PARTICIPANTS

Corporate Participants

Brian Patrick McKeon – Executive Vice President, Chief Financial Officer & Treasurer, IDEXX Laboratories, Inc.
Jonathan J. Mazelsky – President, Chief Executive Officer & Director, IDEXX Laboratories, Inc.

Other Participants

Chris Schott – Analyst, JPMorgan Securities LLC
Michael Ryskin – Analyst, BofA Securities, Inc.
Erin Wilson Wright – Analyst, Morgan Stanley & Co. LLC
Jonathan D. Block – Analyst, Stifel, Nicolaus & Co., Inc.
David Westenberg – Analyst, Piper Sandler & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the IDEXX Laboratories Second Quarter 2024 Earnings Conference Call. As a reminder, today's conference is being recorded. Participating in the call this morning are Jay Mazelsky, President and Chief Executive Officer; Brian McKeon, Chief Financial Officer; and John Ravis, Vice President, Investor Relations.

IDEXX would like to preface the discussion today with a caution regarding forward-looking statements. Listeners are reminded that our discussion during the call will include forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those discussed today.

Additional information regarding these risks and uncertainties is available under the forward-looking statements notice in our press release issued this morning, as well as in our periodic filings with the Securities and Exchange Commission, which can be obtained from the SEC or by visiting the Investor Relations section of our website, idexx.com.

During this call, we will be discussing certain financial measures, not prepared in accordance with Generally Accepted Accounting Principles or GAAP. A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures is provided in our earnings release, which may also be found by visiting the Investor Relations section of our website.

In reviewing our second quarter 2024 results and updated 2024 guidance, please note all references to growth, organic growth, and comparable growth refer to growth compared to the equivalent prior year period unless otherwise noted.

To allow broad participation in the Q&A, we ask that each participant limit their questions to one with one follow-up as necessary.

We appreciate you may have additional questions, so please feel free to get back into the queue. And if time permits, we'll take your additional questions. Today's prepared remarks will be posted to the Investor Relations section of our website after the earnings conference call concludes.

I would now like to turn the call over to Brian McKeon.

Brian Patrick McKeon, Executive Vice President, Chief Financial Officer & Treasurer, IDEXX Laboratories, Inc.

Good morning, and welcome to our second quarter earnings call. Today, I'll take you through our Q2 results and review our updated financial outlook for 2024. IDEXX delivered solid organic revenue growth and strong comparable profit gains in the second quarter.

In terms of highlights, overall revenues increased 7% organically, supported by 7% organic growth in CAG Diagnostic recurring revenues and 10% organic gains in our Water business. Solid CAG revenue growth was driven by global benefits from IDEXX execution drivers, reflected in sustained solid new business gains, record second quarter premium instrument placements, and double-digit growth in recurring veterinary software and diagnostic imaging revenues.

Partially offsetting these benefits, CAG Diagnostic recurring revenue growth in Q2 was constrained by impacts from near-term macro and sector headwinds, which contributed to a 2% decline in US same-store clinical visit growth levels in the quarter.

IDEXX's operating performance reflected in solid comparable operating profit gains, continued to be strong in Q2. EPS in the quarter was $2.44, down 9% as reported, including a $0.56 per share impact from a $62 million discrete expense accrual related to an ongoing litigation matter. Comparable EPS growth was 15% in the quarter, ahead of our expectations, supported by solid gross margin gains and benefits from lower net interest costs and shares outstanding.

IDEXX continues to make progress expanding our business, advancing our innovation agenda and delivering strong comparable profit gains as we work through near-term macro and sector headwinds that continue to pressure clinic visit levels. We've updated our 2024 financial outlook to incorporate recent sector trends, which we estimate, at midpoint, will constrain overall organic revenue growth to the lower end of our original organic growth guidance for 2024.

Our updated P&L guidance maintains our outlook for solid comparable operating margin gains this year and incorporates favorable adjustments for updated foreign exchange, net interest expense and effective tax rate estimates.

We'll review our updated guidance detail later in my comments. Let's begin with a review of our second quarter results.

Second quarter organic revenue growth of 7% reflected 7% organic CAG gains, 10% organic growth in Water, and improved 3% organic growth in our LPD business. CAG organic revenue growth was supported by 8% organic gains in veterinary software and diagnostic imaging revenues, driven by 12% organic growth in recurring revenues. CAG instrument revenue increased 5% organically, building on high prior-year placement levels.

CAG Diagnostic recurring revenue increased 7% organically in Q2, supported by average global net price improvement of 5% to 5.5%, with US net price realization at the lower end of this range.

CAG Diagnostic recurring revenue growth in Q2 was supported by 10% international organic gains, including approximately1% of growth benefit from equivalent days effects in international regions. Strong international growth reflects benefits from net price realization and continued solid volume gains. International growth continues to be driven by IDEXX execution, reflected in strong new business gains and high premium instrument placements, which supported a double-digit year-on-year expansion of our global premium instrument installed base.

US CAG Diagnostic recurring revenue growth was 5.2% in Q2, net of a 0.5% US equivalent day growth headwind in the quarter. IDEXX growth was supported by solid new business gains, sustained high customer retention levels and benefits from net price realization. IDEXX growth continues to expand at a high premium to US same-store clinical visit growth levels, which declined 1.8% in Q2.

