PARTICIPANTS

Corporate Participants

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

Other Participants

Nathan Rich – Analyst, Goldman Sachs & Co. LLC
Chris Schott – Analyst, JPMorgan Securities LLC
Jonathan D. Block – Analyst, Stifel, Nicolaus & Co., Inc.
Michael Ryskin – Analyst, BofA Securities, Inc.
Jack Senft – Analyst, William Blair & Co. LLC
Erin Wilson Wright – Analyst, Morgan Stanley & Co. LLC
David Westenberg – Analyst, Piper Sandler & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the IDEXX Laboratories first quarter 2023 earnings conference call. As a reminder, today's conference is being recorded. Participating in the call this morning are Jay Mazelsky, President and Chief Executive Officer; Brian McKeon, Chief Financial Officer; and John Ravis, Vice President, Investor Relations.

IDEXX would like to preface the discussion today with a caution regarding forward-looking statements. Listeners are reminded that our discussion during the call will include forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those discussed today. Additional information regarding these risks and uncertainties is available under the forward-looking statements notice in our press release issued this morning, as well as in our periodic filings with the Securities and Exchange Commission which can be obtained from the SEC or by visiting the Investor Relations section of our website, idexx.com.

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

In reviewing our first quarter 2023 results, please note all references to growth, organic growth and comparable growth refer to growth compared to the equivalent period in 2022 unless otherwise noted.

To allow broad participation in the Q&A, we ask that each participant limit their questions to one with one follow-up if 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 idexx.com after the earnings 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 first quarter earnings call. IDEXX had a solid start to 2023. In terms of highlights for the quarter, overall revenues increased 10% organically, supported by nearly 12% organic growth in CAG Diagnostic recurring revenues. CAG Diagnostic recurring revenue gains were driven by nearly 14% organic growth in the US supported by solid volume gains and benefits from a higher net price realization.

Key execution metrics remain strong globally, reflected in record first quarter premium instrument placements, continued solid new business gains, and sustained high growth and recurring veterinary software revenues. Operating profits and EPS increased 18% on a comparable basis, reflecting solid organic revenue growth, better-than-expected gross margin gains, and benefits from a $16 million customer contract resolution payment.

These strong results reflect the durability and resiliency of the IDEXX business model and benefits from our ongoing focus on execution. We've incorporated our Q1 results and positive adjustments to our full-year financial outlook, which we'll discuss later in my comments. Let's begin with a review of our first quarter results.

First quarter organic revenue growth of 10% was driven by 11% CAG gains and solid 8% growth in Water. Overall organic revenue gains were moderated by 2% declines in our LPD business and approximately $4 million of revenue headwind related to lower human COVID testing revenues, a business area that we winded down completely in Q1.

CAG Diagnostic recurring revenue increased 12% organically reflecting 14% gains in the US and 8% growth in international regions. CAG Diagnostic recurring revenue growth was supported by global net price gains in the 8% to 9% range consistent with our expectations. Overall organic revenue gains were also supported by 14% organic growth in veterinary software and diagnostic imaging revenues.

CAG instrument revenues were down 7% organically reflecting comparisons to high prior-year levels, program pricing effects, and global mix. IDEXX CAG Diagnostic recurring revenue growth remained solidly above sector growth levels. In the US, we achieved a 1,350-basis-point growth premium compared to relatively flat same-store US clinical visit growth levels in Q1. These results reflected benefits from execution drivers including higher net price realization. Solid US volume growth was supported by new business gains, high customer retention levels and continued increases in diagnostic frequency and utilization at the practice level.

International CAG Diagnostic recurring revenue gains were also supported by strong IDEXX execution reflected in higher net price realization, sustained new business gains, and a double-digit expansion of our premium instrument installed base. Double-digit growth rate benefits from these drivers were moderated by impacts from challenging international macro conditions which continue to pressure same-store volume growth trends in the quarter.

Globally, IDEXX achieved strong organic revenue growth across our modalities in Q1. IDEXX VetLab consumable revenues increased 12% organically with double-digit gains in the US and international regions. Consumable gains were supported by 11% year-on-year growth in our global premium instrument installed base reflecting double-digit increases across our Catalyst premium hematology and SediVue platforms.

We placed 4,425 CAG premium instruments in Q1, an increase of 3% year on year compared to very strong prior-year levels, building on the record placement levels achieved in the fourth quarter of 2022. The quality of instrument placements continues to be excellent, reflecting 7% growth in new and competitive Catalyst placements. ProCyte One momentum also continues to be strong globally reflected in a global installed base that more than doubled over the last year to 9,400 units.

Global rapid assay revenues expanded 12% organically, driven by strong growth in the US, reflecting solid volume gains and benefits from higher net price realization. Global lab revenues increased 11% organically reflecting strong gains in the US and mid-single-digit growth in international, with growth in key international regions moderated by macroeconomic impacts which have pressured same-store sales.

