

## **IDEXX** Laboratories

## New box (inVue Dx) unveiled ahead of VMX

Reiterate Rating: NEUTRAL | PO: 600.00 USD | Price: 558.71 USD

## inVue: slide-free cell analysis (cytology), late '24 launch

IDEXX unveiled several product introductions ahead of this weekend's VMX event, most notably the inVue Dx instrument. The inVue is a slide-free cellular analyzer, used to detect cytologic changes in ear and blood samples. At first glance, this is an impressive platform, which solves a lot of the inadequacies of current methods – it utilizes a slide-free workflow (removes manual steps, speeds up the sample prep.), has a software-based analysis that incorporates Al-learning models, and provides integration with the rest of IDEXX's point-of-care suite. However, two points in the PR give us some pause – the global launch of the inVue is set to begin in "late 2024" (vs our thoughts of 1Q/2Q), and the fact that fine needle aspirate samples (the most common method for collecting cytology samples) are not going to be available at launch and will be added later down the road. We look forward to learning more about the inVue (and getting answers to our questions regarding launch timing and fine needle aspirate) at this weekend's VMX events with IDEXX. We reiterate our Neutral rating given continued market pressures, but we take our PO higher to \$600 (was \$545), now based on 55x 2024 EPS (was 50x) given multiple expansion in peers.

## Cytology-101: a quick background

Traditionally, cytological analysis is performed by collecting a sample (various body fluids) and analyzing it under a microscope, looking for changes in color or shape that lead to a disease diagnosis of inflammation or neoplasia (cancer). This microscopy-based method is a manual process and can take 10-20min for slide preparation, with a very subjective interpretation of the result. Most often, cytology is used to diagnose lumps on a pet, which involves using a needle/syringe to remove cells directly from a lump (a technique called 'fine needle aspiration', or FNA). According to IDEXX, US vets run ~33mn cytology and morphology tests annually.

## IDEXX also expanding Fecal Dx Antigen test platform

Separately, IDEXX announced the expansion of its Fecal Dx antigen test with the addition of *Cystoisospora*, a common intestinal parasite that causes diarrhea, weight loss, and dehydration. Fecal Dx antigen test already is used to detect hookworms, roundworms, whipworms, and flea tapeworms, and this represents a further expansion of the platform. *Cystoisospora* will be available in North America in March, and globally in 3Q24, via IDEXX reference laboratories, and will be incorporated seamlessly into Fecal Dx tests with no additional charge to customers. Thus, while further expanding quality of care and value to vets, we see minimal financial contribution from this menu expansion.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	8.61	8.03	9.88	10.95	12.40
EPS Change (YoY)	28.3%	-6.7%	23.0%	10.8%	13.2%
Consensus EPS (Bloomberg)			9.84	10.93	12.44
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	64.9x	69.6x	56.5x	51.0x	45.1x
EV / EBITDA*	46.0x	47.2x	37.6x	34.3x	30.9x
Free Cash Flow Yield*	1.4%	0.8%	1.7%	1.9%	2.1%
* For full definitions of <i>IQ</i> method <sup>SM</sup> measures, see page 5.					

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price
Objective Basis/Risk on page 4.

Timestamp: 12 January 2024 09:13AM EST

## 12 January 2024

#### Equity

K	ey Changes		
(I	JS\$)	Previous	Current
Р	rice Obj.	545.00	600.00

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### Stock Data

Price	558.71 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
Mrkt Val (mn) / Shares Out	46,909 USD / 84.0
(mn)	
Free Float	99.0%
Average Daily Value (mn)	279.77 USD
BofA Ticker / Exchange	IDXX / NAS
Bloomberg / Reuters	IDXX US / IDXX.OQ
ROE (2023E)	115.6%
Net Dbt to Eqty (Dec-2022A)	95.6%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