In the US, diagnostic utilization per clinical visit continues to expand solidly at the clinic level. This is reflected in a 7.5% year-on-year increase in diagnostic revenue dollars per clinical visit including diagnostics. While diagnostic frequency per clinical visit declined modestly in Q2, diagnostic frequency per wellness visit expanded 100 basis points. This partially offset lower diagnostic frequency per non-wellness visit.

The decline in diagnostic frequency for non-wellness visits may reflect recent growth in follow-up clinical visits for pain management drug treatment, which may not include diagnostics. Adjusting for these effects would imply relatively softer, comparable US clinical visit trends and a relatively higher IDEXX growth premium.

Overall, IDEXX continues to achieve solid organic revenue growth in CAG Diagnostic revenues as we work through headwinds from broader, cumulative macro impacts on consumers which are likely pressuring near-term US clinical visit growth levels. While we remain highly confident in the positive long-term drivers of demand for diagnostics, including the future benefits that will flow from IDEXX innovation, we've factored in expectations for continued pressure from lower US clinical visits in the second half of 2024 in our updated full-year organic growth outlook.

IDEXX execution drivers supported solid organic revenue growth across our modalities in Q2. IDEXX VetLab consumable revenues increased 8% organically, reflecting solid gains in the US and double-digit growth in international regions. Consumable gains were supported by 11% year-on-year growth in our global premium instrument installed base, reflecting strong gains across our Catalyst, Premium Hematology and SediVue platforms.

We achieved a Q2 record 4,952 CAG premium instrument placements, an increase of 4% year-on-year compared to high prior year levels. These results were supported by continued strong growth in Premium Hematology and SediVue placements.

ProCyte One momentum continues with the global ProCyte One installed base increasing to over 17,000 instruments. Global Catalyst placements decreased year-on-year in the quarter, reflecting comparisons to high prior year placement levels and placement mix in international regions.

Global rapid assay revenues expanded 6% organically in Q2, driven by solid gains in the US, including benefits from higher net price realization. Global lab revenues also increased 6% organically, reflecting solid US gains and high single-digit growth in international regions.

Veterinary software and diagnostic imaging revenues increased 12% as reported, including benefits from our recent Greenline software and data platform acquisition. 8% overall organic revenue gains were driven by 12% organic growth in recurring revenues, reflecting benefits from ongoing momentum in cloud-based software placements.

Water revenues increased 10% organically in Q2, driven by double-digit gains in the US and continued solid growth in Europe. Livestock, Poultry and Dairy revenues increased 3% organically. Continued solid gains in the US and Europe offset lower Asia-Pacific revenues, including impacts from reduced Swine testing in China and lower herd health screening revenues.

Turning to the P&L, Q2 profit results were supported by gross margin gains. Gross profit increased 8% in the quarter as reported and 9% on a comparable basis. Gross margins were 61.7%, up 90 basis points on a comparable basis. Gross margin gains reflect benefits from net price realization, offsetting inflationary cost impacts, software service margin gains and favorable business mix.

On a reported basis, operating expenses increased 28% year-on-year, including 22% of growth impact related to the $62 million discrete litigation expense accrual recorded in G&A. Excluding this impact, Q2 OpEx growth was in line with overall revenue growth, driven by increases in R&D spending aligned with advancing our innovation agenda, including new platform development.

On a reported basis, operating margins were 26.3% in the quarter, including a 610 basis point impact from the discrete litigation expense accrual. On a comparable basis, excluding this impact, operating margins increased approximately 110 basis points year-on-year in the quarter.

EPS was $2.44 per share in the quarter, a decrease of 9% as reported, including the $0.56 per share impact related to the discrete litigation expense accrual. EPS increased 15% on a comparable basis. Foreign exchange reduced revenues by approximately $7 million, operating profit by approximately $3 million and EPS by approximately $0.02 per share in the quarter, net of a $2 million hedge gain.

Free cash flow was $215 million in Q2. On a trailing 12-month basis, our net income-to-free cash flow conversion ratio was 99%. For the full year, we're maintaining our outlook for free cash flow conversion of 90% to 95%, reflecting estimated capital spending of approximately $180 million.

Our balance sheet remains in a strong position. We ended the quarter with leverage ratios of 0.7 times gross and 0.4 times net of cash, as we continue to manage our balance sheet conservatively. We allocated $208 million in capital to share repurchases in the second quarter, supporting a 0.7% year-on-year reduction in diluted shares outstanding.

Turning to our 2024 guidance, we've updated our full year organic growth outlook to reflect expectations for continued pressure on US clinical visit trends in the second half of 2024. Our P&L outlook reinforces our full year goals for solid comparable operating margin improvement and incorporates favorable adjustments to estimates for foreign exchange impacts, net interest expense and our effective tax rate.

Our updated full year guidance for reported revenues is $3.885 billion to $3.945 billion, a reduction of $15 million at midpoint. Our updated reported revenue outlook includes a favorable $15 million adjustment related to more recent foreign exchange estimates.