In terms of other areas of our CAG business, veterinary software and diagnostic imaging revenues increased 14% organically. Results were supported by continued high levels of organic growth and recurring software and digital imaging revenues and ongoing momentum in cloud-based software placements.

Water revenues increased 8% organically in Q1 reflecting solid gains in the US, Europe and Latin America, including benefits from net price improvement. The integration and performance of our recent Tecta-PDS acquisition has progressed well, expanding our capabilities in water safety testing.

Livestock, Poultry and Dairy revenue decreased 2% organically as solid gains in the US and Europe were offset by comparisons to high prior-year sales levels and herd health screening, and reduced revenues from non-core food and safety products in certain regions.

Turning to the P&L, Q1 profit results were supported by a 150-basis-point improvement in reported operating margins, reflecting 10% organic revenue growth, solid gross profit gains, and benefits from a $16 million customer contract resolution payment. Gross profit increased 9% in the quarter as reported and 12% on a comparable basis. Gross margins were 60.3%, up 120 basis points on a comparable basis.

Benefits from higher net price realization, lab productivity initiatives, improvement in software service gross margins and business mix offset inflationary cost effects. Later timing of lab staffing increases and select operational upsides also supported Q1 gross profit results. As expected, reported gross margin gains were moderated by a 50-basis-point negative impact related to foreign exchange changes, including lapping of prior year hedge gains.

Operating expenses increased 5% year on year as reported in the quarter and 7% on a comparable basis. This was net of a $16 million or 6% operating expense growth offset related to the customer contract resolution payment. As planned, we saw higher growth in sales and marketing and R&D expense in the quarter related to specific factors including the return of in-person sales meetings this year in advancement of key innovation initiatives.

EPS was $2.55 per share in Q1, an increase of 12% as reported and 18% on a comparable basis. Foreign exchange reduced operating profits by $12 million and EPS by $0.11 per share in the quarter, including impacts from the lapping of prior-year hedge gains.

Free cash flow was $144 million in the first quarter. On a trailing 12-month basis, our net income to free cash flow conversion ratio was 65%. For the full year, we're maintaining our outlook for free cash flow conversion of 80% to 90% including estimated capital spending of $180 million.

Our balance sheet remains in a strong position. We ended the quarter with leverage ratios of 1.1 times gross and 1 times net of cash, down modestly from Q4 levels. Share repurchases over the last year supported a 1.9% reduction in diluted shares outstanding. We didn't allocate capital to share repurchases in the first quarter, as we managed our balance sheet relatively more conservatively in the current interest rate environment.

Turning to our 2023 P&L outlook, we're refining our full-year outlook to incorporate our solid Q1 operating results and updated estimates for foreign exchange impacts. We're updating our full-year guidance for reported revenues to $3.615 billion to $3.7 billion. This includes a $10 million positive adjustment for foreign exchange impacts, which we now estimate will provide a relatively modest full-year headwind to reported revenue growth.

Our updated outlook for overall organic revenue growth is 7.5% to 10%. Our Q1 results track towards the high end of this range, and we're maintaining consistent high-end targets for our performance this year, reflecting benefits from execution drivers and the potential for reduced clinical visit growth headwinds. As part of our financial management approach, we incorporated risk estimates to our targeted growth performance in the low end of our organic revenue growth range, including potential effects from macroeconomic conditions. We raised the low end of our full-year organic revenue growth outlook by 0.5% in our updated guidance, incorporating our solid start to the year.

We're maintaining our outlook for solid operating margin performance in 2023 with an expectation for reported operating margins in the range of 29% to 29.5% for the full year. At the high end, this reflects an outlook for approximately 340 basis points in comparable operating margin expansion. This includes approximately 280 basis points in combined benefit from the $16 million Q1 customer contract resolution payment and the lapping of $80 million of discrete R&D investment in the second quarter of 2022.

We now estimate that foreign exchange will reduce reported operating margins by approximately 60 basis points this year, slightly higher than earlier projections, which included impacts from the lapping of $26 million in 2022 hedge gains. Our updated EPS outlook is $9.33 to $9.75 per share reflecting a $0.06 per share increase in our low-end estimate. We continue to estimate that foreign exchange impacts will decrease EPS by approximately $0.23 per share for the full year with the bulk of this impact in the first half.

In terms of our operational outlook for Q2, we're planning for overall organic revenue growth consistent with the midpoint to higher end of our full-year growth outlook range with approximately 1% of reported growth headwind from year-on-year FX changes. In terms of Q2 operating margins, we're planning for reported operating margins in the range of 29% to 29.5%. This reflects expectations for relatively consistent operating margin performance year on year, adjusting for about 70 basis points in negative foreign exchange impacts, and benefits from comparisons to prior-year results, which included $80 million in discrete R&D investment.

We provided details on our updated outlook in the press release tables and earnings snapshot. Overall, we're applying a disciplined financial approach that advances our growth strategy and mitigates potential macro risk to ensure delivery of continued strong financial performance.

