

## IDEXX Laboratories

## First Look: Solid 4Q, and Initial 2024 guide in line with expectations

Maintain Rating: NEUTRAL | PO: 600.00 USD | Price: 527.14 USD

## 4Q comes in ahead with 8% total company organic growth

IDXX reported 4Q revenue of \$902mn (+9% y/y), ahead of BofA/Street estimates of \$888/890mn. Organic sales growth was 8% y/y (versus BofAe 7%). CAG recurring revenues grew 10% on an organic basis. LPD declined 4% organically on continued challenges in China. Turning to the P&L, GM came in at 58.4% (-10bps y/y), and OpM was 27.2% (-10bps y/y). On the bottom line, GAAP EPS of \$2.32 also beat BofA/Street estimates of \$2.15/2.12 (aided by +10c in tax benefits).

**Exhibit 1: Overview of IDEXX Laboratories' 4Q'23 performance:**

4Q23 actual results largely met or exceeded expectations

	Actual	BofA estimate	Street estimate
Revenues (mn)	\$902	\$888	\$890
Reported growth	9%	7%	7%
Total company organic growth	8%	7%	N/A
CAG recurring organic growth	10%	9%	N/A
Gross Margin	58.4%	59.1%	58.9%
Operating Margin	27.2%	26.7%	26.4%
GAAP EPS	\$2.32	\$2.15	\$2.12

Source: Bloomberg, BofA Global Research

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## Initial FY'24 guide: 7-10% total organic, \$11.09 EPS midpoint

IDXX provided its initial FY'24 outlook, calling for 7-10% organic sales growth (versus BofAe 10%), and 7.5-10.5% CAG recurring organic revenue growth (versus BofAe 10%). OpM is expected to be in the range of 30.2-30.7% (including ~40bps headwind from lapping a contract resolution payment). GAAP EPS are seen as \$11.09 at midpoint (versus BofA/Street \$11.10/10.99). The initial guidance assumes a 5% benefit from price realization, below recent years despite continued volume weakness.

## Vet channel readings remain muted

Management provided some color on recent vet visits, with a full, historical dataset available on the company's investor relations page under the heading "Earnings Snapshot." These data show that pet visits (wellness and clinical) and vet practice revenue remained soft in 4Q, with total visits (a key indicator for IDXX) still tracking -1.2% y/y as end-market volume headwinds persist. This is consistent with our 3rd-party channel checks and external market data; see our recent notes on [Vet clinic visit trends](#), and [Winter weather impact](#) for additional commentary on market conditions.

## Thoughts on shares – call at 8:30AM (800-289-0459)

4Q was a solid end to FY'23, despite weak vet clinic trends. However, we think that shares will react primarily to the FY24 guide. We think that the guide is broadly in line with expectations but will be curious to hear more commentary on the various contributors for the year (i.e., we had expected price to be even higher than +5%). We maintain our Neutral rating and look forward to the conference call at 8:30AM ET (800-289-0459, code: 819614) for a more detailed discussion.

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## Stock Data

Price	527.14 USD
Price Objective	600.00 USD
Date Established	12-Jan-2024
Investment Opinion	B-2-9
52-Week Range	372.50 USD - 568.30 USD
Mkt Val (mn) / Shares Out (mn)	44,258 USD / 84.0
Free Float	99.0%
Average Daily Value (mn)	220.25 USD
BofA Ticker / Exchange	IDXX / NAS
Bloomberg / Reuters	IDXX US / IDXX.OQ
ROE (2023E)	115.7%
Net Dbt to Eqty (Dec-2022A)	95.6%
ESGMeter™	High

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c: cents

CAG: Companion Animal Group

GM: gross margin

LPD: livestock, poultry, and diagnostics

OpM: Operating margin

VMX: Veterinary Meeting and Expo

## Price objective basis & risk

### IDEXX Laboratories (IDXX)

IDXX shares are trading at a significant premium to the broader animal health peer group and many other high growth healthcare companies. However, given the many positive secular and product tailwinds the company currently enjoys, we believe a premium valuation is justified. Our \$600 PO is based on roughly 54x our 2024E EPS estimate, which is in-line with (but at the higher end of) the company's historic valuation range, which we feel is justified given current macro and company-specific concerns.

Downside risks to our PO are continued market challenges from ongoing Coronavirus outbreak, lower spending on vet services in the event of an economic slowdown, slower-than-expected uptake of new products or OUS expansion, competition, lower-than-expected margin expansion, weather disruptions, and currency fluctuations.

Upside risks are a faster recovery in core vet volume trends in the US and abroad.

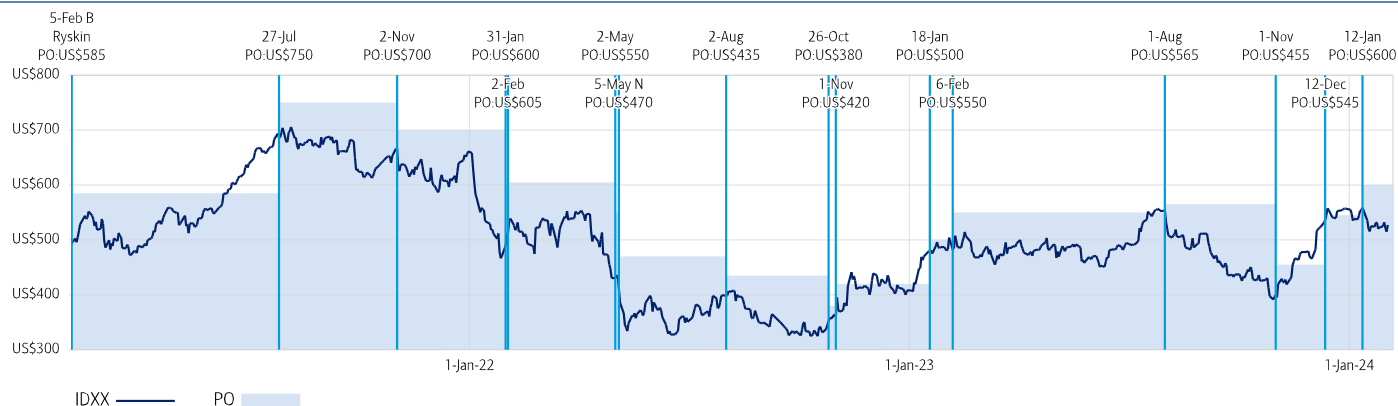
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### IDEXX (IDXX) Price Chart



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### Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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