We've updated our full year guidance for overall organic revenue growth and CAG Diagnostics organic recurring revenue growth to 6.2% to 7.8%, or approximately 7% at midpoint. Our outlook for overall organic revenue growth continues to reflect expectations for solid CAG Diagnostics recurring revenue gains, supported by IDEXX execution. This includes consistent expectations for full year global net price improvement of approximately 5%.

Our updated organic growth outlook, at midpoint, assumes IDEXX execution growth benefits will be partially offset by continued pressure on US clinical visit levels in the second half of this year, similar to first half trends. We expect our H2 organic revenue growth results will benefit by approximately 0.5% overall from equivalent days effects, reflecting 1% to 1.5% organic growth rate benefits in Q3.

In terms of our profit guidance, our updated outlook incorporates impacts from the discrete litigation expense accrual, which we estimate will reduce full year reported operating margins by approximately 160 basis points and EPS by $0.56 per share. We will normalize for the effects of this accrual in setting our 2025 financial performance goals. Incorporating these impacts, our updated reported operating margin outlook is 28.7% to 29.0%. This reflects a consistent 40 basis point improvement in comparable operating margins at midpoint, net of a negative 40 basis point impact related to the lapping of the Q1 2023 customer contract resolution payment.

Our updated full-year EPS outlook of $10.31 to $10.59 per share is down $0.56 per share at midpoint reflecting the impact from the discrete litigation expense accrual. Adjustments to our organic revenue growth outlook reduced our operational EPS estimates by approximately $0.08 per share at midpoint, which is offset by approximately $0.04 in favorable foreign exchange adjustments and positive below-the-line benefits from refinements to our net interest expense and effective tax rate outlook. We now estimate foreign exchange will reduce full-year revenue growth by approximately 0.5% and EPS by approximately $0.05 per share.

In terms of our outlook for Q3, we're planning for reported revenue growth of 6% to 8%, net of an estimated 1% growth headwind from foreign exchange and incorporating approximately 0.5% in growth benefits from our recent software acquisition. This outlook aligns with an organic revenue growth range of approximately 6.5% to 8.5%, including approximately 1% to 1.5% of growth benefit from equivalent days effects. We're planning for reported operating margins of 29.5% to 30.0% in Q3, down moderately on a comparable basis.

This factors in year-on-year comparisons to relatively lower prior year sales and marketing expense levels and projections for continued high year-on-year growth in R&D spending, including support of new platform advancement.

That concludes our financial review. I'll now turn the call over to Jay for his comments.

Jonathan J. Mazelsky, President, Chief Executive Officer & Director, IDEXX Laboratories, Inc.

Thank you, Brian, and good morning. IDEXX delivered excellent performance against our strategic priorities and strong operational results in the second quarter as we drive development of the companion animal diagnostic sector through a new wave of innovation and high-quality customer engagement. These outcomes reflect high levels of execution and position IDEXX to benefit from long-term growth tailwinds including growth in the pet population, increased pet lifespans, and an ever-strengthening bond between pet-owners and their pets. These enduring dynamics combine to elevate the importance of medical services and drive global expansion of companion animal diagnostics and software.

As an innovation leader IDEXX growth continues to outpace the sector, as we help our customers grow faster. Our progress is reflected in solid second quarter CAG Diagnostics recurring revenue growth, supported by key execution drivers. This includes continued solid new business gains, sustained high 97%-plus customer retention rates, and solid net price realization aligned with the value we deliver. IDEXX's focus on innovation in companion animal diagnostics has resulted in a highly compelling portfolio of products and services for our highly capable commercial teams to support our customers. This combination helped drive record second quarter global premium instrument placements, a double-digit growth in our installed base of premium instruments, and five consecutive quarters of double-digit CAG Diagnostics recurring revenue growth in Europe.

We're delivering this performance as we work through some transitional growth headwinds that continue to pressure clinical visit growth levels. This includes ongoing staffing and productivity challenges, as well as broader impacts on pet owners in the current macro environment. As we work through these dynamics, we're continuing to deliver solid growth ahead of sector levels. Our customer engagement is helping to support gains in diagnostics frequency in wellness visits and continued expansion of diagnostics utilization per clinical visit.

Our customers increasingly appreciate that healthy and sustainable clinic growth begins with diagnostics, you can't assess basic health status or treat sick patients without first diagnosing and treatments then require follow-up monitoring. This has been our long-term focus and we see significant underserved demand for an expanding pet population that will support long-term growth for our customers in support of their mission.

Today, I'll give an update on IDEXX's commercial execution and progress against our innovation strategy. IDEXX commercial teams delivered record second quarter global premium instrument placements, growing off high prior-year levels. A key driver of this growth was high interest in IDEXX products in international regions. Continued solid new and competitive Catalyst placements, and strong placement growth of ProCyte and SediVue analyzers, coupled with high levels of retention and an excellent customer experience, helped deliver double-digit growth in our worldwide premium instrument installed base.

Growth of our loyal installed base forms a foundation for our future recurring revenues and the significant long-term opportunity for growth in CAG Diagnostics recurring revenues. ProCyte is a great example of our continued momentum in expanding our customer's businesses through innovation. IDEXX sales professionals continue to support customers looking to upgrade from our legacy LaserCyte system to ProCyte One in order to realize multiple benefits from load-and-go reagents that simplify workflow, to a smaller footprint that frees up valuable bench-top space, and inventory benefits due to its pay-per-run model with automated fulfillment by IDEXX.