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. I'm pleased to share that IDEXX had a very strong start to 2023, driven by sustained execution of our growth strategy. Demand for Companion Animal medical services continues to grow, supported by IDEXX innovation and direct customer engagement. Veterinarians continue to focus on meeting these high levels of demand with the best possible medical care, with diagnostics as an essential component of this care equation. IDEXX remains a chosen trusted partner to veterinarians who appreciate how our world-class products and connected ecosystem enable high standards of care while resulting in growth of a significant profit center within their clinics.

IDEXX's strong execution is reflected in double-digit total company organic revenue growth supported by strong expansion of global CAG Diagnostics recurring revenues. Growth in this recurring revenue annuity was supported by solid contribution from new business gains, sustained high customer retention rates, and net price realization aligned with our expectations. Our commercial teams drove another record quarter for global premium instrument placements and excellent levels of cloud-based software placements.

IDEXX products and services offer solutions to improve clinic productivity and support the significantly expanded and underserved demand we've seen for pet healthcare in recent years, including net pet additions in the US of 2% in 2022, twice the pre-pandemic trend line. These efforts supported strong IDEXX growth as we continue to work effectively through the near-term sector headwinds related to clinic capacity constraints and global macro conditions.

Today I'll discuss how IDEXX's sustained execution against our strategy to drive the adoption and utilization of diagnostics helped deliver continued strong financial results. First, I'll provide an update on our commercial execution which, through education and customer engagement, drives relevant utilization of IDEXX's innovative solutions.

IDEXX commercial teams delivered another record first quarter global premium instrument placements to start 2023 building on very strong prior-year results. Our commercial teams demonstrated a continued ability to advance placement quantity and quality. This is reflected in strong growth in Catalyst placements at new and competitive accounts globally driving solid EVI achievement. These commercial results are highly encouraging as we address a significant opportunity for an estimated 220,000 worldwide premium instrument placements, and gives us confidence that we have the right strategic playbook in place.

IDEXX professionals provide world-class software-enabled products that are in high demand and supported by a wide menu of customer-friendly marketing programs that enable adoption of new technology. These results also reflect continued strong clinical interest in using IDEXX's products and services to not only meet the increased demand for pet healthcare, but to deliver the best possible level of care.

Our commercial execution is supported by the multiplier benefits that flow from IDEXX innovations as evidenced by the success of our newest hematology analyzer, ProCyte One. ProCyte One provides customers with an attractive in-clinic hematology solution. Its small footprint, easy pay-per-run model and lower cost come without sacrificing CBC performance. IDEXX premium placements have benefited from strong ProCyte One adoption to date thanks to sustained high attach rates with Catalyst as defined by ProCyte One placements either with a Catalyst or at an existing Catalyst customer.

The result is a multiplier benefit supported by clinics who choose to outfit their in-clinic suite with IDEXX products. As a result, we are nearly halfway to the incremental 20,000 premium hematology placement objective we shared at Investor Day following ProCyte One's launch, while the strong attach rates should also help IDEXX penetrate the long-term worldwide placement opportunity.

Key to developing this long-term opportunity will be increasing customer engagement in international regions. We're leveraging our successful VDC model to build strong relationships with international customers as evidenced by sustained strong new business gains and a 19% increase in Catalyst placements. A strong performance is allowing us to deliver solid CAG Diagnostics recurring revenue growth in international regions despite continued macro headwinds which have pressured same-store clinic visit levels.

Customer engagement remains excellent as evidenced by high reach to revenue levels in the first quarter, including benefits from our expanded commercial sales force in targeted regions. A flywheel is beginning to turn in these countries where we've seen excellent gains from new business, strong interest in engaging with customer marketing programs, and solid overall volume growth. Commercial expansion is an important early step in our international strategy, supporting recent efforts to optimize our reference lab network, roll out highly relevant products like ProCyte One and drive further adoption of software tools like VetConnect PLUS, our cloud-based diagnostics portal.

Software innovation continues to be a key driver of our growth strategy globally. IDEXX software solutions are a key enabler of diagnostics utilization, creating a connected ecosystem that helps improve diagnostics workflow while providing deeper clinical insights and supporting pet owner communication. It's an attractive standalone business as well.

Strong PIMS placements in the first quarter were supported by continued preference for cloud-native products with IDEXX well positioned to address this trend. Placements of cloud-based products maintained the strong velocity we saw coming out of 2022 and represented greater than 90% of total placements, supported by continued high interest in our ezyVet and Neo solutions which are seamlessly integrated into our product offering. This provides customers with options when it comes to picking the best, most relevant PIMS solution for their clinic size and workflow complexity.

Our strong first-quarter placement performance supported double-digit recurring revenue growth with an attractive gross margin profile, and we're on track to achieve this year a PIMS footprint that is over 50% cloud based. This milestone is especially important in the current veterinary clinic environment where productivity is a priority in addressing the sustained high levels of demand exiting the pandemic.

