adjustments totaling \$13.5 million to goodwill during the measurement period. As previously disclosed, the intangible value associated with the ExosomeDx trade name and determination of the related estimated useful life was under assessment as part of purchase accounting review. During the period, the Company updated our intangible assessment to include a \$58.0 million value for the ExosomeDx trade name. Due to our updated assessments and further refinements in our intangible asset cash flow models, the fair value of the developed technology intangible asset decreased by \$75.0 million. Additionally, we recorded a Customer Relationships intangible asset of \$2.3 million for the established physician network ordering ExosomeDx laboratory services that existed at the acquisition date. Adjustments to the opening balance sheet fair value also included updates to preliminary deferred tax amounts and working capital adjustments, primarily attributable to updates for the net realizable value of certain acquired receivables based on factors existing on the acquisition date.

Tangible assets and liabilities acquired 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 either a relief-from-royalty or a multi-period excess earnings method to calculate the fair value of assets purchased. The preliminary amount recorded for developed technology is being amortized with the expense reflected in cost of goods sold in the Condensed Consolidated Statement of Earnings and Comprehensive Income. Preliminary 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 2019 are 15 years for developed technology and trade names, and 14 years for customer relationships. The net deferred income tax liability represents the net amount of the estimated future impact of adjustments for costs to be recognized as intangible asset amortization, which is not deductible for income tax purposes offset by the deferred tax asset for the preliminary calculation of acquired NOLs.

Note 5. Fair Value Measurements:

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

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):

	Total carrying value as of March 31, 2019	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Assets				
Equity securities ⁽¹⁾	\$ 57,193	\$ 57,193	\$ -	\$ -
Certificates of Deposit ⁽²⁾	26,036	26,036	-	-
Total Assets	\$ 83,229	\$ 83,229	\$ -	\$ -
Liabilities				
Contingent Consideration	\$ 5,600	\$ -	\$ -	\$ 5,600
Derivative Instruments - Cash Flow Hedges	7,561	-	7,561	-
Total Liabilities	\$ 13,161	\$ -	\$ 7,561	\$ 5,600

	Total carrying value as of June 30, 2018	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Assets				
Equity securities ⁽¹⁾	\$ 54,286	\$ 54,286	\$ -	\$ -
Certificates of Deposit ⁽²⁾	5,478	5,478	-	-
Total Assets	\$ 59,764	\$ 59,764	\$ -	\$ -
Liabilities				
Contingent Consideration	\$ -	\$ -	\$ -	\$ -
Derivative Instruments - Cash Flow Hedges	-	-	-	-
Total Liabilities	\$ -	\$ -	\$ -	\$ -

(1) Included in available-for-sale investments on the balance sheet. The cost basis in the Company's investment in CCXI at March 31, 2019 and June 30, 2018 was \$18.8 million.

(2) Included in available-for-sale investments on the balance sheet. The certificate of deposits have contractual maturity dates within one year.

[Table of Contents](#)*Fair value measurements of available for sale securities*

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.

Fair value measurements of derivative instruments

In October 2018, the Company entered into forward starting swaps designated as cash flow hedges on outstanding debt. The forward starting swaps reduce the variability of cash flow payments for the Company by converting the variable interest rate on the Company's long-term debt described in Note 6 to that of a fixed interest rate.

Accordingly, as part of the forward starting swaps, the Company will exchange, at specified intervals, the difference between floating and fixed interest amounts based on \$380 million of notional principal amount. The change in the fair value of the instrument is reported as a component of other comprehensive income and reclassified into interest expense over the corresponding term of the cash flow hedge. The Company did not reclassify any amounts out of other comprehensive income into interest expense during the quarter and nine month period ended March 31, 2019. The liability related to the derivative instrument was recorded within Other long-term liabilities on the Consolidated Balance Sheet. The instrument was valued using observable market inputs in active markets and therefore classified as a Level 2 liability.

Fair value measurements of contingent consideration

In connection with the ExosomeDx and Quad acquisitions the Company is required to make contingent consideration payments of up to \$325.0 million and \$51.0 million, respectively. The contingent consideration payments are subject to ExosomeDx achieving certain EBITA thresholds and Quad meeting certain product development milestones and revenue thresholds. The preliminary fair value of the liabilities for the contingent payments recognized upon the acquisition as part of the purchase accounting opening balance sheet totaled \$6.7 million (\$1.8 million for ExosomeDx and \$4.9 million for Quad) as discussed in Note 4. The preliminary fair value of the development milestone payments was estimated by discounting to present value the probability-weighted contingent payments expected to be made. Assumptions used in these calculations were probability of success, duration of the earn-out, and discount rate. The preliminary fair value for the EBITA and revenue milestone payments was determined using a Monte Carlo simulation-based model discounted to present value. Assumptions used in these calculations are units sold, expected revenue, expected expenses, 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.

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, 2019 (in thousands):

	<i>Quarter Ended</i> <i>March 31, 2019</i>	<i>Nine Months Ended</i> <i>March 31, 2019</i>
Fair value at the beginning of period	\$ 6,000	\$ -
Purchase price contingent consideration (Note 4)	-	6,700
Change in fair value of contingent consideration	(400)	(1,100)
Payments	-	-
Fair value at the end of period	<u>\$ 5,600</u>	<u>\$ 5,600</u>

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.

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 Condensed Consolidated Balance Sheet approximate fair value because of the short-term nature of these items.

Long-term debt – The carrying amounts reported in the Condensed Consolidated Balance Sheet for the amount drawn on our line-of-credit facility and borrowed under our term loan approximate fair value because our interest rate is variable and reflects current market rates.

