PARTICIPANTS

Corporate Participants

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

Other Participants

Ekaterina V. Knyazkova – Analyst, JPMorgan Securities LLC
Michael Ryskin – Analyst, BofA Securities, Inc.
Jonathan D. Block – Analyst, Stifel, Nicolaus & Co., Inc.
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Erin Wilson Wright – Analyst, Morgan Stanley & Co. LLC
Brandon Vazquez – Analyst, William Blair & Co. LLC
David Westenberg – Analyst, Piper Sandler & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the IDEXX Laboratories' third quarter 2024 earnings conference call. As a reminder, today's conference is being recorded. Participating in the call this morning are 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 third 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 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 third quarter earnings call. Today, I'll take you through our Q3 results and review our updated financial outlook for 2024. IDEXX delivered solid organic revenue growth and strong comparable profit gains in the third quarter.

In terms of highlights, overall revenues increased 6% organically, supported by 7% organic growth in CAG Diagnostic recurring revenues and 13% organic growth in our Water business. Organic revenue gains were supported by benefits from IDEXX execution drivers reflected in consistent solid new business gains, sustained high customer retention rates and double-digit growth in our premium instrument installed base.

While not reported in our quarterly results, IDEXX secured nearly 700 orders for our new inVue analyzer, which supported strong growth in EVI metrics that will position the company to build on this momentum.

Partially offsetting these benefits, CAG Diagnostic recurring revenue growth in Q3 was constrained by impacts from near term US macro and sector headwinds. As we'll discuss, we're updating our full year organic revenue growth guidance to reflect expectations for continued near-term, macro and sector pressure in the US and to incorporate estimated negative impacts from recent severe weather events.

IDEXX continues to deliver strong profit performance as we work through these dynamics reflected in solid comparable operating margin gains in Q3, keeping us on track to achieve our full year operating margin goals. Solid revenue growth and operating margin gains supported EPS of $2.80 per share in Q3, up 11% as reported and 12% on a comparable basis. We'll review our updated guidance detail later in my comments. Let's begin with a review of our third quarter results.

Third quarter organic revenue growth of 6% was driven by 6% organic revenue gains in our CAG business and 13% organic growth in Water, partially offset by 2% organic declines in LPD. CAG organic revenue growth was supported by 6% organic gains in Veterinary Software, Services and Diagnostic Imaging revenues driven by 11% organic growth in recurring revenues.

CAG instrument revenue decreased 9% organically, reflecting comparisons to record prior year placement levels and near-term impacts from our commercial focus on IDEXX inVue order generation, which will primarily benefit 2025 reported instrument revenues.

Worldwide CAG Diagnostic recurring revenue increased 7% organically in Q3. This includes approximately 1% of global equivalent day growth benefit in the quarter related to increased shipping days in our in-clinic business. Q3 CAG Diagnostic recurring revenue growth was supported by average global net price improvement of approximately 5%, with US net price realization of approximately 4%. US net price realization includes impacts from the successful extension and expansion of three major customer agreements in 2024. These agreements will provide long-term incremental volume growth benefits for IDEXX as we expand our business relationships with these customers.

CAG Diagnostics recurring revenue growth in the third quarter was supported by 10% international organic gains. International growth reflected benefits from net price realization, continued solid volume gains, and approximately 0.5% of positive equivalent days effects.

International growth was driven by IDEXX execution, reflected in continued strong new business gains and high premium instrument placements, which supported a double-digit year-on-year expansion of a global premium instrument installed base.

US CAG Diagnostic recurring revenue organic growth was 5% in Q3, including approximately 1.5% of growth benefit from equivalent days effects. US growth was supported by continued solid positive growth contribution from new business gains, sustained high customer retention levels, and benefits from net price realization.

IDEXX's US growth expanded at a solid premium to comparable US same-store clinical visit growth levels. In the US, we continue to work through macro and sector dynamics, which contributed to a 2.1% decline in same-store clinical visit growth in Q3, including a relatively higher 3.4% same-store decline in more discretionary wellness visits.

Overall, US clinical visit growth levels include an estimated 1% to 1.5% growth benefit from the ramping of pain medication visits over the last year, which typically do not include diagnostics. This is added to the near-term clinical visit headwind effect for IDEXX's US CAG business.

For pets visiting US clinics, pet owners continue to demonstrate interest in a higher standard of care, despite macro pressures. If we adjust US sector metrics for the estimated pain medication impact on clinical visits and diagnostic frequency, we continue to see an increase in the percentage of visits that include at least one diagnostic.

Over the last 12 months, the percentage of clinical visits with core blood work inclusion has also sustained at elevated levels, following the accelerated expansion seen during the pandemic. These trends reinforce that the primary headwind to IDEXX's growth in the near-term remains pressure on clinical visit growth.

Given recent trends and our updated full year organic growth outlook, we factored in expectations for continued near-term constraints on CAG Diagnostic recurring revenue growth from US macro and sector impacts.

IDEXX continues to achieve solid organic growth and strong financial performance as we work through these near-term headwinds. We're highly confident in the positive long-term drivers of demand for diagnostics, including the future benefits that will flow from IDEXX innovation as we continue to execute towards our business strategy, aligned with raising standards of pet healthcare globally.

