

## IDEXX Laboratories

# Solid '24 guide, despite 1Q (weather) headwinds. Gradual stabilization.

Reiterate Rating: NEUTRAL | PO: 600.00 USD | Price: 566.66 USD

## Strong end to '23 w/ 7.8% total co. organic, \$2.32 EPS

IDEXX Laboratories (IDXX) reported a strong 4Q print. Organic sales growth was 7.8% y/y, with reported sales of \$902mn topping our \$888mn estimate. CAG organic recurring rev growth of 9.8% was roughly 100bps ahead. GM was 58.4% (-70bps vs BofAe) while OpM came in at 27.2% (+50bps vs BofAe) leading to EPS of \$2.32, 17c ahead of our est. (with +8c from favorable tax rate). Please see our [First Look](#) report for additional detail.

## Initial '24 guide 'checks the box', despite moving pieces

Much of the call focused on the moving pieces included in IDXX's newly initiated FY'24 outlook. IDXX sees total organic growth of 7-10% (7.5%-10.5% for CAG recurring), and EPS of \$10.84-\$11.33 (\$11.09 mdpt, +10% yoy). A few moving pieces stood out to us: IDXX expects 5% net price benefit (we had anticipated closer to 6-7%), with vet visit volumes of roughly 0% for the year. For 1Q, mgmt. anticipated a -100bps headwind (-\$10mn in revenue) from severe weather in January ([see our Friday note on weather hits](#)).

## Is there further upside in '24?

Assuming that the lower vet-visit data seen in January is due to weather and will recover & normalize as the year progresses, IDXX's guide seems reasonable and isn't too surprising. However, we do wonder if further upside is somewhat limited from here (particularly after today's +6.5% stock move). For example, while vet visits have gradually started to recover in 2023, it's too early to look for upside to a ~0% number this year. On price, IDXX has taken further price in the past (ie, August 2022), but our base case is that the January price increase is the only one for the year. And for the inVue Dx, 2024 contribution is likely to be limited (we est. ~\$10mn-\$15mn, in capital instruments only) due to late-year launch timing. Thus we think the guide is reasonable and captures the upside/downside risk from macro/vet visits, although EPS could be 15c -20c higher if stock-based-comp (SBC) benefits tax rate at a similar level to prior years.

## Model largely unchanged; Reiterate Neutral, \$600 PO

Overall, the FY24 outlook was a well-received starting point for investors given choppy market data and worries on 1Q. We tweak our estimates to reflect the update, but our model is largely unchanged (incl. 2024 EPS – still \$11.10). Our PO remains \$600 (still roughly 54x 2024 EPS). As laid out above, we see relatively little further upside risk to our estimates, and with valuation already at a premium, we reiterate our Neutral rating.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	8.03	10.06	11.10	12.60	14.00
EPS Change (YoY)	-6.7%	25.3%	10.3%	13.5%	11.1%
Consensus EPS (Bloomberg)			10.99	12.52	13.94
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	65.6x	52.4x	47.5x	41.8x	37.7x
EV / EBITDA*	39.6x	33.7x	30.0x	26.8x	24.3x
Free Cash Flow Yield*	0.9%	1.7%	1.9%	2.2%	2.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

05 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
2025E Rev (m)	4,377.2	4,380.0
2026E Rev (m)	NA	4,800.0
2025E EPS	12.65	12.60
2026E EPS	NA	14.00

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### Stock Data

Price	566.66 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)	47,576 USD / 84.0
Free Float	99.0%
Average Daily Value (mn)	241.02 USD
BofA Ticker / Exchange	IDXX / NAS
Bloomberg / Reuters	IDXX US / IDXX.OQ
ROE (2024E)	55.1%
Net Dbt to Eqty (Dec-2023A)	11.4%
ESGMeter™	High

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CAG: companion animal group

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Timestamp: 05 February 2024 03:07PM EST

# iQprofile<sup>SM</sup> IDEXX Laboratories

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	44.6%	45.7%	37.8%	34.2%	29.4%
Return on Equity	104.6%	80.7%	55.1%	45.4%	36.2%
Operating Margin	26.7%	30.0%	30.4%	31.3%	31.6%
Free Cash Flow	394	773	859	996	1,101