Note 6. Debt and Other Financing Arrangements:

On August 1, 2018, the Company entered into a new revolving line-of-credit and term loan governed by a Credit Agreement (the Credit Agreement). The Credit Agreement provides for a revolving credit facility of \$600.0 million, which can be increased by an additional \$200.0 million subject to certain conditions, and a term loan of \$250.0 million. 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 bear interest at a variable rate. The current outstanding debt is based on the Eurodollar Loans term for which the interest rate is calculated as the sum of LIBOR plus an applicable margin. The applicable margin is determined from the total leverage ratio of the Company and updated on a quarterly basis. The annualized fee for any unused portion of the credit facility is currently 20 basis points.

The Credit Agreement matures on August 1, 2023 and contains customary restrictive and financial covenants and customary events of default. At the closing on August 1, 2018, the Company borrowed \$250.0 million under the term loan and \$330.0 million under the revolving credit facility. As of March 31, 2019, the outstanding balance under the Credit Agreement was \$522.6 million.

Note 7. Supplemental Equity and Accumulated Other Comprehensive Income (loss):

Consolidated Changes in Equity (amounts in thousands)

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Paid-in	Earnings	Other	
			Capital		Comprehensive	
					Income(Loss)	
Balances at June 30, 2018	37,608	\$ 376	\$ 246,568	\$ 876,931	\$ (44,814)	\$ 1,079,061
Cumulative effect adjustments due to adoption of new accounting standards				24,780	(24,682)	98
Net earnings				17,403		17,403
Other comprehensive loss					(1,136)	(1,136)
Share repurchases						-
Surrender and retirement of stock to exercise options						-
Common stock issued for exercise of options	166	2	15,609			15,611
Common stock issued for restricted stock awards	24	0		(1,909)		(1,909)
Cash dividends				(12,066)		(12,066)
Stock-based compensation expense			11,327			11,327
Common stock issued to employee stock purchase plan	5	0	842			842
Employee stock purchase plan expense			238			238
Balances at September 30, 2018	37,803	\$ 378	\$ 274,584	\$ 905,139	\$ (70,632)	\$ 1,109,469
Net earnings				17,556		17,556
Other comprehensive loss					(12,379)	(12,379)
Share repurchases	(95)	(1)		(15,404)		(15,404)
Surrender and retirement of stock to exercise options						-
Common stock issued for exercise of options	24	0	2,408			2,408
Common stock issued for restricted stock awards	3	0		0		-
Cash dividends				(12,086)		(12,086)
Stock-based compensation expense			6,784			6,784
Common stock issued to employee stock purchase plan	0	0				-
Employee stock purchase plan expense			77			77
Balances at December 31, 2018	37,735	\$ 377	\$ 283,854	\$ 895,205	\$ (83,011)	\$ 1,096,425
Net earnings				44,654		44,654
Other comprehensive income					3,378	3,378
Share repurchases						-
Surrender and retirement of stock to Exercise options						-
Common stock issued for exercise of Options	73	1	7,336			7,337
Common stock issued for restricted stock Awards	1	0				-
Cash dividends				(12,086)		(12,086)
Stock-based compensation expense			5,640			5,640
Common stock issued to employee stock Purchase plan	4	0	834			834
Employee stock purchase plan expense			84			84
Balances at March 31, 2019	37,813	\$ 378	\$ 297,748	\$ 927,773	\$ (79,633)	\$ 1,146,266

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Total
	Shares	Amount				
Balances at June 30, 2017	37,356	\$ 374	\$ 199,161	\$ 799,027	\$ (48,935)	\$ 949,627
Net earnings				15,863		15,863
Other comprehensive loss					(824)	(824)
Surrender and retirement of stock to exercise options						0
Common stock issued for exercise of options	33	0	3,051			3,051
Common stock issued for restricted stock awards	13	0		(227)		(227)
Cash dividends				(11,958)		(11,958)
Stock-based compensation expense			3,718			3,718
Common stock issued to employee stock purchase plan	7	0	755			755
Employee stock purchase plan expense			77			77
Balances at September 30, 2017	37,409	\$ 374	\$ 206,762	\$ 802,705	\$ (49,759)	\$ 960,082
Net earnings				48,847		48,847
Other comprehensive loss					(7,058)	(7,058)
Surrender and retirement of stock to exercise options						-
Common stock issued for exercise of options	38	1	2,892			2,893
Common stock issued for restricted stock awards	22	0		0		-
Cash dividends				(11,988)		(11,988)
Stock-based compensation expense			4,985			4,985
Common stock issued to employee stock purchase plan	-		-			-
Employee stock purchase plan expense			59			59
Balances at December 31, 2017	37,470	\$ 375	\$ 214,697	\$ 839,564	\$ (56,817)	\$ 997,819
Net earnings				19,738		19,738
Other Comprehensive Loss					40,956	40,956
Surrender and retirement of stock to Exercise options						-
Common stock issued for exercise of options	68		6,273			6,273
Common Stock issued for restricted stock awards						-
Cash dividends				(11,992)		(11,992)
Stock-based compensation expenses			4,669			4,669
Common stock issued to employee stock purchase plan	7		752			752
Employee stock purchase plan expense			78			78
Balances at March 31, 2018	37,545	\$ 375	\$ 226,469	\$ 847,310	\$ (15,862)	\$ 1,058,292

Accumulated Other Comprehensive Income

The components of other comprehensive income (loss) consist of changes in net unrealized gains (losses) on available for sale investments with readily determinable fair values in fiscal 2018, changes in foreign currency translation adjustments, and changes in net unrealized gains (losses) on derivative instruments designated as cash flow hedges entered into in fiscal 2019. There were no reclassifications of gains (losses) from accumulated other comprehensive income (loss) to earnings during the nine months ended March 31, 2019 and 2018.

