

Animal Health

Vet clinic trends warming up after January weather headwinds

Industry Overview

Visits improve; February on track to be a positive month

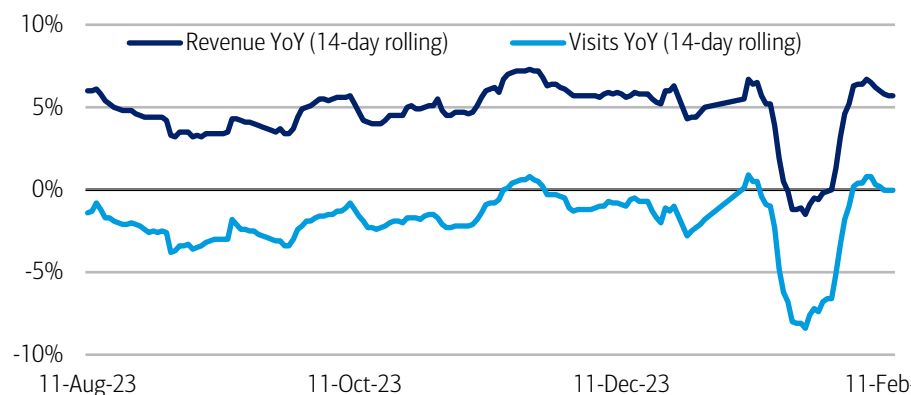
Year-on-year vet clinic visit and revenue trends have rebounded sharply following a particularly soft start to 2024. Per 3rd party tracker VetSource, visits in February are tracking up 0.2% y/y ([Exhibit 1](#)). While the February data is still incomplete (the dataset is updated on a rolling two-week basis), if these trends hold, this would mark the first month of year-on-year visit growth since February 2022. Over a longer time horizon, visit growth remains well below longer-term historical levels, and Feb. '24 is likely benefiting to some degree from a recovery after a particularly bad January. Still, we're incrementally more constructive on the health of the vet clinic channel following the datapoints in recent weeks. We look forward to our upcoming Animal Health Summit (virtual, Feb. 29th) for conversations with IDEXX, Elanco, and Zoetis, on the health of the veterinary market.

January weather blip already embedded in guides & ests

As we'd anticipated, the January slowdown in visits appears to be tied to severe weather seen throughout the U.S. to start the year (see our [01/25 note](#) for detail). This view was reinforced by IDXX, who on their 4Q earnings call noted that their 1Q guidance embeds a headwind from severe weather in January of ~\$10mn or ~1% of growth. IDXX's FY24 guidance assumes roughly flat visit growth once past the 1Q weather issues, which is a dynamic that appears to be playing out in the live intra-quarter data. While we still think it's too early to call for an inflection given the multi-year weakness in visit growth, we're encouraged to see that trends appear to have snapped back after deteriorating meaningfully during January. We maintain our ratings on ELAN, IDXX, and ZTS as we see attractive longer-term fundamentals but acknowledge end-markets remain noisy.

Exhibit 1: U.S. vet clinic revenue and visits (last six months)

Real-time vet clinic metrics rebound after weather headwinds in January



Source: VetSource, BofA Global Research

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21 February 2024

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Timestamp: 21 February 2024 05:00AM EST

Exhibit 2: Stock Mentioned

Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
ELAN	ELAN US	Elanco Animal Health	US\$ 16.15	C-1-9
IDXX	IDXX US	IDEXX	US\$ 551.21	B-2-9
ZTS	ZTS US	Zoetis Inc.	US\$ 186.55	B-1-7

Source: BofA Global Research

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Price objective basis & risk

Elanco Animal Health (ELAN)

Our \$18 PO is based on 14x our FY24 EV/EBITDA estimate.

Our target multiple is a roughly 5x discount to the company's closest animal health peer, given the slower sales growth and lower margin profile, but reflects some expectation of further improvements by Elanco.

Downside risks to our price objective are continued pressure from negative news flow on Seresto safety, market challenges from ongoing Coronavirus outbreak, deal integration challenges, competitive and generic launches for key products, slower-than-expected ramp for new product launches, increased regulation on antibiotic use in livestock, macroeconomic conditions, and currency risks.

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.

Zoetis Inc. (ZTS)

Our \$205 price objective (PO) is based on 31x our FY25 EPS estimates. This is roughly in-line with the historic ZTS multiple, which we believe is justified given upside from new product launches and incremental capital deployment, further margin expansion opportunity, and the defensive nature of the business, as well as reflects the near-term headwinds due to the Coronavirus outbreak.

Upside risks are continued ramp of new products, larger-than-expected contribution from future and ongoing launches, and accelerating growth from Abaxis acquisition.

Downside risks to our price objective are continued challenges from ongoing Coronavirus outbreak, competition in select markets or new product launches by competitors, weaker demand for animal health products, regulatory issues such as failure to get approval of key products in the pipeline, macroeconomic conditions, currency risks, and headwinds related to regulations of antibiotic use in animal feed additives.

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.

