

Charles River Laboratories

Thoughts on share weakness following investor conference comments

Maintain Rating: BUY | PO: 225.00 USD | Price: 215.19 USD

Stock reaction surprising given no incremental negatives

Earlier today, Charles River Labs (CRL) presented at an investor conference. The stock traded down sharply (closing -5.2% vs SP500 -0.2%) as investors reacted poorly to management's tone and lack of a F4Q update or incremental FY24 color. In our view, the magnitude of the stock move was surprising since we thought Mgmt.'s presentation and market commentary was consistent with comments made on F3Q23 conference and in-line with CRL's typical guidance methodology/timing. Indeed, the only new information was a largely non-quantitative update on the company's NHP (non-human primate) strategy, which the Mgmt. had previously said was coming. Moreover, comments today from a late-stage CRO, ICLR, ([see our note here](#)) show little indication that the market / funding environment has materially deteriorated.

Moving pieces in FY24 already largely known

During the presentation, Mgmt. again acknowledged that the backlog in the Discovery and Safety Assessment (DSA) segment had continued to normalize from its peak of 18-24mths, standing nearer to 12mths at the end of 3Q, which is closer to historical trends. The previously over-elongated backlog contained some study slots which had been booked far in advance to ensure availability by drug developers whose compounds were not yet ready for safety/toxicology studies, limiting CRL's visibility and flexibility. Mgmt. anticipates an eventual return to a ~6-9mth backlog, a metric not unusual for early-stage CROs in standard market conditions and under which CRL has previously posted healthy revenue growth. Mgmt. also reiterated that FY24 organic revenue is expected to come in below CRL's LRP of 6-8% (BofAe organic 4%, Street 3%) due to DSA's ongoing moderation and the ramp of the CDMO business, a dynamic which has been explicitly known since CRL's Sept. 2023 analyst day and is broadly reflected in consensus estimates. Overall, we thought there was little in today's presentation to warrant the sell off or change our investment thesis and so we maintain our Buy rating. That said, until investors see how CRL manages anticipated margin pressure resulting from expected NHP price declines, there may continue to be some skepticism.

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Stock Data

Price	215.19 USD
Price Objective	225.00 USD
Date Established	12-Dec-2023
Investment Opinion	B-1-9
52-Week Range	161.65 USD - 262.00 USD
Mkt Val (mn) / Shares Out (mn)	10,250 USD / 47.6
Free Float	98.9%
Average Daily Value (mn)	97.21 USD
BofA Ticker / Exchange	CRL / NYS
Bloomberg / Reuters	CRL US / CRL.N
ROE (2023E)	17.0%
Net Dbt to Eqty (Dec-2022A)	81.8%
ESGMeter™	High

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CRO: Contract Research Organization

CDMO: Contract Development and Manufacturing Organization

DSA: Discovery & Safety Assessment

LRP: Long Range Plan

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Timestamp: 09 January 2024 07:18PM EST

Price objective basis & risk

Charles River Laboratories (CRL)

Our \$225 PO is based on 14x our 2024 adj. EV/EBITDA estimate, which is a discount to the peer group multiple median (15x) across select CRO, Life Sciences Tools and CDMO companies, given CRL's exposure to ongoing headwinds from biotech funding and non-human primate supply issues.

Risks are uncertainty on the rebound of the company's non-human primate supply, integration of recent acquisitions, dilutive M&A, soft drug R&D spend, downturn in biotech financing, retrenched outsourcing, safety assessment overcapacity, lower animal research model volumes, lingering COVID headwinds, and competition, technology and regulatory risks.

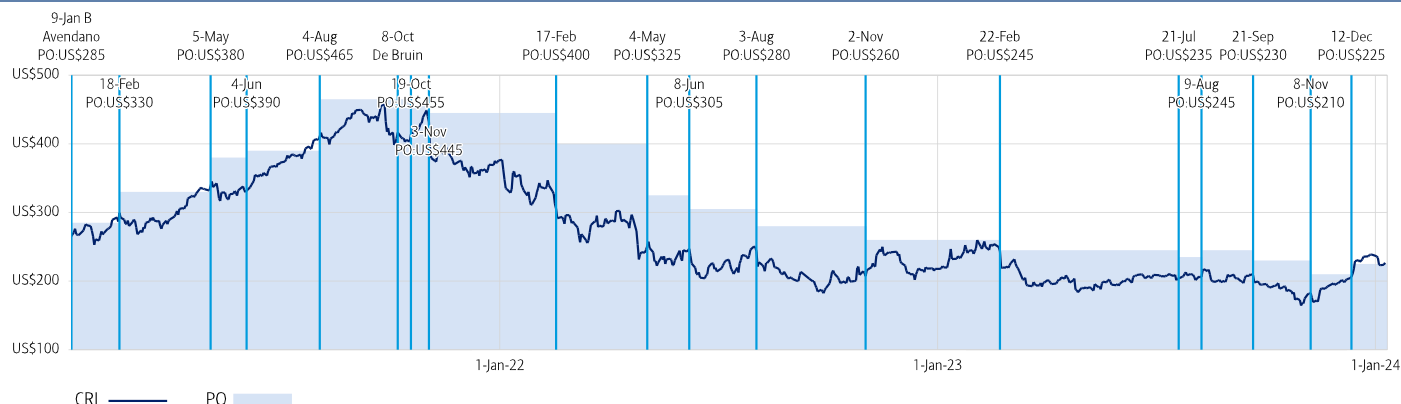
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Charles River (CRL) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Underperform	N/A	≥ 20%

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