In terms of growth by modality, third quarter results were supported by strong global gains in consumable revenues. IDEXX VetLab consumable revenues increased 11% organically, reflecting double-digit gains in the US and international regions, including benefits from increased equivalent shipping days effects.

Consumable gains were supported by 10% year-on-year growth in our global premium instrument installed base, reflecting strong gains across our Catalyst, premium hematology and SediVue platforms. We achieved 4,128 CAG global premium instrument placements in Q3, a decrease of 443 units, or approximately 10% compared to record prior year levels, while securing 691 orders for our new IDEXX inVue analyzer in North America. We're on track for initiation of shipments of inVue in Q4, with expectations for approximately 50 to 100 shipments this year with the bulk of the advanced orders targeted for delivery in 2025.

Global rapid assay revenues expanded 6% organically in the third quarter, reflecting solid global gains, including benefits from net price realization and positive equivalent shipping days effects. Global lab revenues increased 2% organically in Q3, net of a modest equivalent days headwind, reflecting low single digit gains in the US and solid growth in international regions.

Reference Lab results adjusted for days effects were supported by modest volume growth, aided by new business gains, which offset pressures related to macro and sector conditions constraining same-store sales levels. Net price gains in our Reference Lab line of business in Q3 were moderated by impacts from major new customer agreements, which will benefit long-term Reference Lab growth.

Veterinary Software, Services and Diagnostic Imaging revenues increased 11% as reported, including benefits from our recent Greenline software and data platform acquisition. 6% overall organic revenue gains were driven by 11% organic growth in recurring revenues, reflecting benefits from ongoing momentum in cloud based software solutions.

Water revenues increased 13% organically in Q3, supported by double-digit gains in the US and continued solid growth in Europe. Livestock, Poultry and Dairy revenues decreased 2% organically, as strong gains in the US were offset by lower Asia Swine testing and herd health screening revenues.

Turning to the P&L, Q3 profit results were supported by solid gross margin gains. Gross profit increased 9% in the quarter as reported, and 9% on a comparable basis. Gross margins were 61.1%, up 140 basis points on a comparable basis. Gross margin gains reflect favorable business mix, including benefits from high growth in consumable revenues, lower instrument costs, and favorable impacts from growth in Veterinary Software, Services and Diagnostic Imaging recurring revenues.

Operating expenses increased 7% in the quarter on a reported basis and 8% on a comparable basis. OpEx growth was driven by increases in sales and marketing expense and R&D spending aligned with advancing our growth and innovation agenda.

Operating margins were 31.2% in the quarter, up 110 basis points year-on-year as reported, and 100 basis points on a comparable basis. EPS was $2.80 per share in Q3, an increase of 11% as reported, and 12% on a comparable basis. Foreign exchange increased revenue and operating profit by approximately $1 million and EPS by approximately $0.01 per share in the quarter, net of a $1 million hedge gain. Free cash flow was $192 million in Q3.

On a trailing 12 month basis, our net income to free cash flow conversion ratio was 91%. For the full year, we're maintaining our outlook for free cash flow conversion of 90% to 95%, while updating our full year outlook for capital spending to approximately $160 million, reflecting lower projected spend and project timing.

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. In the third quarter, we allocated $225 million in capital to share repurchases, supporting a 1.1% year-on-year reduction in diluted shares outstanding.

Turning to our 2024 guidance, we've updated our full year overall organic revenue growth outlook to 5.3% to 6% and our outlook for CAG Diagnostic recurring revenue growth to 5.8% to 6.4%. At midpoint, this reflects a reduction of 1% to 1.5% compared to our prior full year organic revenue growth outlook, primarily driven by recent US macro and sector trends, constraining visits and demand at the clinic level. This outlook incorporates Q3 results and reflects expectations for continued pressure on US CAG Diagnostic recurring revenue growth in Q4 related to macro and sector trends and recent severe weather impacts.

In Q4, at midpoint, the updated outlook reflects expectations for overall organic revenue growth of approximately 3%. This aligns with a Q4 midpoint expectation for global CAG Diagnostic recurring revenue growth of 3.5% to 4%, net of an estimated 0.5% of negative effect from severe weather impacts in the US. We expect global net price improvement in CAG Diagnostic recurring revenues of approximately 4% to 4.5% in Q4, including effects from new business agreements with a consistent outlook for approximately 5% full year global net price realization.

Our updated full year guidance for reported revenues is $3,865 million to $3,890 million, a reduction of $38 million at midpoint. Our updated reported revenue outlook includes a favorable $15 million adjustment related to more recent FX estimates.

In terms of our profit guidance, our outlook for 28.7% to 29% in reported operating margins reinforces our full year goals for solid comparable operating margin improvement. Our full year reported margin outlook incorporates effects from the discrete litigation expense accrual recorded in Q2, which will reduce full year reported operating margins by approximately 160 basis points and EPS by $0.56 per share.

Excluding this impact in FX effects, at midpoint, our operating margin outlook reflects a consistent 40 to 50 basis point improvement in comparable operating margins 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 $10.37 to $10.53 per share is consistent with our prior EPS guidance at midpoint. At midpoint, we've incorporated approximately $0.14 and negative EPS impact from the reduction to our organic revenue growth outlook, offset by $0.02 in favorable foreign exchange adjustments, $0.01 in favorability related to updated interest expense estimates, and a positive $0.11 per share benefit from improvement in our outlook for our effective tax rate.