By embracing IDEXX's cloud-based ecosystem, customers gain the advantage of an easy-to-use software stack that touches every area of the veterinary clinic. And the benefit of these tools is enduring for our customers, evidenced by strong engagement metrics across applications, including increasing rates of our Web PACS user base that are power users, as well as sustained rates of VetConnect PLUS users who use the software as part of their daily routine. Adoption and continued use of these products allows veterinarians and their staff to spend more time focused on the care they deliver to their patients rather than on costly time-intensive administrative activities. Our software strategy is to increase cloud adoption and build increased business and clinical functionality into IDEXX software solutions.

Another use case of our innovation agenda is our 4Dx Plus test, the gold standard test for canine vector-borne disease testing. The current 4Dx Plus test is our fourth version of a multiplexed canine vector-borne disease diagnostics over the past 20-plus years, with improved sensitivity of anaplasma and two-times increase in the ability to store the product at room temperature. This is a true testament to our technology-for-life strategy, and supported 12% global organic rapid assay recurring revenue growth and solid customer gains in the first quarter.

A full vector-borne screen using 4Dx Plus is recommended over a heartworm-only test, given significant increases in incidence and prevalence of vector-borne diseases over the past 10-plus years. And yet, in 2022, less than one in every five dogs received this comprehensive level of testing. 4Dx Plus enables veterinarians to deliver this higher standard of care with follow-up testing and care protocol guidance provided through DecisionIQ, which aim to drive better health outcomes while encouraging increased diagnostics testing.

Furthermore, our entire rapid assay franchise is supported by the SNAP Pro Analyzer. The Analyzer not only simplifies the workflow when running a SNAP test, but also ensures the diagnostic results flow seamlessly to VetConnect Plus and ultimately result in charge capture and invoicing at the point of sale. This is a clear case of how our products' integral components of our connected software ecosystem improve in value over time while delivering a multiplier benefit to our customers and drive IDEXX CAG Diagnostics recurring revenue.

The sustained execution against our commercial and innovation agendas is made possible by an unrelenting focus on our customers, and ensuring they have world-class experience with IDEXX. This takes multiple forms, all focused to ensure our customers have the resources they need to provide the best possible levels of medical care. Continued 99%-plus product availability and reliable fast reference lab service turnaround times provide them with important business continuity and are the result of our investment in manufacturing and supply chain logistics teams, facilities, and relationships.

Additionally, the support of the high-touch, highly knowledgeable sales teams that we have built out over the decades ensures they have the products and services that are right for their busy clinics. Our customers realize the benefits of the IDEXX partnership every day, and in turn reward us with their business and their enduring loyalty, as measured by another quarter of consistent high customer retention rates.

Providing our customers with reliable consistent support is even more essential right now given the dynamic backdrop of our sector. High demand for animal medical services, combined with sustained labor supply constraints continue to create productivity and growth challenges at the clinic level.

Taking our customer support efforts a step further, we recently published an empirically based study which examines the drivers of productivity within a practice and helps customers to understand their productivity strengths and areas for opportunities. Through this rigorous effort, we found three key drivers of practice productivity. Number one, workflow, which includes staffing models like optimized technician-to-veterinarian mix, and staff- and patient-friendly physical layout to the practice. Number two, technology; we're digitizing each step of the patient workflow to remove high-effort administrative routines. And number three, the role of culture, including clarity of roles and responsibilities, investments in training and staff effectiveness, and aligned incentives to drive teamwork and achievement of practice goals.

As a result of this initiative, we believe there's still great opportunity for clinics to improve productivity measures, and we look forward to educating and supporting our customers in these efforts. Opportunities to do so could result in 30% or more incremental visit capacity, even for practices that are in the top cohort of productivity. We are integrating elements of these efforts into our strategy and commercial approach this year.

With that, I'll now conclude the prepared remarks portion of the call by thanking our nearly 11,000 IDEXX colleagues for the commitment and passion they bring to our purpose-driven work every day. Your efforts not only help provide a better future for animals, people, and our planet, but you also supported IDEXX in starting 2023 on a strong financial note. We have an attractive sector and a strong track record. And the opportunity ahead of us which is significant is to work with our customers to elevate the companion animal healthcare standards through increased diagnostics utilization. The tireless work of the IDEXX team has positioned us well to deliver solid growth and financial results into the future. So on behalf of the management team, thank you for your continued focus on enhancing the health and well-being of pets, people, and livestock.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll take our first question from Nathan Rich.

<Q – Nate Rich – Goldman Sachs & Co. LLC>: Thanks for the question.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Hi, Nate.

<Q – Nate Rich – Goldman Sachs & Co. LLC>: Hi. Good morning. Thanks for the questions. Had two on the updated guidance. Brian, on top line, I think you've talked about targeting the high end of the CAG Dx recurring revenue range at 11%. First quarter came in a bit better than expected. I guess, any change in how you're thinking about getting to that for the full year? And any change in assumptions on either the US or international outlooks based on what you've seen through the first quarter?

