

Charles River Laboratories

First Look: 4Q modestly ahead, FY24 core sales guide below, but EPS ahead on M&A

Maintain Rating: BUY | PO: 225.00 USD | Price: 220.24 USD

4Q organic sales down -8%; adj. EPS ahead by 4c

CRL reported revenues of \$1,013mn (-7.9% y/y, -8.2% organic, +1.2% FX), ahead of BofAe/Street \$984/991mn (BofAe -11% y/y, -9% organic, +0.8% FX). Note that CRL's -8.2% total ororganic decline includes a -4.7% hit from the 53rd week in 2022; excluding this, organic sales were down -3.5%. Adj. OpM (Operating Margin) came in at 19.1%, driven by higher unallocated corporate costs (vs BofAe 20.0%). Adj. EPS were \$2.46, ahead of BofAe/Street \$2.42.

Exhibit 1: Overview of CRL 4Q23 performance

CRL results largely ahead

	Actual	BofA est	Street est
Revenues (\$mn)	\$1,013	\$984	\$991
Reported growth	-7.9%	-10.5%	-9.9%
Organic growth	-8.2%	-9.5%	-8.1%
Research Models & Services (RMS) (\$mn)	\$196	\$182	\$187
Discovery & Safety Assessment (DSA) (\$mn)	\$626	\$632	\$625
Manufacturing Solutions (MS) (\$mn)	\$192	\$170	\$182
Gross Margin	35.9%	34.7%	36.1%
Adj. Operating Margin	19.1%	20.0%	19.8%
Adj. EPS	\$2.46	\$2.42	\$2.42

Source: Company filings, BofA estimates, Bloomberg, Visible Alpha

BofA GLOBAL RESEARCH

DSA roughly in line; RMS & Manufacturing ahead

Discovery & Safety Assessment (DSA) revenues were \$626mn (-9.5% y/y, -6.0% organic), vs BofAe \$632mn (-10% organic). RMS (Research Models & Services) revenues were \$196mn (-0.2% y/y, -0.4% organic) vs BofAe \$182mn (-7% organic), as lower small research model sales in Europe and North America and lower Cell Solutions sales were partially offset by higher NHP (non human primate) sales in China. Also, the Noveprim deal (completed in Nov '23) contributed 3.1% inorganic sales to the segment in the quarter. Finally, Manufacturing Solutions (MS) sales of \$192mn (-9.5% y/y, +2.3% organic) came in ahead of BofAe \$170mn (-10% organic), reflecting better Contract Development and Manufacturing, offset by lower sales in Biologics Testing Solutions and Microbial Solutions (endotoxin testing) business.

Initial '24 guide: +1.5% organic, Adj EPS \$11.15 at mdpts

CRL's initial FY'24 guidance sees sales of \$4.17-4.29bn (+1-4% reported, +0-3% organic) vs. BofAe/Street \$4.28/4.24bn (BofAe +4% reported/organic). Guidance assumes client spending will remain constrained, but with stabilizing demand throughout FY24. By segment, DSA sales growth is expected to be driven principally by price increases, including NHPs, but at a lower level. Aided by the Noveprim deal, Adj. OpM is expected to expand at least 50bps, flowing to an Adj EPS range of \$10.90-11.40 vs. BofAe/Street ests of \$11.00/10.87 (Noveprim is contributing 30c). Overall, we see the FY24 guide as mixed, but maintain our Buy rating given CRL's strong competitive position, portfolio diversity, and discount valuation. Call at 8:30am ET.

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Stock Data

Price	220.24 USD
Price Objective	225.00 USD
Date Established	12-Dec-2023
Investment Opinion	B-1-9
52-Week Range	161.65 USD - 257.18 USD
Mrkt Val (mn) / Shares Out (mn)	10,491 USD / 47.6
Free Float	98.9%
Average Daily Value (mn)	118.87 USD
BofA Ticker / Exchange	CRL / NYS
Bloomberg / Reuters	CRL US / CRLN
ROE (2023E)	17.0%
Net Dbt to Eqty (Dec-2022A)	81.8%
ESGMeter™	High

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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.

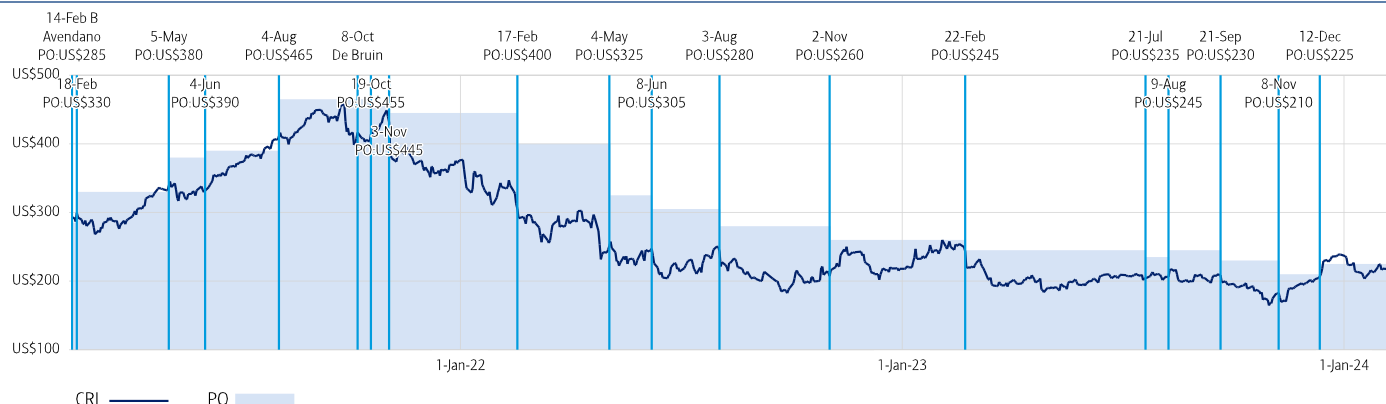
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Charles River (CRL) Price Chart



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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%

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
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