



IDEXX Laboratories, Inc.

Q2 Fiscal Year 2024 Earnings Call – Prepared Remarks

Introduction

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.

Brian P. McKeon

Executive Vice President, Chief Financial Officer

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 Diagnostics 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 Diagnostics recurring revenue growth in Q2 was constrained by impacts from near-term macro and sector headwinds, which contributed to a 2% decline in U.S. 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 \$62MM 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 Diagnostics recurring revenue increased 7% organically in Q2 — supported by average global net price improvement of 5% - 5.5%, with U.S. net price realization at the lower end of this range.

CAG Diagnostics recurring revenue growth in Q2 was supported by 10% international organic gains — including ~1% 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.

U.S. CAG Diagnostics recurring revenue organic growth was 5.2% in Q2 — net of a 0.5% U.S. 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 U.S. same store clinical visit growth levels — which declined 1.8% in Q2.

In the U.S. — 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 diagnostics 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 diagnostics 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 U.S. clinical visit trends — and a relatively higher IDEXX growth premium.

Overall — IDEXX continues to achieve solid organic revenue growth in CAG Diagnostics recurring revenues — as we work through headwinds from broader, cumulative macro impacts on

consumers which are likely pressuring near-term U.S. 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 U.S. 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® consumables revenues increased 8% organically — reflecting solid gains in the U.S. 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 U.S., including benefits from higher net price realization.

Global lab revenues also increased 6% organically — reflecting solid U.S. 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 U.S. and continued solid growth in Europe.

Livestock, Poultry and Dairy revenues increased 3% organically. Continued solid gains in the U.S. 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 \$62MM 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 ~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 ~\$7MM, operating profit by ~\$3MM and EPS by ~\$0.02 per share in the quarter — net of a \$2MM 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% - 95% — reflecting estimated capital spending of ~\$180 million.

Our balance sheet remains in a strong position. We ended the quarter with leverage ratios of 0.7x gross and 0.4x net of cash, as we continue to manage our balance sheet conservatively. We allocated \$208MM 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 U.S. 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 \$3,885MM - \$3,945MM — a reduction of \$15MM at midpoint. Our updated reported revenue outlook includes a favorable \$15MM 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 ~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 ~5%. Our updated organic growth outlook — at midpoint – assumes IDEXX execution growth benefits will be partially offset by continued

pressure on U.S. 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 ~0.5% overall from equivalent days effects — reflecting 1%-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 ~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% - 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 ~\$0.08 per share at midpoint which is offset by ~\$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 ~0.5% and EPS by ~ \$0.05 per share.

In terms of our outlook for Q3 — we're planning for reported revenue growth of 6% - 8%, net of an estimated 1% growth headwind from FX and incorporating ~0.5% in growth benefits from our recent software acquisition. This outlook aligns with an organic revenue growth range of ~6.5% - 8.5%, including ~1% - 1.5% of growth benefit from equivalent days effects. We're planning for reported operating margins of 29.5% - 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.

Jay Mazelsky
President & Chief Executive Officer

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%+ 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 5 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 diagnostic 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 U.S. 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 70k 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 base 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 would like to remind you that we will be hosting our annual Investor Day later this month, beginning with a management dinner on Wednesday, August 14th followed by presentations at our Global Headquarters in Westbrook, Maine on Thursday, August 15th 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 4 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.