

Life Sciences & Diagnostic Tools

January bad weather in US could be 1Q headwind for some Dx & AH companies

Industry Overview

Severe winter weather may impact vet/doc visits

Bad weather has historically had an impact on some of the stocks within our coverage that have a 'B2C' (business to consumer) business model. In case of severe weather or storms (hurricanes, droughts, winter storms), visits to doctor's offices, dentists, or veterinarians (especially for more 'discretionary' and non-emergency type of care) can be postponed or cancelled altogether. In our coverage universe, diagnostics names like Exact Sciences (EXAS), Quest Diagnostics (DGX), and LabCorp (LH) can see lower patient volumes. In Animal Health / Dental, IDEXX Labs (IDXX) and Align (ALGN) are most impacted. Given the severe cold weather in large parts of the US in early/mid-January, we believe a more cautious 1Q outlook is merited. For a more detailed discussion on Animal Health names, see our earlier note [A frosty start to 2024 for vet clinic trends](#).

ALGN isn't worried, while DGX sees headwind in 1Q

Earlier this week, ALGN and DGX reported 4Q results, and discussed the possible risks. For ALGN, mgmt. stated that for 1Q'24 they do not expect a meaningful impact ([see our ALGN recap](#)). On the other hand, DGX noted that they typically assume some weather impact in 1Q, but that January was worse than expected, and are thus including an incremental 5-7c adj. EPS hit from weather in 1Q'24 ([see our DGX recap](#)). We believe these headwinds come with a very high decremental margin, given the companies still carry almost all of the costs but with much smaller revenues (See [Exhibit 1](#) (p. 2) for historical data from DGX/LH on weather impact). While we trimmed our LH ests ahead of 4Q'23 ([see our 4Q23 preview note for details](#)), we believe consensus may be overlooking the potential EPS hit to LH (we believe ~ -10c is appropriate). We caveat this by noting that LH and DGX have differences in geographical exposures across the US, and thus the magnitude of the hit could vary (as seen in Exh. 1).

Other names affected under our coverage: EXAS & IDXX

For EXAS, if patients delay wellness visits, then Cologuard (CG) prescriptions are accordingly delayed. While EXAS has not quantified such an impact in the past, Mgmt. has commented on wellness visit cancellation rates as a factor. Given the typical seasonality and the added bad weather, we expect EXAS's 1Q24 revenue guide to be flattish q/q (vs current consensus estimates calling for ~3% q/q growth from the midpoint of the preliminary 4Q23 range). Also, like in human (DGX & LH) diagnostic labs, for animal diagnostic vendor IDXX, bad weather could delay routine or wellness patient testing. The latest vet visit data for January indicates visit volumes were down ~ -8% in the month (vs expectation of ~ -1%), which could translate to as much as a -50bps headwind to FY revenues, as we think it's unlikely many of these visits would be recouped later in the quarter/year. While the fundamental businesses of these companies are unchanged, as weather is a transient phenomenon that shouldn't impact the underlying value of a stock, we want to highlight these risks so investors have a more appropriate expectation for 1Q/FY guides.

[Continued on p. 2](#)

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AH: Animal Health
Dx: Diagnostics

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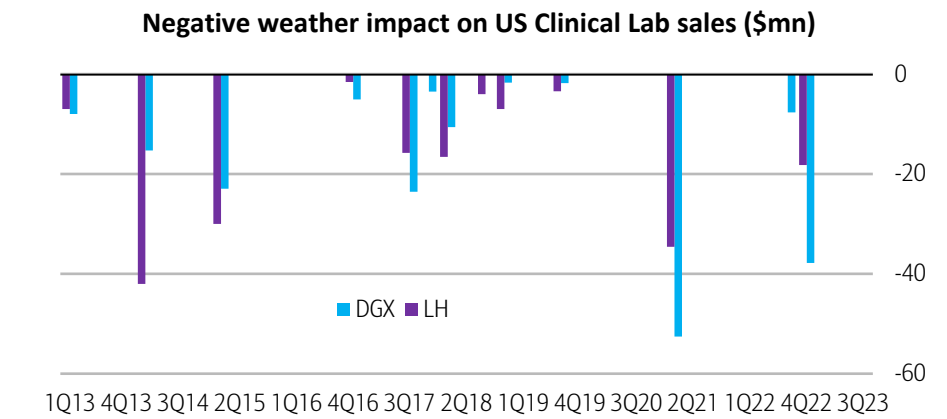
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Additional information

Exhibit 1: Quantifiable negative weather impact on DGX and LH sales in given quarter
DGX and LH saw up to ~2% of sales, or 2.5% of volume impact from a severe weather in the last 10 years. On average, they saw ~\$16mn headwind from each time a severe weather event was noted during a quarterly conference call



Source: Company filings, BofA Global Research

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