The accumulated balances related to each component of other comprehensive income (loss), net of tax, are summarized as follows (in thousands):

	<i>Unrealized Gains (Losses) on Available- for-Sale Investments</i>	<i>Foreign Currency Translation Adjustments</i>	<i>Unrealized Gains (Losses) on Derivatives Instruments</i>	<i>Total</i>
Beginning balance as of June 30, 2018	\$ 24,682	\$ (69,496)	\$ -	\$ (44,814)
Cumulative effect adjustment for adoption for ASU 2018-02 ⁽¹⁾	2,371	-	-	2,371
Cumulative effect adjustment for adoption for ASU 2016-01 ⁽¹⁾	(27,053)	-	-	(27,053)
Other comprehensive income (loss), net of tax benefit of \$1,792 on derivative instruments ⁽²⁾	-	(4,368)	(5,769)	(10,137)
Ending balance as of March 31, 2019	<u>\$ -</u>	<u>\$ (73,864)</u>	<u>\$ (5,769)</u>	<u>\$ (79,633)</u>

⁽¹⁾See Note 1 for further information related to the adoption of ASU 2016-01 and 2018-02.

⁽²⁾ The gain (loss) on the forward starting interest rate swap will be reclassified into earnings beginning October 31, 2019. Approximately (\$919) of the (\$5,769) will be reclassified into earnings in the 12 months subsequent to March 31, 2019.

	<i>Unrealized Gains (Losses) on Available- for-Sale Investments</i>	<i>Foreign Currency Translation Adjustments</i>	<i>Unrealized Gains (Losses) on Derivative Instruments</i>	<i>Total</i>
Beginning balance as of June 30, 2017	\$ 18,989	\$ (67,924)	\$ -	\$ (48,935)
Other comprehensive income (loss)	22,286	10,787	-	33,073
Ending balance as of March 31, 2018	<u>\$ 41,275</u>	<u>\$ (57,137)</u>	<u>\$ -</u>	<u>\$ (15,862)</u>

Note 8. 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>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Earnings per share – basic:				
Net income	\$ 44,654	\$ 19,738	\$ 79,612	\$ 84,449
Income allocated to participating securities	(35)	(18)	(66)	(70)
Income available to common shareholders	<u>\$ 44,619</u>	<u>\$ 19,720</u>	<u>\$ 79,546</u>	<u>\$ 84,379</u>
Weighted-average shares outstanding – basic	37,772	37,503	37,745	37,450
Earnings per share – basic	\$ 1.18	\$ 0.53	\$ 2.11	\$ 2.25
Earnings per share – diluted:				
Net income	\$ 44,654	\$ 19,738	\$ 79,612	\$ 84,449
Income allocated to participating securities	(35)	(18)	(66)	(70)
Income available to common shareholders	<u>\$ 44,619</u>	<u>\$ 19,720</u>	<u>\$ 79,546</u>	<u>\$ 84,379</u>
Weighted-average shares outstanding – basic	37,772	37,503	37,745	37,450
Dilutive effect of stock options and restricted stock units	1,089	639	1,068	483
Weighted-average common shares outstanding – diluted	<u>38,861</u>	<u>38,142</u>	<u>38,813</u>	<u>37,933</u>
Earnings per share – diluted	\$ 1.15	\$ 0.52	\$ 2.05	\$ 2.22

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 1.3 million and 1.1 million for the quarter ended March 31, 2019 and 2018, respectively and 1.3 million and 1.6 million for the nine months ended March 31, 2019 and 2018, respectively.

Note 9. Share-based Compensation:

During the nine months ended March 31, 2019 and 2018, the Company granted 0.9 million and 1.1 million stock options at weighted average grant prices of \$173.89 and \$120.34 and weighted average fair values of \$34.66 and \$21.98, respectively. During the nine months ended March 31, 2019 and 2018, the Company granted 56,403 and 65,924 restricted stock units at a weighted average fair value of \$170.96 and \$128.30, respectively. During the nine months ended March 31, 2019 and 2018, the Company granted 14,877 and 20,106 shares of restricted common stock shares at a grant date fair value of \$177.93 and \$125.05, respectively.

Stock options for 263,995 and 139,602 shares of common stock with total intrinsic values of \$22.3 million and \$6.3 million were exercised during the nine months ended March 31, 2019 and 2018, respectively.

Stock-based compensation expense of \$5.7 million and \$4.7 million was included in selling, general and administrative expenses for the quarter ended March 31, 2019 and 2018, respectively. Stock-based compensation expense of \$24.2 million and \$13.6 million was included in selling, general, and administrative expenses for the nine months ended March 31, 2019 and 2018, respectively. As of March 31, 2019, there was \$32.1 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 2.1 years.

Note 10. Other Income / (Expense):

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

	Quarter Ended March 31,		Nine Months March 31,	
	2019	2018	2019	2018
Interest expense	\$ (5,113)	\$ (2,560)	(16,110)	\$ (7,135)
Interest income	84	162	299	307
Impairment of Investment	-	(16,246)	-	(16,246)
Other non-operating income (expense), net	10,816	542	1,585	(507)
Total other income (expense)	\$ 5,787	\$ (18,102)	(14,226)	\$ (23,581)

Note 11. Income Taxes:

The Company's effective income tax rate for the third quarter of fiscal 2019 and 2018 was 10.5% and 21.0% of consolidated earnings before income taxes, and 10.8% and (21.2)% for the first nine months of fiscal 2019 and 2018, respectively. The change in the Company's tax rate for the third quarter and first nine months of fiscal 2019 compared to third quarter and first nine months of fiscal 2018 was driven by discrete tax items.