In addition to driving a better customer experience, IDEXX benefits from these upgrades in the form of increased loyalty and higher CAG Diagnostics recurring revenues at customers who upgrade. This customer interest and commercial effort helped drive our ProCyte One installed base to over 17,000 in just three-and-a-half years since this product launched. Upgrading to ProCyte One will also position these customers to benefit from the most comprehensive point-of-care hematology result when combined with inVue Dx blood morphology.

While we are gratified by the consistent high levels of placements that our commercial teams deliver, we also focus on quality placements that will drive the most incremental value to IDEXX in the form of future recurring revenues. As an example, continued high placements at greenfield accounts drive significant value as these new customers are fully incremental to IDEXX. Our commercial teams are well equipped to have these initial conversations with de novo clinics, and sustained high interest in our New Practice Program reflects their desire to partner with IDEXX as they launch their businesses.

IDEXX's commercial success reflects our long-term focus on bringing a high-touch direct commercial model that includes a broad set of complementary roles including account managers, professional service veterinarians, and the largest in-person field service workforce in the industry.

I'm also pleased to share that the entire North American commercial team met in-person for several days in July to receive in-depth training on our latest innovations, including Catalyst Pancreatic Lipase test and IDEXX inVue Dx cellular analyzer, as we prepare for the successful commercialization of a significant new wave of innovation. Our commercial teams are highly excited to begin taking orders for inVue Dx, the formal start of the commercialization process.

IDEXX inVue Dx cellular analyzer remains on track for a launch in the fourth quarter. IDEXX product development teams have moved to the in-field product validation stage to ensure early customers who adopt this transformational platform can seamlessly integrate inVue into their practice workflows and have the positive user experience they have come to expect from IDEXX products and services.

We are seeing encouraging early performance and utilization metrics among the small number of analyzers currently being trialed in the field. Customers are praising the usability of inVue, with all sites commenting that the workflow is intuitive and simple, and the results are consistent, which will help them see more patients that drive clinic visit volume growth.

I am excited to provide more updates on inVue Dx and IDEXX's broader innovation agenda at our upcoming annual Investor Day later this month.

We are also on track to launch the recently announced Catalyst Pancreatic Lipase test in the US in the third quarter and globally in Q4. The Catalyst Pancreatic Lipase test, a single-slide solution for canine and feline patients suspected of pancreatitis, represents the tenth menu addition to the Catalyst platform since 2012. Pancreatitis is a common and treatable disease among cats and dogs, which can prove fatal if not caught early.

Therefore, equipping veterinarians with quantitative results during the patient visit enables them to confidently diagnose and define the treatment envelope while the pet parent is still in the examination room. Our Technology for Life approach and cloud-enabled in-clinic analyzers allow us to quickly ramp this highly relevant test to our more than 70,000 global Catalyst installed base.

In addition to the new Catalyst Lipase test, we will begin shipping the Catalyst SmartQC clip in Q4. Customers are thrilled by the ability to run monthly QCs with a plug-and-go solution, in under 15 minutes. Catalyst SmartQC is a great example of how our innovation is sometimes targeted at workflow optimization versus just test menu expansion. We have also begun rolling out the next generation of our industry-leading IVLS software and expect to have our installed based transitioned before inVue Dx begins shipping. This next generation takes our industry-leading IDEXX VetLab software and meaningfully improves the user interface and halves the number of steps needed to perform many common tasks.

IDEXX software solutions are another area that delivers innovation-driven growth that address solutions that both improve clinic workflows and support greater utilization of diagnostics. Demand for intuitive, cloud-based software solutions remains high among a customer base that is increasingly reflective of younger generations who are digitally native. By leaning into this trend IDEXX is well positioned to continue to deliver a seamlessly integrated software ecosystem that provides efficiency gains through workflow and communications solutions. Q2 practice management orders were almost entirely cloud-based, building the foundation for strong future growth of economically-attractive recurring revenues.

IDEXX's attractive cloud-based solutions extend further, benefiting many areas of the practice. Facilitating payments, delivering digital workflow tools, and delivering an integrated pet-owner engagement solution are just a few examples of how we are providing a robust software stack that is a win-win, delivering improved clinic productivity while driving incremental recurring revenues to IDEXX.

For example, our recent launch of Vello, a pet-owner engagement application, provides a first-of-its-kind pet-owner engagement tool that is natively integrated into the practice management system. High interest in Vello is helping fill the sales pipeline and driving a solid increase in active customers in the first full quarter since launching the product. These customers are experiencing the benefits we saw in our early beta testers from reduced no-shows to better compliance during clinical visits. As this customer base grows over the long-term we see significant opportunity for Vello to help address the productivity challenges that exist at so many busy veterinary clinics, which is a meaningful benefit to our sector.

We're building on the robust features of our customer engagement solution by integrating Greenline into our portfolio. Acquired in the first quarter, Greenline Pet is a leading digital platform that provides easy practice workflow solutions for coupon and rebate redemptions. The tool provides veterinary clinics with the ability to connect their customers with leading animal health pharmaceutical and nutrition providers, making it easier for pet-owners to take exceptional care of their pets. These higher standards of care reflect the sector development that is at the center of our long-term organic growth strategy, and as the sector grows we expect IDEXX in turn to grow even faster, disproportionately benefiting us as a leader in the space.