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Thanks for your question. We have a similar outlook at the high end. I think we feel very good about the start to the year, particularly in the US, and so I think the drivers of that, we highlighted pricing being a positive driver for us this year and the execution is consistent with what we had expected. And I think the executional drivers that helped to deliver solid volume growth in the US we're very encouraged by and looking to build on that.

I think internationally we also saw excellent execution drivers. I mentioned we had double-digit growth benefit from things like new business gains including benefits from strong instrument placements, higher pricing. We are seeing continued headwinds from macro factors in international markets, so the growth was somewhat below our higher-end targets.

So on balance, we feel a good start to the year. Still think that's a good full-year goal for the company and looking forward to continuing to execute well to deliver against it.

<Q – Nate Rich – Goldman Sachs & Co. LLC>: Okay. And then I wanted to ask a follow-up on the operating margin guidance. I think you mentioned unchanged outside of the FX impact. Gross margin I think you said came in better than expected but was offset I guess by I higher OpEx. Could you maybe just talk about how that plays out over the balance of the year? Especially sales and marketing I think was up meaningfully as a percent of revenue in the first quarter. Just what drove that increase and how should we think about the run rate for the full year?

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Yeah, let me try to break that down. We had an expectation for the first quarter for an improvement in reported operating margins of 50 to 100 basis points. We came in at 150, so that was better than expected. That was principally on the gross margin line. We saw some benefit in the quarter from later-than-timed planned staffing in areas like our labs and some specific operational factors, more Q1 related. So I think we feel good about the overall performance and do think that the high-end goals that we have are still appropriate.

As we highlighted coming into the year, we knew that we had some costs coming back here, just more interface with our customers, more travel. I think we're anticipating that to continue. We're trying to support our employees in a higher-inflation environment as well, and we do have investments that we're advancing in areas like R&D. I know we've highlighted in the past a couple new platforms that we're advancing that we're investing behind. So those are all captured in our outlook.

I think on balance our performance is very much in line with what we were targeting. Again, good start to the year. The full year goals, if we adjust out the R&D lapping and the customer contract resolution payment for a solid 60-basis-point comparable improvement and right in line with what we were hoping to achieve this year and we'll look forward to working to deliver on that.

<Q – Nate Rich – Goldman Sachs & Co. LLC>: Great. Thank you.

Operator: Our next question comes from Chris Schott from JPMorgan.

<Q – Chris Schott – JPMorgan Securities LLC>: Great. Thanks very much. Just two questions for me. The first was just, any comments on the Mars Heska proposed acquisition and the impact that could have on the competitive landscape? And then my second one was just a question on price. Just trying to get my hands around just feedback you're getting on the moves you've made. And are you seeing any impact at all on demand from these changes? We think about whether it's wellness visits or less acute conditions. I know that seems to be topic that's top-of-mind for investors, so just love to have any just directional comments of what you're hearing on price would be appreciated. Thank you.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. Good morning, Chris. This is Jay. So let me take your second question first, and then I'll address the acquisition.

Overall, we think pricing to our customers is appropriate within the current environment. From an overall demand standpoint, we see that holding up well relative to the macro conditions as we've described it and the different pricing scenarios.

From just a pet owner perspective, we think they've demonstrated a willingness. We see this both from experience as well as just the survey work, that they continue to prioritize healthcare for their pets. And keep in mind that diagnostics is a relatively small piece of the overall patient spend on their pets. Specifically to your point around wellness versus non-wellness, we've seen the two pretty much move in lockstep over the last five quarters or so.

Of course, if the macro, when we've seen sort of the macro deterioration from an environmental standpoint during the pandemic, there was some divergence. But generally, at least over the last year plus, they've moved in lockstep. And just an interesting I think proof point to that is you take a look at the 4Dx diagnostics testing. It's been highly durable. That's primarily a wellness test and we think indicative of the good end-customer demand and pull-through.

From the standpoint of the Mars Heska acquisition, just as a matter of policy, we don't comment on specific customer relationships except to say that no single customer comprises more than 10% of our consolidated revenues. Our customer base is very large and diversified, I think as you know, and we've maintained and have excellent relationships and a great long-term track record with our corporate customers. They, I think, very much appreciate the broad solution portfolio, both on the diagnostics as well as software side where we can support their objectives to grow and deliver great care. And probably just as importantly, footprint-wise, to be where they are.

I think the acquisition itself reflects what we've said all along, the attractiveness of the animal health sector and more specifically diagnostics, that we think long-term, that it can help support the overall market or sector development of diagnostics.

<Q – Chris Schott – JPMorgan Securities LLC>: Thank you.

Operator: [Operator Instructions] We'll take our next question from Jon Block from Stifel.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: Yeah. Hi. It's Jon from Stifel. Can you guys hear me okay?