The Company recognized total net benefits related to discrete tax items of \$6.2 million during the third quarter and \$11.4 million during the first nine months of fiscal 2019. U.S. tax reform (as described further below) resulted in \$2.9 million and 3.5 million tax benefit for the third quarter and first nine months of fiscal 2019, respectively. Share-based compensation excess tax benefit contributed \$1.1 million and \$4.8 million in the third quarter and first nine months of 2019, respectively. Additionally, the Company recognized a discrete benefit of \$2.2 million for the quarter and nine month period ended March 31, 2019 for tax refunds relating to certain state apportionments.

The Company recognized total net benefits related to discrete tax items of \$0.7 million during the third quarter and \$36.7 million during the first nine months of fiscal 2018. U.S. tax reform (as described further below) resulted in a \$31.7 million tax benefit for the first nine months of fiscal 2018. This tax benefit was partially offset by a net discrete tax expense \$3.2 million for the first nine months of fiscal 2018 related to the revaluation of contingent consideration, which is not tax deductible. There was no impact on the quarter ended March 31, 2018 related to U.S. tax reform or the revaluation of contingent consideration.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted, which reduced the U.S. federal corporate tax rate from 35% to 21%, required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and created new taxes on certain foreign sourced earnings. The Tax Act added many new provisions including changes the deduction for executive compensation, a tax on global intangible low taxed income ("GILTI"), the base erosion anti abuse tax ("BEAT") and a deduction for foreign derived intangible income ("FDII"). The SEC staff issued Staff Accounting Bulletin ("SAB 118") later codified as ASU 2018-05 *Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin (SAB) No. 118*, which provides a measurement period of up to one year from the Tax Act's enactment date to complete the accounting for the effects of the Tax Act.

During the quarter, the Company recorded a net discrete benefit of \$2.9 million related to the mandatory deemed repatriation tax calculation which is inclusive of a benefit for a dividends received deduction for certain foreign tax credits upon completion of the tax return. The additional dividends received deduction is based on our assessment of the treatment under the applicable provisions of the Tax Act as currently written and enacted. If, in the future, Congress or the Department of the Treasury provides legislative or regulatory updates, this could change our assessment of the benefit associated with the dividends received deduction, and we may be required to recognize additional tax expense up to the full amount of \$5.5 million in the period such updates are issued.

The end of the measurement period allowed under ASU 2018-05 was December 31, 2018. However, the Company anticipates additional interpretations and clarifications to be issued by the U.S. Treasury Department, which may affect future period tax estimates. The Company made the accounting policy election to treat taxes due on U.S. inclusions in taxable income related to GILTI as a current period expense when incurred.

Note 12. 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, stock based compensation, amortization of acquisition-related intangible assets and other acquisition-related expenses. The Protein Sciences and Diagnostics and Genomics reportable segments both include consumables, instruments, services and royalty revenue.

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

	<i>Quarter Ended</i> <i>March 31,</i>		<i>Nine Months Ended</i> <i>March 31,</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Net sales:				
Protein Sciences	\$ 137,935	\$ 123,187	\$ 399,787	\$ 348,442
Diagnostics and Genomics	47,134	40,929	123,144	114,604
Intersegment	(208)	(143)	(590)	(307)
Consolidated net sales	<u>\$ 184,861</u>	<u>\$ 163,973</u>	<u>\$ 522,341</u>	<u>\$ 462,739</u>
Operating income:				
Protein Sciences	\$ 62,256	\$ 53,813	\$ 175,821	\$ 150,240
Diagnostics and Genomics	3,579	9,649	5,061	22,816
Segment operating income	\$ 65,835	\$ 63,462	\$ 180,882	\$ 173,056
Costs recognized on sale of acquired inventory	(935)	(1,431)	(2,804)	(2,013)
Amortization of acquisition related intangible assets	(14,400)	(11,872)	(43,678)	(34,547)
Acquisition related expenses	-	(1,312)	(2,973)	(23,994)
Stock based compensation	(5,725)	(4,748)	(24,151)	(13,587)
Corporate general, selling, and administrative expenses	(685)	(1,015)	(3,821)	(5,652)
Consolidated operating income	<u>\$ 44,090</u>	<u>\$ 43,084</u>	<u>\$ 103,455</u>	<u>\$ 93,263</u>

Note 13. Subsequent Events:

None.

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, 2018. 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 two reportable business segments, Protein Sciences and Diagnostics and Genomics, both of which service the life science and diagnostic markets. The Protein Sciences reporting segment is one of the world’s leading suppliers of specialized proteins such as cytokines and growth factors, immunoassays, antibodies and reagents, to the biotechnology community. The Protein Sciences segment also provides an array of platforms useful in various areas of protein analysis. The Diagnostics and Genomics reporting segment provides blood chemistry and blood gas quality controls, hematology instrument controls, diagnostics immunoassays and other bulk and custom reagents for the *in vitro* diagnostic market. The Diagnostics and Genomics segment also develops and commercializes *in situ* hybridization products and exosome-based diagnostics for various pathologies, including prostate cancer.