As we conclude our prepared remarks, I would like to thank the nearly 11,000 global IDEXX employees for your outstanding work and commitment to providing a better future for animals, people, and our planet. Your contributions are essential to the progress we have made against our organic growth strategy and to delivering another quarter of strong financial performance.

Thanks to your efforts IDEXX is well positioned to build on this momentum through the second-half 2024 and well beyond as we continue to lead the development of the Companion Animal diagnostics sector.

Before we open the line for Q&A, I'd like to remind you that we will be hosting our annual Investor Day later this month, beginning with a management dinner on Wednesday, August 14 followed by presentations at our Global Headquarters in Westbrook, Maine on Thursday, August 15 at 8 A.M. Thursday's event will also be livestreamed and recorded via IDEXX.com for those who cannot make it in-person.

This is an exciting opportunity for IDEXX leaders to provide a comprehensive update on our strategy, long-term growth opportunity, innovation cycle, and execution drivers. Participating will be members of my senior management team including Dr. Tina Hunt, Executive Vice President, Strategy, Sector Development and Global Operations; Dr. Mike Erickson, Executive Vice President and General Manager, Point of Care Diagnostics and Telemedicine; Mike Lane, Executive Vice President and General Manager, Reference Laboratories and Information Technology; Michael Schreck, Executive Vice President and General Manager, Veterinary Software and Services; George Fennell, Senior Vice President, Chief Revenue Officer and Brian McKeon, Executive Vice President and CFO.

The event will last approximately four hours and will conclude with a Q&A session. With that, we'll end the prepared section of the call and open the line for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll take our first question from Chris Schott with JPMorgan. Please go ahead.

<Q – Chris Schott – JPMorgan Securities LLC>: Great. Thanks so much for the question. I said kind of a two-parter around vet visits. I guess, first, is what do you think, in your view, is the biggest delta between the outlook you gave in 1Q and the outlook you gave today in terms of what's happened to the market over the past few months?

And the second part of that is probably more forward-looking. Are you still confident and I guess the more traditional kind of 2% or 3% vet visit growth rate as being an appropriate target over time? And maybe just help bridge us from what we're seeing today to what needs to happen to get back to that more traditional growth? Thank you.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Thanks for your question, Chris. So I think just revisiting the outlook that we had given earlier in the year, we saw roughly 150 basis points of headwind coming out of the first quarter and carry that through our assumptions in the second quarter in the US in terms of clinical visits and highlighted as we had coming out of 2023 that we took the view of flatting of trends over time. We had anticipated seeing some normalization with staffing effects and kind of working through some of those dynamics and thought that the clinic outlook would flatten.

I think that as we work through Q2, we've continued to see a level of headwinds. I think we're acknowledging that there may be some macro dynamics going on here that we're working through and trying to capture that in the second half outlook. So that's the principal change.

I'll let Jay talk more about the long-term drivers, but we continue to see a number of very positive long-term drivers for growth and demand in pet health care, including visit trends. And so we'll talk more about that at Investor Day, but we continue to have a very optimistic long-term outlook for the growth potential in the sector.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. Good morning, Chris. Just a couple of words about the long-term trends. As Brian said, we continue to be very optimistic about that. All the longer-term sort of secular tailwinds, we believe are intact. Obviously, it starts with the overall humanization of pets and that continues to strengthen. Appreciably and increasingly among the younger household-owning pets, where from a demographic standpoint, what they've shown, both in terms of intent and actual actions is willing to spend more and prioritize vis-a-vis categories like travel, entertainment going out.

There's obviously a lot more pets, so from a net adoption standpoint. If you take a look at this is really a global phenomenon. They're more and aging, and we know that as they age more generally spend from both a health care – overall health care standpoint as well as diagnostics.

Longer life spans, we'll provide an update on that on Investor Day. But we know both dogs and cats are living longer, and that's a good thing for both the pets, as well as the overall spend. And again, back to the prioritization, we think that this is a very resilient market. The pet owners are willing to spend and prioritize for the care and well-being of their pets.

Maybe on a shorter term basis, just a couple of comments based on a number of ongoing conversations we have with veterinary practices there, very optimistic, and in terms of demand and the work that they're doing, they think they've made progress coming out of the pandemic around really retaining their staff, creating a more sustainable environment for both veterinarians and the veterinary technicians amongst their teams. They continue to invest in technology. We've seen that both from a software standpoint as well as point-of-care at record placements in Q2.

As we said in our commentary, there are some high-level macro impacts that are affecting it likely at the margin, some moderation in clinical visits, but we're confident that we'll work through it, and we're working through it as effectively as our customers.

Operator: We'll move to our next question from Michael Ryskin with Bank of America. Your line is now open. Please go ahead.