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	1.1x	1.1x	1.1x	1.1x
Asset Replacement Ratio	1.3x	1.2x	1.3x	1.1x	1.1x
Tax Rate	21.0%	20.4%	22.0%	22.0%	22.0%
Net Debt-to-Equity Ratio	95.6%	11.4%	0.4%	-27.6%	-44.2%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,367	3,661	3,990	4,380	4,800
% Change	4.7%	8.7%	9.0%	9.8%	9.6%
Gross Profit	2,004	2,190	2,411	2,660	2,932
% Change	6.1%	9.3%	10.1%	10.3%	10.2%
EBITDA	1,123	1,321	1,482	1,661	1,827
% Change	-1.6%	17.7%	12.2%	12.0%	10.1%
Net Interest & Other Income	(39)	(36)	(27)	(31)	(35)
<b>Net Income (Adjusted)</b>	<b>679</b>	<b>845</b>	<b>926</b>	<b>1,045</b>	<b>1,154</b>
<b>% Change</b>	<b>-8.8%</b>	<b>24.4%</b>	<b>9.6%</b>	<b>12.9%</b>	<b>10.4%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	679	845	926	1,045	1,154
Depreciation & Amortization	112	112	146	160	176
Change in Working Capital	0	0	(67)	(79)	(85)
Deferred Taxation Charge	(35)	(25)	0	0	0
Other Adjustments, Net	(213)	(25)	40	44	48
Capital Expenditure	(149)	(134)	(186)	(175)	(192)
<b>Free Cash Flow</b>	<b>394</b>	<b>773</b>	<b>859</b>	<b>996</b>	<b>1,101</b>
<b>% Change</b>	<b>-38.0%</b>	<b>96.1%</b>	<b>11.1%</b>	<b>15.9%</b>	<b>10.6%</b>
Share / Issue Repurchase	(820)	(72)	(248)	(296)	(294)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	431	(404)	(500)	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	113	454	616	1,372	2,242
Trade Receivables	401	457	499	547	600
Other Current Assets	588	584	715	784	860
Property, Plant & Equipment	649	702	742	757	774
Other Non-Current Assets	996	1,062	1,062	1,062	1,062
<b>Total Assets</b>	<b>2,747</b>	<b>3,260</b>	<b>3,634</b>	<b>4,524</b>	<b>5,537</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,236	952	931	980	1,047
Long-Term Debt	694	623	623	623	623
Other Non-Current Liabilities	208	201	201	201	201
<b>Total Liabilities</b>	<b>2,138</b>	<b>1,775</b>	<b>1,755</b>	<b>1,804</b>	<b>1,871</b>
<b>Total Equity</b>	<b>609</b>	<b>1,485</b>	<b>1,879</b>	<b>2,720</b>	<b>3,666</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,747</b>	<b>3,260</b>	<b>3,634</b>	<b>4,524</b>	<b>5,537</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Healthcare Technology & Distribution

## Company Description

IDXX is a leading provider of diagnostic and information technology products and services for pet and production animal health, water quality and milk safety, and human point-of-care diagnostics.

## Investment Rationale

IDXX is a market leader, and thanks to a rich new product cycle and positive trends in the companion animal health market, the company looks well positioned to continue its strong growth trajectory. However, near-term challenges and tough comparisons limit upside in 2024.

## Stock Data

Average Daily Volume 425,336

## Quarterly Earnings Estimates

	2023	2024
Q1	2.55A	2.60E
Q2	2.67A	2.96E
Q3	2.53A	2.86E
Q4	2.32A	2.67E

## 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.

## Analyst Certification

I, Michael Ryskin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Bruker Corporation	BRKR	BRKR US	Derik de Bruin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Derik de Bruin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Guardant Health	GH	GH US	Derik de Bruin
	ICON plc	ICLR	ICLR US	Derik de Bruin
	IQVIA Holdings Inc	IQV	IQV US	Derik de Bruin
	LabCorp	LH	LH US	Derik de Bruin
	Maravai	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Derik de Bruin
	Qiagen N.V.	XQGNF	QIA GY	Derik de Bruin
	Quest Diagnostics	DGX	DGX US	Derik de Bruin
	Stevanato Group S.p.A.	STVN	STVN US	Derik de Bruin
	Thermo Fisher Scientific	TMO	TMO US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
<b>NEUTRAL</b>				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	Revvity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin



**US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Waters Corp.	WAT	WAT US	Derik de Bruin
<b>UNDERPERFORM</b>				
	Align Technology	ALGN	ALGN US	Michael Ryskin
	Fortrea	FTRE	FTRE US	Derik de Bruin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin
<b>RSTR</b>				
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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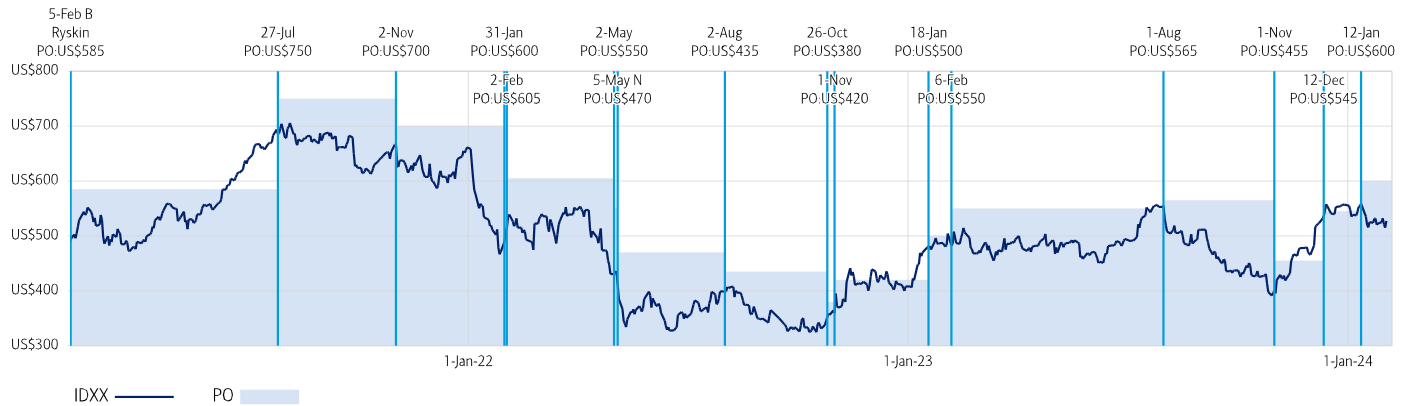
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### IDEXX (IDXX) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### 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%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
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Neutral	≥ 0%	≤ 30%
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<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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