RECENT ACQUISITIONS

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

On July 2, 2018, the Company acquired QT Holdings Corporation (Quad) for approximately \$20.5 million, net of cash acquired, plus contingent consideration of up to \$51.0 million, subject to achievement of certain product development milestones and revenue thresholds. Quad’s QuickGel technology for cell separation and activation provides process improvements for clinical grade cell and gene therapy applications.

On August 1, 2018, the Company acquired Exosome Diagnostics, Inc. (ExosomeDx) for approximately \$251.8 million, net of cash acquired, plus contingent consideration of up to \$325.0 million, subject to the achievement of certain EBITA thresholds. ExosomeDx’s exosome-based diagnostics for various pathologies, including prostate cancer, provide a non-invasive method for performing a liquid biopsy.

RESULTS OF OPERATIONS

Consolidated net sales increased 13% for the quarter and nine months ended March 31, 2019 compared to the same prior year periods. Organic growth for the quarter and nine months ended March 31, 2019 was 14% and 12%, respectively, compared to the same prior year periods, with acquisitions contributing 1% and 2%, respectively, and foreign currency translation having an unfavorable impact of 2% and 1% respectively.

Consolidated net earnings increased to \$44.7 million for the quarter ended March 31, 2019 compared to \$19.7 million in the same prior year period due to a prior period year impairment on investment of \$16.2 million and current period gains on available-for-sale investments of \$12.3 million, which was partially offset by unfavorable impacts of foreign currency exchange. Consolidated net earnings decreased to \$79.6 million for the nine months ended March 31, 2019, compared to \$84.4 million in the same prior year period due to a \$33.5 million tax benefit relating to U.S. tax reform impacting the prior year period, which was partially offset by a prior year impairment on investment of \$16.3 million, current period gains on available-for-sale investments of \$2.9 million and increased operating income due to volume leverage and operational productivity.

Net Sales

Consolidated net sales for the quarter and nine months ended March 31, 2019 were \$184.9 million and \$522.3 million, respectively, an increase of 13% from the same prior year periods. Organic growth for the quarter and nine months ended March 31, 2019 was 14% and 12%, respectively. Reported net sales for the quarter and nine months ended March 31, 2019 included growth from acquisitions of 1% and 2%, respectively, and an unfavorable impact from foreign currency translation of 2% and 1%, respectively.

For the quarter and nine months ended March 31, 2019 by geography, sales for both the US and Europe grew over 10% organically, with excellent commercial execution in life science end-markets. China had organic sales growth of approximately 20% for the quarter ended March 31, 2019 and in excess of 25% for the nine months ended March 31, 2019, both of which represented broad-based revenue growth across Protein Sciences.

Gross Margins

Consolidated gross margins for the quarter and nine months ended March 31, 2019 were 67.4% and 66.1%, respectively, compared to 67.2% and 67.0% for the same prior year periods. Consolidated gross margins for the quarter and nine months ended March 31, 2019 were negatively impacted as a result of purchase accounting related to inventory and intangible assets acquired since March 31, 2018. Under purchase accounting, inventory is valued at fair value less expected selling and marketing costs, resulting in reduced margins in future periods as the inventory is sold.

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 Ended March 31,</i>		<i>Nine Months Ended March 31,</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Consolidated gross margin percentage	67.4%	67.2%	66.1%	67.0%
Identified adjustments:				
Costs recognized upon sale of acquired inventory	0.5%	0.9%	0.5%	0.4%
Amortization of intangibles	3.4%	3.9%	4.7%	4.0%
Non-GAAP adjusted gross margin percentage	<u>71.3%</u>	<u>72.0%</u>	<u>71.3%</u>	<u>71.4%</u>

Consolidated non-GAAP adjusted gross margins were 71.3% for the quarter and nine months ended March 31, 2019, which resulted in a decrease of 0.7% and 0.1%, respectively from the quarter and nine months ended the nine months ended March 31, 2018.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$11.7 million and \$20.3 million, respectively, for the quarter and nine months ended March 31, 2019, a difference of 21.9% and 11.6%, respectively, from the prior year. The increase was driven by increased stock compensation expense and payroll expense for entities acquired after March 31, 2018, which was partially offset by a reduction in acquisition related expenses.

Research and Development Expenses

Research and development expenses increased \$1.7 million (11.9%) and \$4.8 million (11.6%), for the quarter and nine month periods ended March 31, 2019, respectively, from the same prior year periods. The increase was driven by additional expense from recent acquisitions, namely ExosomeDx.

Segment Results

Protein Sciences

	<i>Quarter Ended March 31,</i>		<i>Nine Months Ended March 31,</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Net sales (in thousands)	\$ 137,935	\$ 123,187	\$ 399,787	\$ 348,442
Operating income margin percentage	45.1%	43.7%	44.0%	43.1%

Protein Sciences' net sales for the quarter and nine months ended March 31, 2019 were \$137.9 million and \$399.8 million, respectively, with reported growth of 12% and 13% compared to the same prior year periods. Organic growth for the quarter and nine months ended March 31, 2019 were 15% and 14%, respectively, with acquisitions contributing 0% and 1%, respectively, and currency translation having an unfavorable impact of 3% and 2% respectively. Segment growth for the quarter and nine months ended March 31, 2019 was broad-based and especially strong in the antibodies and cell therapy consumables as well as the Simple Western and Simple Plex instrument product categories.

Operating income margin for the quarter and nine months ended March 31, 2019 was 45.1% and 44.0%, respectively, compared to 43.7% and 43.1% for the same prior year periods. Operating income margin was favorably impacted by volume leverage and operational productivity.