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Yeah, we can.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Morning. Got you, Jon.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: Sorry. The operator jumped in. I guess it's their routine. Yeah, sorry about that. First question, Brian, it was a good quarter, the CAG Dx revenue of 11.6% was above the high end of your prior 8.5% to 11%. And I think you expected on the last call 1Q 2023 to be more of the midpoint of the annual guide, and you came above the high end. So maybe just talk to us on what drove the upside. I believe price was in line with your prior thoughts. So do you chalk it up more to US than international? That would be my knee-jerk reaction but would love to hear from you. And then if it is in the US, is it more specific to call it IDEXX drivers? Or did you see some upside, call it to industry visits relative to where your head was at three months ago?

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Yeah. Thanks for the question, Jon. We did have a really good start to the year in the US. I think our pricing, as you pointed out, was globally in line with what we had planned, so we feel good about the execution there.

I would say the US clinical visits were overall for the quarter a little better than we anticipated. They were flat, as you mentioned, and we thought we'd still be working through some compares on that front. I think we got some benefit really early in the quarter I think with some positive growth that helped there. And our own volume execution, the difference between how much growth is coming from our volume relative to clinical visits was a solid 5%. That's kind of pre-pandemic levels, so that was in line with kind of what we were hoping to achieve. So on balance US combined came through quite well.

I think international was in line I would say with what we were guiding towards. We had very good execution, as noted, and continue to see some macro headwinds that we're working through.

So on balance I think we feel good about the start to the year as I shared earlier, and we have some goals at the higher end that would help us deliver 10% overall organic growth which is our goal and we think we're working well towards that and acknowledging that we're in an environment where there is some macro risk and we think it's prudent to have a range of estimates there and we continue to monitor those trends as we work through the year, but I think on balance feel good about the start.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. And I would just build on that to say that – I would build on Brian's comments and just emphasize the excellent commercial drivers that we've talked about. Certainly pricing, as Brian mentioned. New customer acquisition has been strong, both US and internationally. Customer retention rates continue to remain strong. I think the customer interest and appetite for technology, we see that in premium instruments placement as well as software, and I think that's really reflective of some of the capacity challenges that they see.

So overall, I think from an execution standpoint, very strong quarter.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: Perfect. That was helpful, guys. Thanks for that. And then next one might have a couple parts to it. But, Brian, just below the line for the guide, is it essentially a wash? Like there's some less interest expense but there's less share repo. You had some wording around the hedges and the way that flows through that change. So just broadly speaking, below the line, is it a wash when we think about your current 2023 EPS versus where it was back in February?

And then the second part of that question is, you guys, even if you keep it at a high level, can you just talk about what needs to be done for the two new point-of-care systems? And are those initiatives running in parallel, just when we think about timing there? Thanks for your help.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Yeah. Just to clarify on the profit guide. Our operating margin outlook is consistent. We have a slightly higher headwind from FX and so on a comparable basis the high end's the same and the low end's up I think slightly. We obviously have some positive flow-through from raising the low end in the revenue, so that's the EPS adjustment. And you're correct, we had lower interest expense projected offset by relatively lower projected reductions in shares outstanding so that was a net flat effect.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah, and I would just say from a product development standpoint, I'm not going to be specific, obviously, but we are running parallel programs. We continue to invest in software, assays, instruments. We spend a lot of money on innovation. We think there's great opportunities across the portfolio, and we'll continue to provide updates as we get closer.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: Thank you.

Operator: Our next question comes from Michael Ryskin from Bank of America.

<Q – Mike Ryskin – BofA Securities, Inc.>: Great. Thanks for taking the question, guys.

Jay, Brian, I want to start on OUS specifically. Could you just clarify? I think you said 8% OUS. Was that CAG recurring or CAG total? And then just in general, did that come in line with expectations? Anything specific you can call out on OUS results? I think you just commented on the macro environment. But anything more on that you can point to either by region or by the factors that are driving that?

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Yeah, let me clarify the numbers. I'll let Jay talk to the regional dynamics. It was 7.6% CAG Dx recurring. And, Mike, I would say that's pretty much in line with the outlook that we shared for the quarter. I think the execution drivers were strong, in line. We had 17% growth in instrument placements, double-digit benefit from things that weren't related to same-store sales dynamics, and we continue to see the kind of pressure that we've seen for macro trends on the same-store side. But we've been building that into our outlook, and I think that was in line with what we were anticipating and kind of consistent with our full-year view as well.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. I mean, just to support that, we've seen, relatively speaking, more macro impacts outside the US. As I had mentioned previously, our execution drivers internationally have been excellent. We've done seven commercial expansions. And when you take a look at those targeted expansions, we're doing well. We think we're bringing more focus from a frequency and visit standpoint, the type of successful model that we've implemented in the US.

From an instrument and business-focused standpoint, we've seen excellent results in premium instrument placements, and I think 19% on the Catalyst side, really strong. The quality has been really strong from both competitive and new placements. And so we're optimistic and I think the regions or the countries within the regions are working through their specific challenges, but we're optimistic that the long-term demand is there.