Our updated effective tax rate estimate includes approximately 0.5% of full year rate benefit or approximately $0.06 per share from a non-recurring tax reserve release we expect in Q4 as a result of the lapsing of an applicable statute of limitation.

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 against our strategic priorities in the third quarter, including strong profit growth as we advanced a robust innovation agenda supported by a high touch commercial model. These pillars of our organic growth strategy position IDEXX to continue to lead the development of the companion animal diagnostic sector over the long-term, while supporting solid organic revenue growth in the near-term.

Third quarter CAG Diagnostics recurring revenue growth was supported by sustained IDEXX execution growth drivers, including solid net new business gains, customer retention rates sustaining at over 97%, and a net price realization aligned with our expectations, including impacts from extensions and expansions in corporate accounts.

Performance was also supported by double-digit growth in our premium instrument installed base, reflecting high interest by practices around the world in adopting IDEXX technology to obtain differential clinical insights. These consistent growth drivers reflect the benefits from our decades-long strategic commitment to focusing and integrating on companion animal diagnostic assays instrumentation software, supported by a highly capable and tenured commercial organization.

As Brian noted, US sector and IDEXX US growth has been moderated by cumulative macro pressures on pet owners, which has pressured visit and demand trends in US clinics. The results we are providing this morning reflect excellent execution from teams across IDEXX in a more challenged macro environment. We remain confident in the enduring, positive, secular growth tailwinds that create an attractive growth opportunity for our sector over time.

From a growing global pet population to longer pet lifespans and increased opportunities to improve the quality of our pets' lives, the future growth opportunity and the value of companion animal medical services remains highly compelling. Further enabled by IDEXX innovations and commercial focus, these secular trends position companion animal diagnostics as the fastest growing area in the vet clinic and a key driver of medical services and practice profits.

Today, I'll review IDEXX's progress against our strategic objectives and how strong commercial and operational execution help deliver excellent financial performance in the quarter. Customers seek insights on both new and existing diagnostic tests that support disease detection, interpretation, and care management and ways to optimize clinic workflows to increase staff productivity. They rely on IDEXX commercial professionals who bring subject matter expertise and best practice benchmarks to help them achieve their practice objectives. The result is a sustained trend of diagnostics revenue growth outpacing overall clinic revenues, as well as high levels of retention and sector-leading levels of customer satisfaction.

IDEXX commercial teams delivered solid third quarter global premium instrument placements across regions and platforms, building on high prior year levels. These placements supported the ninth consecutive quarter of double-digit premium instrument installed base growth on a worldwide basis as well as for our international regions.

In the US, the continued strong pace of competitive Catalyst placements, coupled with overall placements and including IDEXX inVue Dx preorders, resulted in very strong year-on-year EVI gains, highlighting the high quality of placements in the period and expected future consumable revenues.

In Europe, continued strong net customer gains and premium-installed base growth supported a sixth consecutive quarter of double-digit CAG Diagnostics recurring revenue growth, highlighting the benefits from our maturing European sales organization. These are just a few examples of the growth and value our teams are delivering, aided by a new wave of IDEXX innovation.

Customer interest in partnering with IDEXX was also reflected in the three major corporate account relationship expansions secured this year. These extensions position IDEXX to benefit from volume gains as new business is brought into the extended agreements. These expanded relationships will benefit growth across our modalities over time. The extension and expansion of these key account agreements demonstrate IDEXX's ability to deliver value to customers of all types and sizes, as these partnership models are increasingly centered on organically-driven growth versus through clinic acquisition.

In addition to serving strong demand for our current on market products, commercial execution also includes supporting demand for upcoming IDEXX innovations, which is especially relevant now given the early stages of our new wave of innovation.

As we sit here today, IDEXX is on the cusp of delivering the newest significant piece of innovation, the IDEXX inVue Dx Cellular Analyzer, which remains on target for our Q4 launch. Our commercial teams have been engaging with customers, highlighting the benefits of this transformative new in-clinic testing platform, and the response has been overwhelmingly positive.

Since beginning to take orders in North America at the end of July, the IDEXX commercial team has taken close to 700 inVue Dx preorders in Q3. This demonstrates the high value that clinicians place on the new diagnostic insights they will receive as part of the launch menu, with ear cytology and blood morphology and the easy use they attach to slide-free workflow. Early customer enthusiasm for inVue Dx is very high, as they see inVue as a transformative point of care platform.

Additionally, we started to take preorders in select international geographies in Q4 as we build global demand. And keep in mind, the value of the IDEXX inVue Dx analyzer will expand beyond ear cytology and blood morphology over time. Designed as a Technology for Life platform, the inVue Dx menu will expand in 2025 as we add FNA lumps and bumps capabilities. This menu expansion will help address the approximately 25 million dogs around the world that we estimate would benefit from an oncology diagnostics as part of a clinical visit. This opportunity highlights the reason that we focus on purpose built platforms as an expanded menu over time grows both medical and economic value, similar to our Catalyst platform.