<Q – Mike Ryskin – BofA Securities, Inc.>: Hi. Thanks, guys. I kind of want to follow-up on that topic, but take it from a different perspective. Brian, Jay, during your prepared remarks, you talked about maybe shifting to vett dynamics and you highlighted some of the diagnostics utilization trends and wellness visits versus non-wellness. I think you were kind of calling out that you were seeing less diagnostic in non-wellness, because pain management, we assume Librela is ramping through visits where people come in, just get the shot and then walk out without any diagnostics tied to that.

As part of that trend, I'm just wondering if maybe we could be seeing a broader shift in that channel dynamics. The pain management issue you mentioned, there's also a continuing shift to the online marketplace for therapeutics. All this can kind of lead to potentially less opportunity for diagnostics in the clinics office, because pet owners are getting their care elsewhere. I'm just wondering how you see that care delivery channel evolving and whether that could be having an impact to the growth profile?

And then I'll throw in my follow-up question at the same time. You've updated the guide for this year to 7% organic. You did rounding 9% last year, and 7.5% the year before. So this is now kind of a three-year trend of pretty far below the LRP of 10% plus. We talked about vet visits. There was a point where there was a lot of concern on vet supply in terms of insufficient vets and technicians out there. But it seems like this macro headwind continues to persist and refuse to get better. I'm just wondering, outside of price, what levers do you have to regain that 10%-plus LRP, and just confidence that you'll be able to get back there in 2025? Thanks.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Why don't I start with your final question, because I think that will help to center the discussion around visit trends, which I think was the first part of your question related to, Mike.

Just in terms of the growth trends for the company. I think it's important to put them in the context of this post-pandemic period. I mean we had a 33% expansion in the business between 2020 and 2021. I would say the dynamic in 2022 that kind of played into the first half of 2023 was this capacity pullback effect at the clinics where they had trouble keeping up with the expanded demand, and it was fundamentally an impact on clinical visits.

So we went from a positive 5% clinical visit environment to a minus 3% environment in a relatively short period of time. And I think that, that was not foundational to the demand in the industry. I think it was this capacity dynamic and this transition from this extraordinary period of growth.

And I think as we've moved forward from that, I think there has been kind of an ongoing dynamic again in this post-pandemic period related to staffing challenges and what has become a cumulative inflation impact on consumers broadly that's causing global trade-off. And all paths lead back to the fundamental dynamic that's changed his business.

And I think our premium has been quite healthy, our placements, net new business gains, customer retention all the dimensions that we look at in terms of how we're executing the business, we feel very good about, and we feel great about our innovation pipeline. So I think there are – as we look forward and the question you had about moving ahead, I think we see positive long-term drivers in terms of sector trends and things that we're doing to drive demand, okay, in the business as well. So we feel very good about that.

While acknowledging that we've been working through a clinical visit issue. So getting to some of the specifics that we highlighted this morning, I think one of the things we were trying to peel apart here on the visits was as you know, we look in the US at the visit changes on the same-store level, diagnostic frequency, diagnostic utilization. And I think we do see some level of an impact on these metrics related to the pain meds.

We try to pull this apart and look at frequency on wellness business, they're actually up year-on-year, 100 basis points, and that's been actually a trend we've seen for several quarters now. So a very healthy dynamic. When pet owners are coming into the clinic, they're doing more diagnostic testing.

On non-well assessing, those metrics were holding up through last year and where we started to see was change in those metrics beginning in Q4 and into the first half of this year, which aligns with the Librela kind of launch and kind of penetration. And so net-net, we didn't quantify this specifically, but basically, the frequency metric, which had built off of that high base – expanded base in the pandemic, we think when you adjust for these type of dynamics or the pain med dynamics, it's probably sustained – continued to expand. And it might indicate there's a bit more weakness on the clinical visit front, particularly in non-wellness. And I think that's indicative of the macro headwinds that we've been highlighting.

So again, I think this is, from our view, not foundational to our strategy or execution but more reflective of just the macro and the sector environment we're in at the moment.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Mike, let me address a couple of other questions you had embedded in there. First, around the alternate channels of care. What we see from an alternate channel venue standpoint, is it's largely complementary. I'm referring to some of the bricks-and-mortar places like Tractor Supply or PetIQ and some of the clinics that they have, where these are pet owners and pets that don't often have relationships with veterinarians.

Keep in mind, a lot of the pharmaceutical and therapeutics have to go through – have to go through the veterinarian that has a good deal of medicine involved in terms of testing and diagnostics and follow-up that really require a professional expertise. So we think that that's a very positive thing.

And in terms of your question around levers that can positively impact growth, we continue to say just to build off of Brian's comments and observations, that innovation is just so important to this industry, not just in the – not just from the standpoint of diagnostics and software, but therapeutics and specialty diets, all of those things.

We know that practices have a lot of unmet business needs, but also unsolved clinical problems where diagnostic solutions really make impactful contributions. If you think about you can't treat before you diagnose. You can't assess just basic health line status of the pet. When you do diagnose and the patient has an acute condition or a chronic condition, and it often requires follow-up monitoring. So continue to innovate and work at the front end of a brand new wave of innovation.

Some of which we've announced, including, inVue shipping in Q4 and SmartQC and Pancreatic Lipase or our Catalyst platforms. Vello software to Cystatin B there's just a significant amount of innovation that veterans can use as part of their tool set to continue to treat patients better. And we know that they look for that and as these short-term challenges are mitigated from a practice capacity challenge as well as the macro impacts that we believe that the growth prospects are excellent for the company.

