



IDEXX Laboratories, Inc.

Q3 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 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.

Brian P. McKeon
Executive Vice President, Chief Financial Officer

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 Diagnostics 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 Diagnostics recurring revenue growth in Q3 was constrained by impacts from near-term U.S. 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 U.S. 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 Diagnostics recurring revenue increased 7% organically in Q3. This includes ~1% of global equivalent day growth benefit in the quarter related to increased shipping days in our in-clinic business. Q3 CAG Diagnostics recurring revenue growth was supported by average global net price improvement of ~5%, with U.S. net price realization of ~4%. U.S. 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 ~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 our global premium instrument installed base.

U.S. CAG Diagnostics recurring revenue organic growth was 5% in Q3 — including ~1.5% of growth benefit from equivalent days effects. U.S. 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 U.S. growth expanded at a solid premium to comparable U.S. same store clinical visit growth levels. In the U.S., 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 U.S clinical visit growth levels include an estimated 1%-1.5% growth benefit from the ramping of pain medication visits over the last year, which typically do not include diagnostics. This has added to the near-term clinical visit headwind effect for IDEXX's U.S. CAG business.

For pets visiting U.S. clinics, pet owners continue to demonstrate interest in a higher standard of care — despite macro pressures. If we adjust U.S. 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 bloodwork 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 — in our updated full year organic growth outlook — we've factored in expectations for continued near-term constraints on CAG Diagnostics recurring revenue growth from U.S. 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® consumables revenues increased 11% organically — reflecting double digit gains in the U.S. 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 ~10% compared to record prior year levels — while securing 691 orders for our new IDEXX inVue analyzer in North America. We are on track for initiation of shipments of inVue in Q4 — with expectations for ~50 - 100 shipments this year — with the bulk of the advance 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 U.S. 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 U.S. and continued solid growth in Europe.

Livestock, Poultry, and Dairy revenues decreased 2% organically — as strong gains in the U.S. 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 ~\$1 million and EPS by ~\$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% - 95% — while updating our full year outlook for capital spending to ~\$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

0.7x gross and 0.4x 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 6.0% — and our outlook for CAG Diagnostics recurring revenue growth to 5.8% to 6.4%. At midpoint — this reflects a reduction of 1%-1.5% compared to our prior full year organic revenue growth outlook — primarily driven by recent U.S. macro and sector trends constraining visits and demand at the clinic level. This outlook incorporates Q3 results — and reflects expectations for continued pressure on U.S. CAG Diagnostics 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 ~3%. This aligns with a Q4 midpoint expectation for global CAG Diagnostics recurring revenue growth of 3.5%-4% — net of an estimated 0.5% of negative effect from severe weather impacts in the U.S. We expect global net price improvement in CAG Diagnostics recurring revenues of ~4%-4.5% in Q4 — including effects from new business agreements — with a consistent outlook for ~5% full year global net price realization.

Our updated full year guidance for reported revenues is \$3,865 million - \$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% - 29.0% 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 ~160 basis points and EPS by \$0.56 per share. Excluding this impact and FX effects — at midpoint -- our operating margin outlook reflects a consistent 40-50 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 have incorporated ~\$0.14 in 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 ~0.5% of full year rate benefit — or ~\$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 limitations.

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 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 and software – supported by a highly capable and tenured commercial organization.

As Brian noted, U.S. Sector and IDEXX U.S. growth have been moderated by cumulative macro pressures on pet owners, which has pressured visit and demand trends at U.S. 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 helped 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 U.S., the continued strong pace of competitive Catalyst placements, coupled with overall placements and including IDEXX inVue Dx pre-orders, 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 based growth supported a 6th 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 a cusp of delivering the newest significant piece of innovation, the IDEXX inVue Dx cellular analyzer, which remains on target for a 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 pre-orders in Q3. This demonstrates the high value that clinicians place on the

new diagnostic insights they will receive as part of our launch menu with ear cytology and blood morphology and the ease-of-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 pre-orders 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 ~25 million dogs around the world that we estimate would benefit from an oncology diagnostic 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 a global roll-out 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 tenth menu addition to the Catalyst platform since 2012. This most recent example of our technology-for-life innovation strategy delivers improved functionality and diagnostics insights to our customers - all while using IDEXX analyzers that have already been purchased and built clinic 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 72k+ Catalyst installed base globally.

Also, at the point of care, IDEXX Catalyst SmartQC launched recently in North America and 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 Dx™ 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 >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 diagnostics 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-base 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 as 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 and 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 Hurricanes 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.