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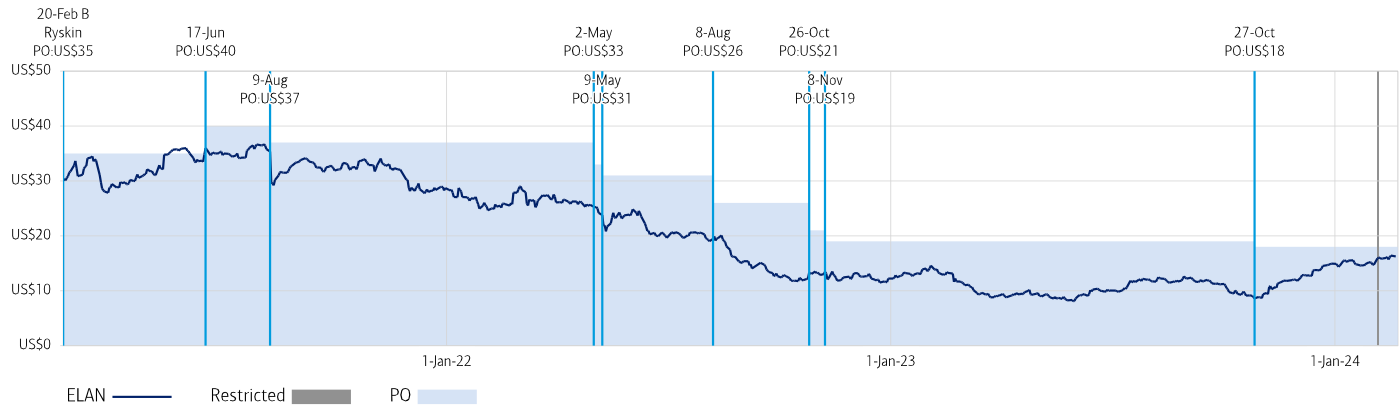
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US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Brucker 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	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
NEUTRAL				
	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
	Waters Corp.	WAT	WAT US	Derik de Bruin
UNDERPERFORM				
	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

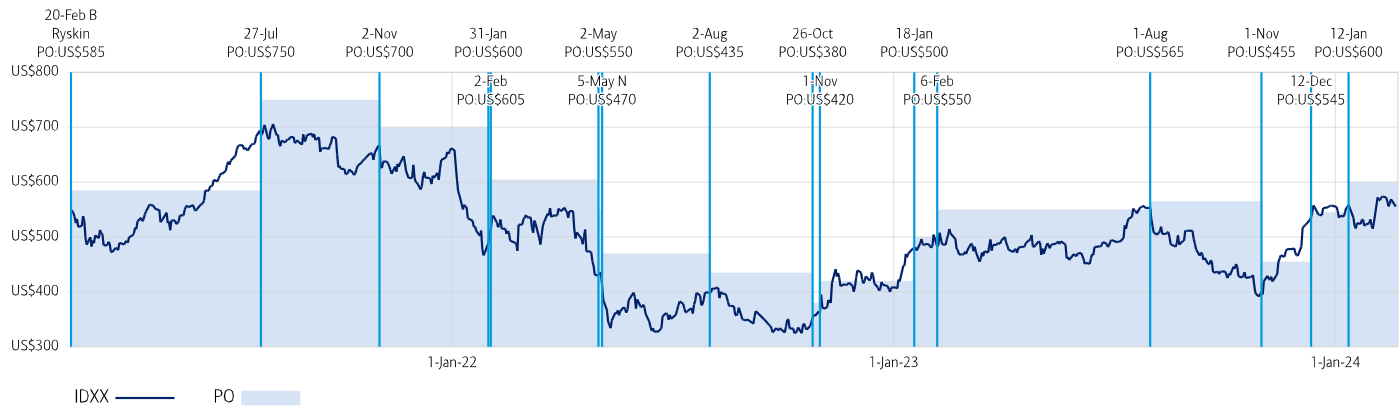
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Elanco Animal Health (ELAN) Price Chart

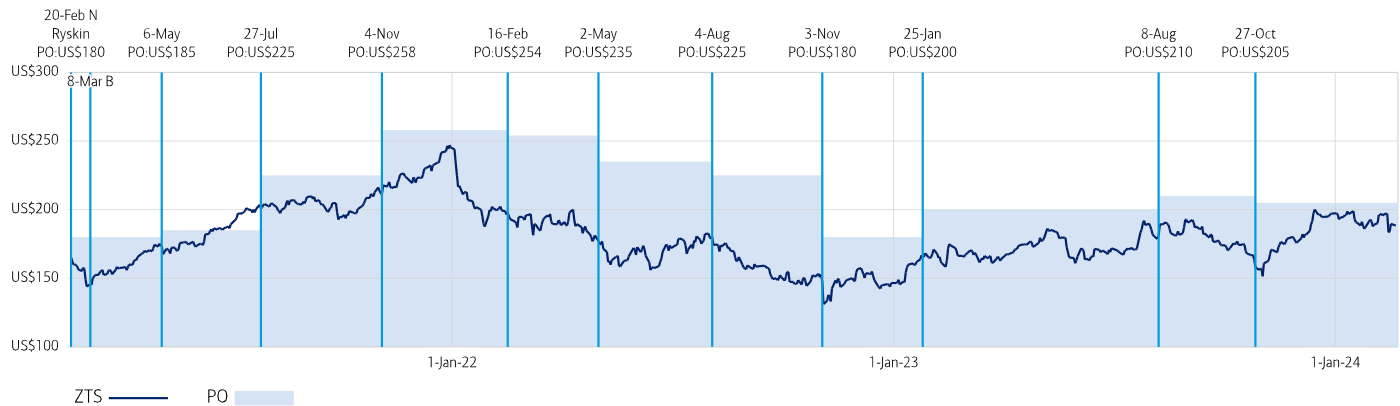
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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IDEXX (IDXX) Price Chart

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

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Zoetis Inc. (ZTS) Price Chart

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

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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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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