Beyond inVue Dx, IDEXX's in-clinic business also continues to benefit from innovation. And in September, we began shipping Catalyst, Pancreatic Lipase slides to customers in North America, with the global rollout beginning with Europe in Q4 and extending to other regions over 2025. The Catalyst, Pancreatic Lipase test, a single slide solution for canine and feline patients suspected of pancreatitis, represents the 10th menu addition to the Catalyst platform since 2012.

This most recent example of our Technology for Life innovation strategy delivers improved functionality and diagnostic insights to our customers, all while using IDEXX analyzers that have already been purchased and built clinical workflows around. This strategy not only increases the medical value of an IDEXX analyzer to our customers, enabling them to deliver improved standards of care, but also helps drive utilization and increases the economic value to IDEXX of a premium instrument placement.

Early feedback from customers in North America has been extremely positive for this quantitative test, with over 3,000 customers already utilizing the slide for dogs and cats. This important diagnostics test will soon be available to our entire 72,000 plus Catalyst installed base globally.

Also at the point of care, IDEXX Catalyst SmartQC launched recently in North America. It will be shortly followed by a global rollout. SmartQC greatly simplifies and streamlines the monthly Catalyst quality control process. Early Indications estimate SmartQC is 90% faster than the existing process. This is yet another example of our focus on bringing innovations to our customers that enhance workflows and unlock clinical capacity.

IDEXX teams continue to advance work towards the 2025 launch of the IDEXX Cancer Diagnostics screening panel at IDEXX Reference Labs. Launching initially with lymphoma detection in 2025, the IDEXX Cancer Dx panel will expand over three years to cover the six most common cancers, which represent greater than 50% of canine cancer cases and $1.1 billion addressable revenue opportunity. Extensive research has shown that both veterinarians and pet owners see value in the medical insights that come from oncology screening and are highly likely to adopt this new technology. We look forward to sharing more updates on these critical pieces of innovation as we get closer to launch.

Complementary to our diagnostic solutions, IDEXX software solutions provide customers with robust, intuitive products that support greater diagnostics utilization, while simplifying workflows at each stage of the pet owner visit, thereby helping customers unlock capacity for more value added work.

Veterinary clinics see tangible benefits from cloud-based software technologies, and IDEXX meets these needs with our broad portfolio of cloud-native products – from practice management systems that are tailored to the practice size and needs to workflow management tools, the result of this fit between IDEXX software products and customer needs resulted in high double digit growth in cloud based product placements, which once again comprised over 95% of total software placements.

Momentum for software business remains very strong, with quarterly placements growing sequentially through Q3, while future placements are supported by strong bookings and pipeline aided by increased commercial productivity and corporate account interest. These trends are a leading indicator for future VetSoft and diagnostic imaging recurring revenue growth, as a growing PIMS installed base is the gateway for customers to benefit from our expanding vertical SaaS offerings. These include workflow and pet owner engagement tools, payment processing, and other productivity enablers. We are pleased by the early interest in Vello, our modern pet owner engagement application with deep integration into IDEXX PIMS.

As of quarter end, we had over 300 enrolled and active practices, and excellent pet owner engagement is measured by higher clinical visits, clinical revenue, and diagnostics usage post-implementation. Based on a robust pipeline, we look forward to growing Vello's clinic user base by more than double by year end.

As we shared at Investor Day, we have an exciting development roadmap for Vello to further address practice pain points with pet owner communications, while helping to further drive visit growth in diagnostics utilization. We look forward to providing updates as we advance our software strategy and grow the related high margin recurring revenues.

As we conclude our prepared remarks, I'd like to recognize the IDEXX employees who are working hard to serve veterinarians and pets in areas impacted by Hurricane Helene and Milton. Our lab operations team took proactive measures to protect employees, mitigate service disruptions, and provide critical diagnostic services to advance care for pets in need. We stand ready to support our customers impacted by these hurricanes as they look to rebuild their practices and resume operations.

Now, let's please open the line for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We ask that you please limit yourself to one question and one follow up question. [Operator Instructions] The first question is from Chris Schott with JPMorgan.

<Q – Ekaterina Knyazkova – JPMorgan Securities LLC>: Hey, thank you so much. This is Ekaterina on for Chris. Thank you for taking our question. So first, you touched upon this earlier in the prepared remarks, can you maybe just elaborate a bit on the drivers of the reduction outlook and the step down in 4Q? I guess what's the rough split between the weather things you mentioned in the underlying US macro versus anything else you want to call out?

And then I guess second question is just on vet visits more broadly, can you just elaborate a bit on what's the biggest delta, I guess, between the underlying outlook you gave in 2Q versus the one you're giving now? I guess what's different in the market and what's driving this kind of worsening macro environment and where are you expecting to see the most impact? Thank you so much.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Thanks for your questions. On Q4, just to clarify the commentary, we highlighted an outlook for organic growth overall of about 3% and CAG Dx recurring revenue growth of 3.5% to 4%. The 3.5% to 4% is net of an estimated 0.5% growth rate impact from the hurricanes. So if you normalize for that, it is 4% to 4.5% and that is actually aligned with our outlook for price benefit.

So in Q4, we're basically looking at normalized for weather, relatively flat volume. It is similar to the trends that we saw coming out of Q3. It incorporates a similar outlook for clinical visits that we saw in Q3 ex the weather impact. There is some impact from weather. And so it really is more reflecting the trends that we saw in the third quarter.