<Q – Mike Ryskin – BofA Securities, Inc.>: Okay. Great. Thanks. And then for the follow-up, going back to the organic growth guide for the year and your assumptions on vet visit growth, I think previously you'd said that on the high end of the guide you're baking in a relative flattening of clinical vet visit growth trends as you work through the year. And as you said, you kind of saw them in the first quarter already. So what do you need to see from vet visits or the clinic trends to say, okay, we're here already, things have definitely improved, we're ready to revise it upward. Is that just a matter of seeing these trends continue for another quarter or so? Or is there something that you saw in between the numbers that gave you pause?

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Maybe I can provide a little color there on the US side where we're more explicit in how we're thinking about the visit trends. As I mentioned, the overall, it was clinical visits were relatively flat in the quarter. I think we are encouraged that it appears that we're working through the headwinds that were related to capacity staffing, so that seems to be normalizing.

I would point out it was stronger earlier in Q1 than how we exited the quarter, so the visits were down a bit in March and that continued into early April. So I think this is an ongoing dynamic in terms of just the macro backdrop and the ongoing adaptation of clinics to adding staffing, kind of getting back to their normal growth rates. But I think we're feeling good about working through some of those headwinds that we highlighted and an area that we'll continue to monitor. And we're actively trying to help clinics, through productivity improvement, get back to the positive growth rates that they've been able to support in the past.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. To Brian's point, the practices from our perspective, speaking now to the US, have largely stabilized. We've seen stabilization of hours for example. I think there's been really strong appetite and enthusiasm for technology, specifically with a focus on productivity and supporting capacity.

Certainly we've seen heightened interest in software as a way of supporting staff productivity, workflow optimization, removing the high-administrative, unrewarded tasks. Keep in mind, if you take a look at 2022, there was a 2% net addition in pets in the US. That's twice the level pre-pandemic. So I think there's a lot of underserved demand out there, and practices are working through how they serve that demand. So good progress.

I think the other thing is Finding the Time study we think identifies some things that practices are doing and could do and there's been a lot of receptivity and enthusiasm for that work and how they can find a couple minutes here, couple minutes there that cumulatively make a big difference.

<Q – Mike Ryskin – BofA Securities, Inc.>: Got it. Really helpful. Thanks, guys.

Operator: And we'll take our next question from Ryan Daniels from William Blair.

<Q – Jack Senft – William Blair & Co. LLC>: Yeah. Hey, guys. This is Jack Senft on for Ryan Daniels. Thanks for taking my question. I have two just pretty quick ones. First, can you remind us on the ProCyte One placements goal? I believe the 20,000 goal was for 2026. Correct? So I believe in your prepared remarks you said that you're already over 50% to that target. So was curious if you can touch on the good performance on these placements that seems to be almost ahead of schedule. And then two, do you expect the adoption to slow down, or is there a good amount of upside potential to that 20,000 target? Thanks.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. So let me address the – so we had said that we had 9,400 ProCyte One placements, which is nearly half of the goal itself. And I think what we're seeing is a really nice fit with the platform itself from both a performance and cost and footprint standpoint. So there's been a lot of I think customer adoption based on the fact that it fits their practice needs.

Keep in mind, internationally, which is where we think the larger part of the marketplace is, in many countries, it's hematology first. They do sort of a general body systems diagnostic and then in some cases include chemistry or may include chemistry with that. So in those hematology first marketplace, they see this as a key addition to their in-clinic diagnostics suite, and we've done well with that.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Yeah. I'd just highlight the multiplier benefits, too, of the ProCyte One launch. If you look at the growth in the overall installed base, we had double-digit growth across Catalyst premium hematology and SediVue. And we had a very strong quarter for Catalyst and SediVue placements, building on the lapping of the launch last year that was very successful for ProCyte One. So I think the benefit of having additions to a platform isn't just related to the platform itself but to the overall business growth.

<Q – Jack Senft – William Blair & Co. LLC>: Perfect. Understood. Thanks. And just as a quick follow-up, over the past few quarters, the narrative of cloud within the animal health industry seems to have accelerated. And just given the financial hardships that practices currently face, can you just talk about the pricing differences between average cloud-based solutions versus on-prem or hardware solutions? And then for new practices starting up, are they typically going just right into the cloud? Or I guess what is opportunity here? Thanks.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. So new practices are generally going right into the cloud, so they're trying to buy and use contemporary technology. Cloud-based systems are obviously priced as SaaS services, so there's a monthly annuity. There's still upfront costs in terms of data migration and onboarding and training and those things associated with getting a practice up to speed.

I think the big difference, from a cost standpoint at least, is in the lifecycle of the solution itself that the practices don't have to worry about replacing servers every three, four, five years and paying for ongoing maintenance. The other big benefit is they get software updates pushed to them on a pretty frequent basis without having to necessarily send somebody out to the site and take the system offline, whether it's a couple of hours or more.