Diagnostics and Genomics

	Quarter Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Net sales (in thousands)	\$ 47,134	\$ 40,929	\$ 123,144	\$ 144,604
Operating income margin percentage	7.6%	23.6%	4.1%	19.9%

Diagnostics and Genomics' net sales for the quarter and nine months ended March 31, 2019 were \$47.1 million and \$123.1 million, respectively, representing an increase of 15% and 7% from the quarter and nine months ended March 31, 2018. Organic growth for the quarter and nine months ended March 31, 2019 were 13% and 4%, respectively, with acquisitions contributing 3% and 4%, respectively, and currency translation having an unfavorable impact of 1% for both the quarter and nine months ended March 31, 2019.

Operating income margin for the quarter and nine months ended March 31, 2019 was 7.6% and 4.1%, respectively, compared to 23.6% and 19.9% for the same prior year periods. Operating income margin was impacted by negative margin acquisitions made in this segment, namely ExosomeDX.

Income Taxes

Income taxes were at an effective rate of 10.5% and 10.8% of consolidated earnings for the quarter and nine month period ended March 31, 2019, respectively, compared to 21.0% and (21.2)% for the same prior year periods. The change in the Company's tax rate for the quarter ended March 31, 2019 was driven by discrete tax items of \$6.2 million compared to prior year discrete tax items of \$0.7 million as further discussed in Note 11. The change in the Company's tax rate for the nine months ended March 31, 2018 was driven by a prior year tax benefit of \$31.7 million attributable to the Tax Act primarily from the revaluation of our deferred tax liabilities, which was partially offset by discrete tax items including the tax benefit of stock options exercises and updated estimates related to the Tax Act as disclosed in Note 11.

The forecasted tax rate as of the third quarter of fiscal 2019 before discrete items is 23.6% compared to the prior year forecasted tax rate as of the third quarter of fiscal 2018 before discrete items of 24.4%. Excluding the impact of discrete items, the Company expects the consolidated income tax rate for the remainder of fiscal 2019 to range from 23% to 26%.

Net Earnings

Non-GAAP adjusted consolidated net earnings are as follows:

	Quarter Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Net earnings	\$ 44,654	\$ 19,738	\$ 79,612	\$ 84,449
Identified adjustments:				
Costs recognized upon sale of acquired inventory	935	1,431	2,804	2,013
Amortization of acquisition intangibles	14,400	11,872	43,678	34,547
Acquisition related expenses	100	1,398	3,263	24,253
Stock based compensation	5,725	4,748	24,151	13,587
Realized and unrealized loss (gain) on investments	(12,279)	16,246	(2,907)	16,246
Tax impact of above adjustments	(323)	(8,565)	(12,683)	(17,210)
Tax impact of discrete tax items and other adjustments	(6,152)	(726)	(11,439)	(36,667)
Non-GAAP adjusted net earnings	\$ 47,060	\$ 46,142	\$ 126,479	\$ 121,218
Non-GAAP adjusted net earnings growth	2.0%	26.6%	4.3%	23.1%

[Table of Contents](#)

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 ended March 31, 2019 and March 31, 2018.

	Quarter Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Reported GAAP tax rate	10.5%	21.0%	10.8%	(21.2)%
Tax rate impact of:				
Identified non-GAAP adjustments	(2.9)%	(0.2)%	(2.5)%	(7.0)%
Discrete tax items and other adjustments	12.3%	3.0%	12.8%	52.6%
Non-GAAP adjusted tax rate	19.9%	23.8%	21.1%	24.4%

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, 2019 is primarily a result of discrete tax items, including the tax benefit of stock option exercises.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2019, cash and cash equivalents and available-for-sale investments were \$178.8 million compared to \$181.8 million as of June 30, 2018. Included in available-for-sale-investments as of March 31, 2019 was the fair value of the Company's investment in ChemoCentryx, Inc. (CCXI) of \$57.2 million. The fair value of the Company's CCXI investment at June 30, 2018 was \$54.3 million.

The Company has a line-of-credit and term loan governed by a Credit Agreement dated August 1, 2018. See Note 6 to the Condensed Consolidated Financial Statements for a description of the Credit Agreement.

The Company has contingent consideration payments of up to \$325.0 million and \$51.0 million related to the ExosomeDx and Quad acquisitions. The estimated fair value of the contingent consideration is \$5.6 million as of March 31, 2019.

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 \$125.7 million from operating activities in the first nine months of fiscal 2019 compared to \$105.5 million in the first nine months of fiscal 2018. The increase from the prior year was primarily due to changes in deferred tax balances and increases in non-cash expenses of stock-based compensation, and depreciation and amortization expense, offset partially by a reduction in net earnings.

Cash Flows From Investing Activities

We continue to make investments in our business, including capital expenditures. Net cash paid for acquisitions was \$272.3 million in the first nine months of fiscal 2019 for the Quad and ExosomeDx acquisitions compared to \$65.1 million paid for the Trevigen, Atlanta Biologicals and Eurocell acquisitions in the first nine months of fiscal 2018.

Capital expenditures for fixed assets for the first nine months of fiscal 2019 and 2018 were \$13.7 million and \$15.1 million, respectively. Capital expenditures for the first nine months of fiscal 2019 were mainly for facility expansion as well as laboratory and computer equipment. Capital expenditures for the remainder of fiscal 2019 are expected to be approximately \$11 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 2019 and 2018, the Company paid cash dividends of \$36.2 million and \$35.9 million, respectively, to all common shareholders. On April 30, 2019, the Company announced the payment of a \$0.32 per share cash dividend, or approximately \$12.1 million, will be payable May 24, 2019 to all common shareholders of record on May 10, 2019. During the first nine months of fiscal 2019, the Company also paid cash of \$15.4 million to repurchase shares of the Company's outstanding common stock.