I think the one element in the third quarter that was somewhat different than we anticipated, we saw relatively more kind of pressure on in-clinic demand in terms of just independent of clinics, some compression on that.

We tried to highlight in our comments that for pets coming into the clinic, frequency is sustaining, it's actually up in wellness. When you adjust for the pain, med effect, it's actually up in non-wellness as well. And so I think that is very encouraging that there's still a lot of interest in diagnostics for the pets coming in.

It's not expanding like it had historically. I think that's probably an element that we're still working through. And again, we think that's more near-term macro impacts that will – both on the visits front and in terms of some of these demand impacts, we think we'll be able to work through over time. But in the near-term, we're just incorporating these trends into our balance of year outlook.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Let me address your question about the clinical visit piece. As Brian indicated, we continue to attribute that to the near-term macro and sector pressures. Clearly, from a macro standpoint, there's the cumulative pressures of inflation and not just affecting animal health, but across the economy as a whole.

We continue to see that at the pet owner level, there's a great deal of resilience. I think pet owners continue to prioritize the care for their pets at the expense of other discretionary categories. But that's not to say that they're immune to these broader macro pressures, especially at the margin.

We think that from an overall clinical visit standpoint, it will normalize over time. All the I think sector drivers around pet population growth, pet longevity, human-pet bond, aging pets, which will consume more care, are important support to the overall clinical visit trends. And then our own innovation and the contribution that our own innovation will play, both from a direct leverage standpoint as we add capabilities to practices that support these long-term trends will drive the increase in utilization.

<Q – Ekaterina Knyazkova – JPMorgan Securities LLC>: Thank you.

Operator: The next question is from Michael Ryskin with Bank of America.

<Q – Mike Ryskin – BofA Securities, Inc.>: Great. Thanks for taking the question, guys. First to start, the Reference Lab number came in particularly weak in the quarter. I think we were a little bit surprised by that, that was the biggest delta. And during your prepared remarks, you made some comments about how there was some impact to price in Reference Lab from those three major customer agreements.

Could you expand on that a little bit? I think we can read between the lines that there was a little bit of price to win the contract. Is that standard operating procedure? Were these a little bit more outsized than normal? Just in general, is that something you're seeing a little bit more pushback on in terms of price, or if there's anything else on Reference Lab to call out?

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Thanks, Mike. Maybe I could just set context on the numbers in the quarter and then allow Jay to talk about the dynamics in Reference Labs. We had 2.4% growth organically. We highlighted there was actually a day's headwind effect in labs. The benefit that we saw in the quarter was all related to shipping days, so normalized roughly 3% growth and we highlighted that volume growth was actually positive.

So to your point, there is a level of effect on lab price realization, which is a good news item in that we, this year, had three major new customer extensions and expansions, that will have long-term volume growth benefits for IDEXX and that's captured in kind of our gross to net pricing effect. And you see some of that in the Q3 numbers in labs, but the underlying health of the business is quite solid, particularly with some of the pressures we've seen on things like wellness testing. So Jay, can expand on that.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. I think there's a couple of ways of looking at this. The execution drivers at the Reference Lab business continue to be really strong. As Brian indicated, we have seen modest volume growth. There's been new business gains and very high customer retention levels. The price gains were moderated by these major new customer agreements and expansions and extensions, and they will benefit the company and the business over the longer term through volume gains.

Keep in mind that the Reference Labs is relatively more indexed to wellness testing. We know that wellness testing has been more pressured. We saw the decline of 3.4% in the US. There hasn't been change in any of the mix that we've described over time, and we're very optimistic about the innovation agenda for the Reference Labs. We think Fecal antigen and Cystatin B for kidney health and the IDEXX Cancer Diagnostics in 2025 really continue to position that modality in a highly differentiated way. And just getting back to my prior comment, clinical visits will normalize over time.

<Q – Mike Ryskin – BofA Securities, Inc.>: Okay. And then if I can squeeze in the follow-up, I just want to expand more on price in general. You talked about 5% for the quarter, I think you're kind of sticking with 5% for the year, 5% price. 4Q is going to be a little bit lighter than that, 4%, 4.5%. I know some of that is probably tied to timing of the price increases you took last year. Again, correct me if I'm wrong and if your 4Q price assumption did get lowered.

But just in general, how do you think about price as a lever going forward? Jay, you just talked about thinking that vet visits will come back. We talk about execution and new product launches and sort of the IDEXX premium. The third pillar of the model is price. It's been obviously very elevated over the last three years in 2022, 2023, 2024. It looks like it's starting to normalize a little bit. Should we expect that to continue, continued normalization of price over time back to that 2% to 3% historical level? Is that the right way to think about it?

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Yeah, so Mike, just to clarify, some of the numbers that we shared, as you noted, we're reinforce the 5% full year outlook, some moderation in Q4. That's principally just the new business effects that we highlighted. So I think this is a consistent trends. We are positioned to communicate our pricing to our customers. It's not a lapping effect. It is kind of the – I think that was part of your question, it's more the new business effect.