Operator: We'll move to our next question from Erin Wright with Morgan Stanley. Your line is now open. Please go ahead.

<Q – Erin Wright – Morgan Stanley & Co. LLC>: Great. Thanks. If you can speak to it, I guess, what was the nature of the legal charge and what's ongoing there? Is that a customer-related relationship? Is there more to come on that front? And then your ability, though, to control costs here is impressive. And that's obviously excluding the legal charge in the quarter. But can you talk about those levers you have to control costs and your ability to do that and until what we see – until we see kind of things normalized from a market perspective? Thanks.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Great. Thanks for your question, Erin. Regarding the ongoing litigation matter, as we noted, we had a $62 million discrete expense accrual in the quarter. As a policy, we don't comment on ongoing litigation matters. We did include disclosures in the footnotes of the press release, and we have as well, disclosures that you can refer to in our first quarter 10-Q and our second quarter 10-Q in terms of the nature of this, but this was an issue related to royalty payments over time. And we are – what we've updated is our best estimate of the probable loss from that matter.

In terms of your question on operating expense leverage, I think adjusting for these items, I think you can see that we've continued to do a good job of adapting our business financial performance to the growth environment that we're working through in terms of some of the sector headwinds for delivering strong execution, strong underlying comparable operating margin gains. We had expense growth that was basically in line with our revenue growth and very much focused on the things that we're doing to drive future growth through R&D agenda and our commercial investments.

So as we've done consistently in the past, we have the ability to adapt and ensure we're prioritized against our long-term growth while delivering good financial performance, and we're able to do that again in the first half, and that's reinforced in our full year outlook as well.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Just a couple words to add to Brian's comments around the overall cost management. We continue to invest very heavily in those areas that we think are important to the long-term growth. The company, R&D, obviously, we're working through some significant new innovations, and so we don't want to starve that, and we're feeding that where there are commercial investments from territory expansion standpoint. We're obviously very excited to be able to invest in those areas. We see a very good return.

What I would also say from a business and business model standpoint, these are businesses that have scale and that lend themselves the productivity investments from an automation and digitization standpoint and just overall network standpoint, whether you look at the Reference Labs. Obviously, the software business for us is a – it's a fast-growing business with very good drop-through, and so that's another lever that we have. But we're disciplined. We're able to adjust our expense and expense profile to whatever environment we're in.

<Q – Erin Wright – Morgan Stanley & Co. LLC>: And then my follow-up is on innovation. And can you just remind us what's embedded in your guidance as it relates to inVue contribution this year? And it sounds like you're still on track in terms of your timing, but also FNA , when you anticipate that launch? And then also the timing of where you stand in terms of your other platform launch. I guess, should we expect to hear something about that potentially at your Investor Day? Thanks.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Erin, just to your point on the guidance, we've captured the expectations for the Q4 launch of inVue, and as you know, it's principally an instrument introduction at that point, the recurring revenue will build over time.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: And as is our policy, we'll talk about innovation as we get closer to launch. We look forward to Investor Day, and we'll just provide an update in terms of the overall company strategy and where we are from an innovation agenda standpoint, so look forward to having that conversation.

Operator: We'll move to our next question from Jonathan Block with Stifel. Your line is now open. Please go ahead.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: Thanks, guys. Good morning. I'll just break apart my questions. I guess, Brian or Jay, I get the ongoing headwind from clinical visits, but when we isolate the US IDEXX CAG Dx recurring premium that we've laid out a bunch of times. In other words, it sort of looks at the growth X visits, X price. I get a premium of around 250 basis points this quarter. It's the lowest I can remember. It looks like an ongoing deceleration for roughly the past 10 quarters.

So can you talk to that trend and what might be behind it? And then, importantly, should we see that trend start to reverse course arguably in 2025 in the earlier days of the inVue launch? And then I'll ask my follow-up. Thanks.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Yeah. Thanks for your question, John. I think the – we've increasingly kind of broken down these metrics on an adjusted basis. We have a similar number to what you have if you're taking out the price in the days effects and comparing two clinical visits about 250 basis points. I think one item we noted, which I know you've been noting in your research, is there is this dynamic of the pain meds follow-up visits, which we capture in our visit number. And so I think that could particularly in the first half of this year be – indicate that the underlying visits themselves maybe a bit softer relative to the visits that would have diagnostics and the premium might be that much stronger.

So I think that the net of that as the premiums held up quite well from our lens, I think that we feel good about the key things that drive that. The net new business gains, customer retention levels, obviously, had a solid net price realization aligned with the value we're delivering. And so I think we're – we feel positive on that front.

And factors like introduction of innovation are critical to go – helping to increase engagement with our customers to get the multiplier benefits that come from IDEXX innovation and leverage of our ecosystem. And so, I think we're looking forward to the InVue launch and the other initiatives that Jay had highlighted and we view that as something that can be intend to be a positive long-term driver for us.