VMX = Veterinary Meeting & Expo

## **iQ**profile<sup>™</sup> IDEXX Laboratories

iQmethod <sup>™</sup> – Bus Performance*					
(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	45.4%	44.6%	53.0%	47.4%	41.3%
Return on Equity	112.7%	104.6%	115.6%	83.9%	62.1%
Operating Margin	29.0%	26.7%	29.8%	30.2%	30.8%
Free Cash Flow	636	394	774	870	974
<i>i</i> <b>Q</b> method <sup>™</sup> – <b>Quality of Earnings*</b>					
(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.0x	0.8x	1.1x	1.1x	1.1x
Asset Replacement Ratio	1.1x	1.3x	1.3x	1.1x	1.1x
Tax Rate	17.5%	21.0%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	91.4%	95.6%	69.5%	9.2%	-20.6%
Interest Cover	NA	NA	NA	NA	NA
Income Statement Data (Dec)					
(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	3,215	3,367	3,642	3,950	4.325
% Change	18.8%	4.7%	8.2%	8.4%	9.5%
Gross Profit	1,889	2,004	2,185	2,381	2,620
% Change	20.3%	6.1%	9.0%	9.0%	10.0%
EBITDA	1,037	1,011	1,269	1,389	1,542
% Change	31.1%	-2.5%	25.5%	9.5%	11.1%
Net Interest & Other Income	(29)	(39)	(37)	(40)	(39)
Net Income (Adjusted)	745	679	829	910	1,021
% Change	28.0%	-8.8%	22.1%	9.7%	12.1%
Free Cash Flow Data (Dec) (US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	745	679	829	910	1,021
Depreciation & Amortization	105	112	133	145	158
Change in Working Capital	0	0	(55)	(61)	(75)
Deferred Taxation Charge Other Adjustments, Net	(3)	(35)	0 36	0	0 43
Capital Expenditure	(91)	(213)	(170)	40 (163)	(173)
Free Cash Flow	(120) <b>636</b>	(149) <b>394</b>	774	870	974
% Change	17.5%	-38.0%	96.4%	12.4%	12.1%
Share / Issue Repurchase	(747)	(820)	(306)	(462)	(499)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	21	431	(500)	0	0
Balance Sheet Data (Dec)					
(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	144	113	120	571	1,094
	368	401	433	470	515
Lrade Receivables					5.5
Trade Receivables Other Current Assets		588	692	751	822
Other Current Assets	443	588 649	692 686	751 705	822 720
		588 649 996	692 686 996	751 705 996	822 720 996
Other Current Assets Property, Plant & Equipment	443 588	649	686	705	720
Other Current Assets Property, Plant & Equipment Other Non-Current Assets	443 588 894	649 996	686 996	705 996	720 996
Other Current Assets Property, Plant & Equipment Other Non-Current Assets Total Assets	443 588 894 <b>2,437</b>	649 996 <b>2,747</b>	686 996 <b>2,928</b>	705 996 <b>3,493</b>	720 996 <b>4,146</b>
Other Current Assets Property, Plant & Equipment Other Non-Current Assets Total Assets Short-Term Debt	443 588 894 <b>2,437</b> 0	649 996 <b>2,747</b> 0	686 996 <b>2,928</b> 0	705 996 <b>3,493</b> 0	720 996 <b>4,146</b> 0
Other Current Assets Property, Plant & Equipment Other Non-Current Assets Total Assets Short-Term Debt Other Current Liabilities	443 588 894 <b>2,437</b> 0 764	649 996 <b>2,747</b> 0 1,236	686 996 <b>2,928</b> 0 1,199 694 208	705 996 <b>3,493</b> 0 1,247	720 996 <b>4,146</b> 0 1,299
Other Current Assets Property, Plant & Equipment Other Non-Current Assets Total Assets Short-Term Debt Other Current Liabilities Long-Term Debt Other Non-Current Liabilities Total Liabilities	443 588 894 <b>2,437</b> 0 764 775 208 <b>1,747</b>	649 996 <b>2,747</b> 0 1,236 694	686 996 <b>2,928</b> 0 1,199 694	705 996 <b>3,493</b> 0 1,247 694 208 <b>2,149</b>	720 996 <b>4,146</b> 0 1,299 694 208 <b>2,201</b>
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## **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 500,751

#### **Quarterly Earnings Estimates**

	2022	2023
Q1	2.27A	2.55A
Q2	1.56A	2.67A
Q3	2.15A	2.53A
Q4	2.05A	2.13E



\* For full definitions of  $\emph{iQ}$  method  $^{\text{SM}}$  measures, see page 5.



## 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 55x 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	Bof A Ticker	Bloomberg symbol	Analyst
BUY				
	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
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	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	LHUS	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
NEUTRAL				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	А	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLXUS	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
	Rewity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin
UNDERPERFORM				
	Align Technology	ALGN	ALGN US	Michael Ryskin
	Catalent, Inc.	CTLT	CTLT US	Derik de Bruin
	Fortrea	FTRE	FTRE US	Derik de Bruin

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

## **Q**method <sup>™</sup> Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) $\times$ (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
		Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	Numerator	Denominator
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt - Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	Numerator	Denominator
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt +	Sales
, Sales	Other LT Liabilities	
FV / FBITDA	Enterprise Value	Basic FBIT + Depreciation + Amortization

\*\*Monthod Shis the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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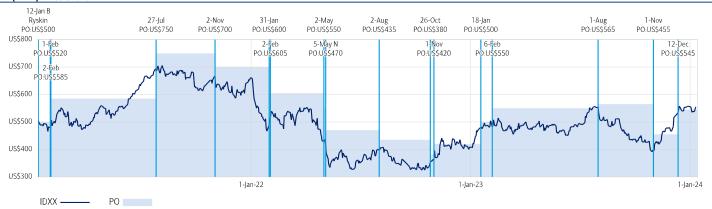
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## **Disclosures**

## **Important Disclosures**

#### 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 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
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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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>82</sup>

Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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