And we're positioned to communicate our price increases for next year, later this year, with our customers, continue to feel very good about the value that we're delivering with the focus on innovation that we've had in the long-term as a company. And we have a new wave of innovation that we're really excited about. So I think it will be anticipated to be a positive driver for us in the near-term and the longer term.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Keep in mind that the way we think about pricing is to really maintain. We want to be on the right side of the whole value equation. And so there's obviously new products, new innovation, but then there's products that we continue to really expand from a feature and capability standpoint.

So you think about Fecal antigen and Cystoisospora, and Tapes and Cystatin B and VetConnect PLUS, these were all added to the menu and panels at no additional cost. So what we strive for is to really make sure that we're adding value and price obviously reflects that. And as Brian indicated, we'll provide more guidance when we provide 2025 guidance.

<Q – Mike Ryskin – BofA Securities, Inc.>: All right. Thanks, guys. I'll follow up offline.

Operator: [Operator Instructions] The next question is from Jon Block with Stifel.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: Thanks, guys. Good morning. Brian, the first one, I think there's a step down in the 2024 guidance of about 150 bps for total organic revenue versus the 100 bps step down for CAG Dx recurring at the midpoint. So maybe if you can speak what that's attributable to in regards to the delta, I'm guessing it might be fewer inVues going out this year than maybe initially expected, maybe a little bit of LPD as well. So we'd love your thoughts there. And then just to tack on to that, any color on the realized ASP for inVue as we start scrubbing the model and the contribution into 2025? And then I'll ask my follow up.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Great. Thanks for your question, Jon. I think you hit on the themes. The update includes incorporating Q3, so I think we did see somewhat softer results in areas like LPD than anticipated, so we're carrying that through.

I think we are capturing also the instrument revenue effects, it's principally just the strength of the inVue advanced orders. I think that does have some impact in the overall order generation. In terms of our other premium instruments, it's a good news story overall. The EVI normalizes up very strongly, and so we're really encouraged by that. So those are kind of the factors, some tweaking on the software numbers as well, just based on trends. So those are kind of the themes.

The bigger driver, of course, is just the calibration on the CAG Diagnostic recurring. Regarding your specific question on inVue pricing, I think low teens has been the number we've shared, and I think that's still a good estimate for the instrument price realization. It will vary by program, but to the degree these are placed under things like 360 contracts, it's primarily upfront revenue.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: Okay. Got it. Helpful. And maybe I'll ask a follow-up there, but Jay, are there any comments of like, was the plan always to take 700 orders and only ship 50 out? Obviously, you're beta testing this in the field. Were there any challenges that you incurred throughout that process in terms of why most of the shipments are occurring, call it in 2025, 2024? That's sort of the follow up.

But then the second question, just on the corporate renewals, you guys don't typically talk a lot about that, but admittedly, corporates are a big part of the market, I don't know, 30% or 40%. So just any more color that you can provide, was that just specific to the lab number, not the in-clinic? And then for the lab, Brian, do we think about it like the pricing will be a headwind for the next three quarters, it took effect third quarter of 2024, it's a headwind for the next three quarters year-over-year? And then essentially, you lapped the pricing headwind, but continue to benefit from the volume tailwind for what I'm assuming is a multi-year contract, and hopefully that came across okay. Thanks, guys.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. Let me start with the corporates, and I'll address the inVue launch and then I'll turn it to Brian for some additional color on it. From a corporate standpoint, we've been very successful and these represent not just extensions, but expansions. I think the corporates from a maturity standpoint are focusing more on organic growth. If you go back, they grew through clinic acquisition, and there was a lot of consolidation and arbitrage.

And so I think that the focus on organic growth, not just within the Reference Labs, but using technology, whether it's point of care, and software, and integrating, those pieces has positioned us really well. And it has given us an opportunity to really partner with them and help them achieve those objectives. And as I indicated in my remarks, there are certainly volume benefits that we see over time that will develop as a result of expanded business with those folks. So yeah, very excited by that.

There's also, I would say, from a corporate standpoint, more of an emphasis on how to implement wellness campaigns and programs in a much more harmonized way versus independent clinics as one-offs.

From an inVue launch standpoint, we have a very tried and true approach in terms of how we launch instrumentation. If you look at Catalyst, SediVue, and more recently ProCyte One, we start in a controlled fashion, we're very careful that we deliver the right customer experience, customers expect that from us.

And the way we do that is, we start with a smaller group of implementations and onboard those customers and tweak as necessary. So it's really not driven by a certain number in Q4. It's really more from overall readiness so that we deliver the right experience and build over time. The receptivity to that product itself has just been outstanding and we look forward to being able to build global demand based on a very compelling menu for customers.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: And Jon, to your specific question, I hope I can follow it, the new business effects and pricing are relatively more in labs, US labs, so that's where some of the business opportunity that we're excited about in terms of expanding the relationships is flowing from.

And I think your point was about lapping, and I think you're correct, there is a gross to net kind of effect in the near-term, but you worked through that. Keep in mind, it was three agreements that kind of built through the year, we'll get more clarity as we get into 2025, but basically there'll be some favorable lapping dynamics that go on the latter half of next year, to your point.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: You nailed it. Thanks, Brian.

Operator: The next question is from Navann Ty with BNP Paribas.