I'd also highlight just the solid performance internationally as well for the company. So it was a 10% overall growth organically, CAG Dx recurring, and it was about a day's – percent of days benefit, but very solid growth, volume growth continues to be very positive, and we have excellent progress on instrument placements, which will be a strong indicator of our long-term growth potential. So I think we're feeling very good about the execution metrics, and as we work through some of the visit headwinds that we've highlighted.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: That was great color. Thanks, Brian. And for my second one, look you guys have done a great job in this year of holding the EPS in light of the lighter revenue and some tax and some interest expense. How do we view that, Brian? Is it just better call an overall efficiency from the company? Or do you think about any projects or initiatives that might come out at 2024 and going in 2025?

And then the second sort of tack-on question would be, Jay, just taking a step back and this goes back to sort of that pain mAbs thesis that we had a little bit. But is there anything that concerning about, call it, a wallet share battle, right? I mean just that the fact that a pet owner might be spending a $1,000 in cash on pain mAbs per annum, or atopic dermatitis per annum. And when we think about some of the potential accompanying diagnostic testing that that might suffer around the edges. Thanks for your time, guys.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. Let me answer your second question first, and then I'll turn the front end part of the question to Brian. We aren't concerned about that from a diagnostics utilization standpoint. We think it remains a pretty – it's remained pretty constant from the launch of the pain mAbs themselves, it's primarily a patient visit growth phenomenon that we spoke to related to some of the capacity challenges that practices are working through, as well as the macro-economic impacts.

When you take a look at wellness, for example, we've seen the diagnostic inclusion up 100 basis points. And Brian spoke to the effect of pain mAbs on non-wellnesses, which is where we catalog or characterize that. So when they're coming into the practice, they're using diagnostics and they're using diagnostics, both for wellness and non-wellness. So we haven't seen any evidence of that cannibalization impact.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Hey, Jon, your question on the margins, if I got that right, I think if the underlying performance that we've had this year reflects solid gross margin momentum. There are a number of drivers there. I think we've had ongoing benefits from cost management, things like lab productivity initiatives. The software business as it's growing is being helpful to us. The business mix overall, just solid growth in CAG Diagnostic recurring revenues and growth in in-clinic revenues as a positive factor. And so – and just ongoing productivity in our operations function, coming out from a period where there was relatively more inflation.

So I think, we feel that's been a consistent driver for us as a company. And we look forward to building on that as the foundation of how we can continue to improve our comparable operating margin performance.

Operator: We'll move to our next question from David Westenberg with Piper Sandler. Please go ahead.

<Q – Dave Westenberg – Piper Sandler & Co.>: Hi. Thank you for taking the question and I am kind of going to continue the theme about OpEx management and maybe slowing growth relative to history. So, just as we look – I mean I've tracked your market share gains over the last 10 years. In Reference Labs, I think I've seen from like 40 to into the 50s.

In terms of market share gains, do you think that we still have a lot of that left? Or do you think most of the growth is going to have to come via innovation and maybe just creating growth in new markets and really work on utilization in-clinic?

And then I'll just ask my second question upfront. I usually, when I look at gross margins, you did beat me by 70 basis points. I usually look at consumables and Reference Labs as being the big drivers. I think one of the only one of those beat me. So just in terms of how you kind of got to that gross margin leverage? Thank you.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: I'll take the front-end of your question and have Brian address the gross margin piece. David, if you take a look through the years, most of our growth has actually come through same-store sales.

So we do very well competitively. We're pretty transparent in terms of disclosing placements and the progress we make. But we look from a growth algorithm standpoint to drive diagnostics utilization. Now a lot of that happened through innovation. There's also a big Technology for Life component of it.

If you think about Catalyst, for example, 10 new parameters, 10 new slides over the last 12 years. So we know customers are just using more of that, there's more value connected with it and that feeds into the growth profile of the company.

From a Reference Labs standpoint, the same phenomenon, if you think about fecal antigen as an example, it's a quick-growing category within our Reference Labs business, very important foundational part of wellness. We continue to expand that] menu tapes and more recently Cystoisospora, so it's used more because it has more clinical value. That's how we think about it.

Obviously, new platforms opened up, a completely new greenfield space for us. And that's another element of our growth algorithm. And at Investor Day, Brian, always – he always dissects or put some of the pieces together to show where that growth comes from the US and internationally.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Yeah. And Dave, on your margin question, I think in the quarter, we highlighted that we had benefits from net price realization that offset inflationary cost impacts, software service margin gains and favorable business mix, which is driven by solid VetLab growth.

I would highlight, I think we had strong Lab margins in the prior year. And part of that was we were ramping staffing. So I think some of the Lab margins to the underlying productivity is very good. It was muted by a bit of a compare dynamic. But I think overall, I feel very good about the gross margin performance.

Jonathan J. Mazelsky, President, Chief Executive Officer & Director, IDEXX Laboratories, Inc.

Now, I'll conclude the Q&A portion of the call. Thank you to everyone on the phone for your participation in this morning's event. I'm very pleased to share another quarter of solid financial results as we continue to advance our strategy to drive development to the companion animal diagnostics sector and unwavering focus on innovation and our customers.

Looking ahead, we remain excited about the significant long-term opportunity to enhance standards of care for companion animal.

And so with that, we'll conclude the call. We look forward to seeing many of you at Investor Day. Thank you.

Operator: This concludes today's call. Thank you, again, for your participation. You may now disconnect and have a great day.