So I think there's a lot of cost benefits over the lifecycle of the solution as well as feature functionality improvements that they get. And therefore that's driving, I think, at least in the veterinary industry, a newfound appreciation for updating to more modern or contemporary software solutions.

Operator: Our next question comes from Erin Wright from Morgan Stanley.

<Q – Erin Wright – Morgan Stanley & Co. LLC>: ...oncology diagnostics – sorry. Hopefully you can hear me now.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Hey, Erin. Yeah, sorry, we missed the beginning of your question.

<Q – Erin Wright – Morgan Stanley & Co. LLC>: Yeah. No worries. No worries. So can you talk a little bit about the pet oncology diagnostics opportunity? Why does it make sense for you to partner in this category versus buy? And do you think that this could be a more meaningful driver for you longer term or more limited? Just curious how you're thinking about that at this juncture. Thanks.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. Thank you, Erin. We think it's a very significant opportunity just based on the number of pets that develop cancer. It's the biggest cause of death, mortality within the pet population. So if you take a look at the US, there's 6 million dogs a year that get cancer, three times the mortality rate of the next sort of greatest cause of death.

The diagnosis and staging and treatment protocols today are very fragmented. They tend to be late by the time it's very clinically obvious, and then you have to take the sample and send it out to the pathology lab and at that point cancer may be stage three, stage four, difficult to treat.

The other piece is that there aren't a lot of oncology specialists. If you take a look at North America, it's 350 to 400. So most of the cancer diagnosing and treatment is happening through the general practitioner who aren't specialists. They have a lot of other responsibilities. And so being able to provide diagnostics as a testing regime for them we think is a really attractive opportunity. We both partner and have internal development efforts.

Keep in mind that from a cancer standpoint, just our pathology submissions on a global basis, over 1.3 million a year, so this isn't a new area for us. This is something that we're well versed in and provide a service across the globe for us. And this is just really expanding or enhancing so that we move earlier into being able to support our customers to diagnose cancer while it's still – you have better chances of being able to treat it.

<Q – Erin Wright – Morgan Stanley & Co. LLC>: Great. Thanks. And I know you commented a little bit on the Heska Mars deal, but do you anticipate more opportunities in terms of corporate relationships coming up outside of obviously Mars? And with a couple of their relationships on the Heska side coming up for bid within the next year, is that meaningful at all? What's the competitive response? Thanks.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah, I mean, generally, we have relationships with most corporate accounts across some of our different testing modalities or product lines. We do think there are some customers who may be sensitive to continuing with our competitors. It's a very competitive market. It still comes down to, we're going to have to compete customer to customer, and we think the broadest possible solution to support their growth objectives is what, at the end of the day, wins. And we'll continue to focus on that.

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

<A – Brian McKeon – IDEXX Laboratories, Inc.>: And this is our last question.

Operator: And our last question comes – I'm sorry. Excuse me. From David Westenberg from Piper Sandler.

<Q – Dave Westenberg – Piper Sandler & Co.>: Hi. Thank you for taking the question here. Sorry if it went over my head in terms of the FX here. I think on the change in guide, it was from 50 basis points on revenue to 20 basis points on revenue, but then on EPS it went up. Sorry, I might be a little thick-headed here. Can you explain what's happening on the top line? I think of you as an exporter, so I'm just a little bit confused there. I know you've given commentary, but maybe I'm a little slower than others.

And then I'll just ask my second one up front here. Again, another one on the Mars Heska thing, but I want to go at it at a different angle. Your win rate against Antech has been pretty high. And at least my checks with veterinarians tend to see that they don't like going against their competitor. So is there any chance you can have additional win rates on the inside lab here with that angle and how to think about that dynamic? Thank you very much.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Yeah. So, David, just on your FX questions, you're correct on revenue. We think the full year is relatively flat now versus what we thought was a 0.5-point headwind. That's the $10 million positive adjustment in revenue. It didn't flow through to EPS just given mix of currencies and hedge positions. So we have a – share all the assumptions relative to rates, but we have a model that we go through looking at all those factors. And it didn't have a net impact just because we're largely hedged at this point and just the mix of the impacts weren't as favorable.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. And then to answer your second question, we don't think about it necessarily as migration of one modality to the other based on the competitive landscape. Customers use both in-clinic as well as reference labs. They choose partners based on a variety of your product and solution differentiation, cost, service, footprint, all those things. So we think there's still going to be the primary drivers of who corporate customers and independent customers choose. And I'll leave it at that.

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

So with that, we'll conclude the Q&A portion of the call. Thank you for your participation this morning.

And to summarize, I'll reiterate that IDEXX is committed to the significant multi-decade opportunity to increase the standard of care for companion animal healthcare, and we look forward to executing our organic strategy to address this opportunity. IDEXX teams continue to perform at a high level, building out the investments we've made over the past decades to develop our sector. And we look forward to continuing strong progress against our strategy through 2023.

And now we'll conclude the call. Thank you.

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