Cash of \$27.0 million and \$13.7 million was received during the first nine months of fiscal 2019 and 2018, respectively, from the exercise of stock options.

During the first nine months of fiscal 2019, the Company made payments of \$339.0 million towards the balance of its previous line-of-credit facility and borrowed \$330.0 million and \$250.0 million under its new line-of-credit facility and term loan, respectively. During the first nine months of fiscal 2019, the Company also made payments of \$48.0 million and \$9.4 million towards the balance of its new line-of-credit facility and term loan, respectively. During the first nine months of fiscal 2018, the Company made payments of \$6.0 million payment towards the balance of its previous line-of-credit facility and borrowed \$25.0 million under its previous line-of-credit facility to fund its acquisition of Atlanta Biologicals Inc.

The Company made no payments towards contingent consideration liabilities during the first nine months of fiscal 2019. 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. The Company also made a \$2.3 million payment for the Space acquisition during the first nine months of fiscal 2018. 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

Other than the August 2018 Credit Agreement and the contingent consideration associated with the Quad and Exosome acquisitions, there were no material changes outside the ordinary course of business in the Company's contractual obligations during the quarter or nine months ended March 31, 2019.

CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies are discussed in the Company's Annual Report on Form 10-K for fiscal 2018 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 first nine months of fiscal 2019 that would require disclosure. There have been no other changes to the Company's accounting policies except for the change in our annual goodwill impairment date as described in Note 1 and for the election of the accounting policy to record the portion of share repurchases in excess of the par value entirely in retained earnings.

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:

- Organic growth
- 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.

[Table of Contents](#)

Our non-GAAP financial measure of organic growth represents revenue growth excluding revenue from acquisitions within the preceding 12 months as well as the impact of foreign currency. Excluding these measures provides more useful period-to-period comparison of revenue results as it excludes the impact of foreign currency exchange rates, which can vary significantly from period to period, and revenue from acquisitions that would not be included in the comparable prior period

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, restructuring, impairments of equity method investments, gain and losses from investments, and certain adjustments to income tax expense. Stock-based compensation is excluded from non-GAAP adjusted net 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 they are not part of our day-to-day operating decisions. Additionally, gains and losses from other investments that are either isolated or cannot be expected to occur again with any predictability are excluded. Costs related to restructuring activities, including reducing overhead and consolidating facilities, are excluded because we believe they are not indicative of our normal operating costs. 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.

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: integration of newly acquired businesses, 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, and unseen delays and expenses related to facility improvements. For additional information concerning such factors, see the Company's Annual Report on Form 10-K for fiscal 2018 as filed with the Securities and Exchange Commission and Part II, Item 1A below.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of March 31, 2019, 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 \$57.2 million. As of March 31, 2019, the potential loss in fair value due to a 10% decrease in the market value of CCXI was \$5.7 million.

The Company operates internationally, and thus is subject to potentially adverse movements in foreign currency exchange rates. For the quarter ended March 31, 2019, approximately 28% of consolidated net sales were made in foreign currencies, including 13% in euros, 6% in British pound sterling, 4% 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 Ended</i>		<i>Nine Months Ended</i>	
	<i>March 31,</i>		<i>March 31,</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
Euro	\$ 1.14	\$ 1.23	\$ 1.15	\$ 1.20
British pound sterling	1.30	1.40	1.30	1.35
Chinese yuan	0.15	0.16	0.15	0.15
Canadian dollar	0.75	0.79	0.76	0.79

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, 2019 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)	\$ 3,806
Decrease in translation of net assets of foreign subsidiaries	42,291
Additional transaction losses	2,290

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. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2019, our disclosure controls and procedures were effective.

(b) Changes in internal controls over financial reporting.

As previously announced, we acquired Quad on July 2, 2018 and ExosomeDx on August 1, 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.

Other than the acquisitions discussed above, there were no other changes in the Company's internal control over financial reporting during the first nine months of fiscal year 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The results reported in this quarterly report include those of Quad and ExosomeDx.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of May 7, 2019, 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

Other than additional risks identified below associated with our acquisition of Exosome Diagnostics during the quarter ended September 30, 2018, there have been no other material changes from 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, 2018.

Our ExoDx Prostate(IntelliScore), or EPI test, may not receive or maintain government or private reimbursement coverage for clinical laboratory testing as planned, which may have a material adverse effect upon the revenue and profits for this product line.

Our newest acquisition, Exosome Diagnostics, launched the EPI test, which is a non-invasive urine test that accurately predicts the aggressiveness of prostate cancer, in early 2018. We are currently seeking coverage decisions regarding reimbursement from both public and private payers. However the process and timeline for obtaining coverage decisions is uncertain and difficult to predict. Moreover, federal and state government payers, such as Medicare and Medicaid, as well as insurers, including managed care organizations, continue to increase their efforts to control the cost, utilization and delivery of healthcare services. From time to time, Congress considers and implements changes in Medicare fee schedules affecting reimbursement rates in conjunction with budgetary legislation. The first phase of reductions pursuant to Protecting Access to Medicare Act (PAMA) came into effect on January 1, 2018, and will continue annually, subject to certain phase-in limits through 2023, and without such limitations for subsequent periods. Further, reimbursement reductions due to changes in policy regarding coverage of tests or other requirements for payment (such as prior authorization, diagnosis code and other claims edits, or a physician or qualified practitioner's signature on test requisitions) may be implemented from time to time. Still further, changes in third-party payer regulations, policies, or laboratory benefit or utilization management programs, as well as actions by federal and state agencies regulating insurance, including healthcare exchanges, or changes in other laws, regulations, or policies, may have a material adverse effect on revenue and earnings associated with Exosome Diagnostics' EPI product.