<Q – Navann Ty – BNP Paribas Securities Corp.>: Hi. Good morning. Thanks for taking my question. Can you discuss how industry innovation in the affordability space, so with vet practices offering payment plans and IDEXX credit card, inVue and Vello could help mitigating lower visits in the near and longer term? And also, can you discuss, as you are monitoring the divergence between wellness and non-wellness visits, what are your updated thoughts on the sector conditions? Thank you.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. Just maybe address the payment question first. Most of our instruments, whether it's inVue or broader VetLab suites, are placed through various programs. And what that typically involves is there's not cash up front, and the customers make a volume commitment over a period of up time. It's built in financing, if you will, so there's not really practice cash constraints on being able to purchase new technology or instrumentation.

Our focus is really being able to provide technology and tools that help with capacity challenges as they exist. The flip side of capacity is obviously productivity, and practices are looking for ways that optimize workflow within the practice, support staff productivity, enable them to communicate with clients or pet owners and Vello helps us do that.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: And just your question on visit trends, it's interesting, we tried to highlight this pain medication – pain med visit effect in the numbers. And as we noted, overall the minus 2.1% visits are actually supported by about 1% to 1.5% of benefit from these pain med visits, which would show up in the non-wellness visit per the data analysis that we've done.

And when you adjust for that, roughly, the wellness visits would be down about 4% and non-wellness would be down about 3%. And so it's relatively more pressure on non-wellness ex these pain med visits. But I would say it's indicative of a broader kind of challenge that we've had related to the macro dynamics, which is visits are down overall. So I think, again, somewhat more in wellness, which is logical given that it's relatively more discretionary, but it's a broader theme.

<Q – Navann Ty – BNP Paribas Securities Corp.>: Thank you.

Operator: The next question is from Erin Wright with Morgan Stanley.

<Q – Erin Wright – Morgan Stanley & Co. LLC>: Great. Thanks. Good morning. Could you give us an update on Cancer Dx, just the timeline magnitude that you're thinking there in terms of the rollout? And just where should we think about in terms of, or what should we think about in terms of price as this is sort of a premium cancer screening wellness type of platform, and any sort of early feedback on your kind of pilot testing or how you kind of talk to customers about the opportunity, particularly in the initial offering in canine lymphoma? Thanks.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. Thanks. Good morning, Erin. We continue to work on really making nice progress on IDEXX Cancer Diagnostics with lymphoma. We're still targeting a 2025 launch from both a price as well as turnaround time standpoint. We see it as an appropriate wellness screening, really being able to target younger but at-risk dogs as well as older dogs.

The feedback from key opinion leaders and oncologists has been excellent. So we continue to fully develop the product, validate the testing platforms, collect data, and are really looking forward to being able to build a market.

We know that both pet owners and veterinarians see this as a major pain point today in terms of being able to detect cancer earlier than what's currently done. And when you can detect cancer earlier, obviously, the therapeutic options you have are more numerous and more effective.

<Q – Erin Wright – Morgan Stanley & Co. LLC>: Okay. Thanks. And then just on the Reference Lab, in general, I know you touched a little bit on it before, but in terms of kind of the performance in the quarter, how we should think about the quarterly progression, any sort of changes from a competitive landscape standpoint at all?

And then also just kind of your strategy, whether it's turnaround times and service levels and overnight testing and that kind of stuff, has anything changed in terms of how you're kind of contracting or working with your customers on the Reference Laboratory side, particularly, in just kind of an inherently lower volume environment? Thanks.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. Erin, we don't see any change in the competitive dynamic. We track that very closely. We look at net new business gains, which have been positive for the quarter and for the year. We look at retention levels, which remain very high in the Reference Labs.

As Brian indicated earlier, we do see volume growth in the Reference Labs. The differentiation around the overall menu, Fecal antigen, and the whole renal health panels and VetConnect PLUS in the coming IDEXX Cancer Diagnostics, we think continues to position us really well. I think the corporate contract extensions and expansions I talked to, I spoke about, really speak to the differentiation of our Reference Lab business. Corporates, as well as independent practices want to partner with us, and putting together win-win partnerships is part of our strategy.

<Q – Erin Wright – Morgan Stanley & Co. LLC>: Okay. Thank you.

Operator: The next question is from Brandon Vazquez with William Blair.

<Q – Brandon Vazquez – William Blair & Co. LLC>: Hey, everyone, thanks for taking the question. I had two. They're both kind of related to kind of end market volume, and so I'll maybe just ask them both upfront. The first one is, as part of your snapshot you guys also disclosed the frequency and utilization metrics, maybe ex-price, if you look at that. Still a little depressed. I always tend to think of those as things that you have a little bit more control over versus the vet visit volumes. So maybe just talk about within frequency and utilization, what levers do you guys have that you can pull on as we go into 2025 to help offset some of the weaker vet visit growth?