The Company could face significant monetary damages and penalties and/or exclusion from government programs if its Exosome Diagnostics' EPI business violates federal, state, local or international laws including, but not limited to, anti-fraud and abuse laws.

As a healthcare provider, the Company's Exosome Diagnostics' EPI business is subject to extensive regulation at the federal, state, and local levels in the U.S. and other countries where it operates. The Company's failure to meet governmental requirements under these regulations, including those relating to billing practices and financial relationships with physicians, hospitals, and health systems, could lead to civil and criminal penalties, exclusion from participation in Medicare and Medicaid, and possibly prohibitions or restrictions on the use of its laboratories. Such occurrences, regardless of their outcome, could damage the Company's reputation and adversely affect important business relationships it has with third parties.

The Company's Exosome Diagnostics EPI business could be harmed from the loss or suspension of a license or imposition of a fine or penalties under, or future changes in, or interpretations of, the law or regulations of the Clinical Laboratory Improvement Act of 1967, and the Clinical Laboratory Improvement Amendments of 1988 (CLIA), or those of Medicare, Medicaid or government agencies where the Company operates its laboratory.

The commercial laboratory testing industry is subject to extensive U.S. regulation, and many of these statutes and regulations have not been interpreted by the courts. CLIA extends federal oversight to virtually all clinical laboratories operating in the U.S. by requiring that they be certified by the federal government or by a federally approved accreditation agency. The sanction for failure to comply with CLIA requirements may be suspension, revocation or limitation of a laboratory's CLIA certificate, which is necessary to conduct business, as well as significant fines and/or criminal penalties. In addition, the Company's EPI business is subject to regulation under state law. State laws may require that laboratories and/or laboratory personnel meet certain qualifications, specify certain quality controls or require maintenance of certain records. Applicable statutes and regulations could be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that would adversely affect the Company's EPI business. Potential sanctions for violation of these statutes and regulations include significant fines and the suspension or loss of various licenses, certificates and authorizations, which could have a material adverse effect on the Company's EPI business. In addition, compliance with future legislation could impose additional requirements on the Company, which may be costly.

Failure to comply with privacy and security laws and regulations could result in fines, penalties and damage to the Company's reputation and have a material adverse effect upon the Company's business, a risk that has been elevated with the acquisition of Exosome Diagnostics, whose laboratory testing service is a healthcare provider that obtains and uses protected health information.

If the Company does not comply with existing or new laws and regulations related to protecting the privacy and security of personal or health information, it could be subject to monetary fines, civil penalties or criminal sanctions. In the U.S., the Health Insurance Portability and Accountability Act of 1996 (HIPAA) privacy and security regulations, including the expanded requirements under U.S. Health Information Technology for Economic and Clinical Health Act (HITECH), establish comprehensive standards with respect to the use and disclosure of protected health information (PHI) by covered entities, in addition to setting standards to protect the confidentiality, integrity and security of PHI. HIPAA restricts the Company's ability to use or disclose PHI, without patient authorization, for purposes other than payment, treatment or healthcare operations (as defined by HIPAA), except for disclosures for various public policy purposes and other permitted purposes outlined in the privacy regulations. If the laboratory operations for the Company's EPI business use or disclose PHI improperly under these privacy regulations, they may incur significant fines and other penalties for wrongful use or disclosure of PHI in violation of the privacy and security regulations, including potential civil and criminal fines and penalties

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

As of June 30, 2018, the maximum approximate dollar value of shares that could have been purchased under the Company's then existing stock repurchase plan was approximately \$125 million, with no specified end period. During fiscal 2019, the Board rescinded the existing stock repurchase plan and implemented a new repurchase plan, which grants management the discretion to mitigate the dilutive effect of stock option exercises by authorizing repurchase of shares up to the amount of stock returned to the corporation through stock option exercises occurring subsequent to June 30, 2018.

The Company repurchased 33,500 shares in October at an average share price of \$167.53 and repurchased 61,470 shares in November at an average share price of \$151.19. We did not repurchase any shares during the quarter ended March 31, 2019 and have repurchased 95,000 shares for the nine months ended March 31, 2019. As of March 31, 2019, we have authorization of approximately \$23 million that may yet be used to purchase additional shares under the newly implemented stock repurchase program.

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.

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 7, 2019

/s/ Charles R. Kummeth
Charles R. Kummeth
Principal Executive Officer

Date: May 7, 2019

/s/ James Hippel
James Hippel
Principal Financial Officer

**EXHIBIT INDEX
TO
FORM 10-Q
BIO-TECHNE CORPORATION**

<u>Exhibit #</u>	<u>Description</u>
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, 2019, 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.

CERTIFICATION

I, Charles R. Kummeth, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bio-Techne Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2019

/s/ Charles R. Kummeth
Charles R. Kummeth
Principal Executive Officer

CERTIFICATION

I, James Hippel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bio-Techne Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2019

/s/ James Hippel
James Hippel
Principal Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Bio-Techne Corporation (the "Company") On Form 10-Q for the quarter ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles R. Kummeth, Principle Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Charles R. Kummeth
Charles R. Kummeth
Principal Executive Officer
May 7, 2019

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Bio-Techne Corporation (the "Company") On Form 10-Q for the quarter ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James Hippel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James Hippel
James Hippel
Principal Financial Officer
May 7, 2019