And then the second follow-up on vet visits is just around these pain medication headwinds that you guys are talking about. Can you clarify if this is simply – the headwind that you're talking about is simply looking at vet visit volumes are actually worse than they are, or is the impact that less NSAIDs, because now they're switching to injectables, means that less diagnostic tests are being done for pain medications? Thank you.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: So maybe I can clarify the last point, and it will provide just a little bit of data insight on your frequency and utilization question that Jay can expand on. But what we're seeing in the data is that there are a number of visits, particularly older pets, that are related to pain medication, more recently, particularly follow-up visits, where the pets are being brought in and there typically isn't a diagnostic. There's an administration of the pain medication. And with the ramp of these pain meds, particularly over the last few quarters, that's been a pretty meaningful positive contributor to visit growth, but obviously doesn't benefit our business in terms of driving diagnostics. So what we're trying to highlight is that, that minus 2% on clinical visits is really, for our business, minus 3% to 3.5% in terms of visits that drive diagnostics.

When you turn to the frequency in the utilization side, what's interesting is adjusting for those dynamics, frequency is actually up. So for visits, for pets that are coming into the clinic, we think it's positive 50 basis points rather than the minus 50 basis points we show. And it actually – we see increases in utilization as well per visit, albeit at moderated paces from what we've seen historically, but it's continuing to be positive. So that's kind of the backdrop. I think there is a specific dynamic as it relates to some of the metrics that our investors focus in on and we focus in on. We think the underlying dynamics within the clinic are very healthy. It's really a visit challenge for us, but Jay can talk more about this.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. So the way we, from a strategic standpoint, influence both frequency and utilization is really through innovation and our commercial model. Innovation has both direct and leveraged impacts in terms of being able to drive testing. Obviously with inVue and we begin shipping inVue, they'll use the cartridges and consumables and that drives utilization, but also our programs, our marketing programs that place instruments through IDEXX 360 really inspire use of the Reference Labs and rapid assay and our software businesses.

So we think that over time, and we've shown this over time, that historically, when you bring innovations that solve the most challenging both clinical and business problems, that customers end up, veterinarians end up using diagnostics because it's really foundational in terms of driving the medical services and care management approaches within their clinics.

Operator: The next question is from David Westenberg with Piper Sandler.

<Q – Dave Westenberg – Piper Sandler & Co.>: Hi, thanks for taking the question. So, I'm going to unpack a couple of that on the Reference Lab and then on the pain drug visits. And ultimately, what I'm trying to get to is potential utilization acceleration probably next year or maybe the year after. But the differential between consumables and Reference Lab, we haven't seen that big of a gap since 2018.

Is there a way maybe veterinary groups are thinking about changing the way they're thinking about diagnostics, perhaps using inside lab more as a strategy to generate more diagnostics? And again, I'm only saying that because we're seeing the biggest gap that we've see say, you've explained some of that stuff, including days.

And then also on the pain drug, in fact, we've seen Cytopoint, it's been around since 2016, it's been about half as much of an impact on visits, but it's still been an impact on visits. Now, elderly patients are more likely to be sold to diagnostics, so you would think that, maybe there's a – as you see this captive audience, I mean, when we talk to veterinary customers, they love this captive audience.

So is there maybe a longer tail impact to increase diagnostics because now you have the elderly patient? And again, I would like, I'm trying to focus this question on utilization of diagnostics maybe next year as we build on some of these trends? Thank you.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. So good morning, David. Let me just talk about the in-clinic versus the Reference Lab model. We don't see actually a modality shift, I think a number of things influenced that. Obviously, wellness visits, as I called out, is primarily a Reference Lab send-out modality.

But just in terms of overall use, it's based on situational conditions with the pet. If the pet comes in and is non-well or in acute condition, veterinarians tend to do the in-clinic testing. So they get to an interpretation quickly. And in other cases, if it's a specialty test, they'll send that out. But we actually haven't seen a mix shift above and beyond, the wellness visit trend that may be impacted by overall macro considerations.

In terms of the pain medication piece, the point that I would highlight is we haven't seen that for those patients coming in to the practice, that are getting, let's say, pain medication, primarily let's focus on dogs, primarily older dogs and we haven't seen any impact on the use of diagnostics, so we don't think there's a substitution effect or potentially even driving more diagnostics in those cases, if that's what you were getting at.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: And Dave, just to your question on utilization and utilization drivers over time, I know you're familiar with this, but we've highlighted frequently in our longer term strategic discussions the metric of blood work inclusion in diagnostics, and that, for a very long period of time had accelerated at 50 basis points, we saw that going into the pandemic, actually accelerated through the pandemic.

And what we've seen more recently in this transition post-pandemic period with some of the macro headwinds is it's sustaining, it's just not growing at the 50 basis points. That's 200 basis point growth upside, if we can get back to the 50 basis point expansion for our US business and 100 to 150 basis points globally, that was highlighted in our Investor Day discussion.

So, we're encouraged that it's sustaining so well with some the macro dynamics going on and building off of the accelerated growth that we saw in pandemic. And we feel very confident in our ability to influence that over time as we've done for decades, and see that as central to our long-term strategy.

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

So, I'll now conclude the Q&A portion of the call. Thank you for your participation this morning. So, once again, my pleasure to share how IDEXX executed against our organic growth strategy, while delivering excellent financial results in the third quarter.

Companion animal diagnostics sector remains an attractive space supported by long-term global secular growth drivers and a significant opportunity to enhance standards of care. IDEXX's current innovation cycle and effective customer engagement playbook have positioned us well to lead the penetration of this opportunity. And I look forward to sharing more updates with you on our solid progress.

And so with that, we'll conclude the call. Thank you.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.