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PARTICIPANTS

Corporate Participants

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

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Michael Ryskin – Analyst, BofA Securities, Inc.
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Ryan Daniels – Analyst, William Blair & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the IDEXX Laboratories Fourth Quarter 2022 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 fourth quarter 2022 results, please note all references to growth, organic growth and comparable growth refer to growth compared to the equivalent period in 2021, unless otherwise noted.

To allow broad participation in the Q&A, we ask that each participant limit their questions to one, with one follow-up as necessary. We appreciate you may have additional questions, so please feel free to get back in the queue and, if time permits, we'll take your additional questions. Today's prepared remarks will be posted to idexx.com Investors 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, everyone. I'm pleased to take you through our fourth quarter and full year 2022 results and to provide an overview of our financial outlook for 2023. IDEXX had a strong finish to 2022, reflected in our fourth quarter performance. Revenues increased 7% organically, driven by 8% organic gains in CAG Diagnostic recurring revenues and continued strong growth in our software and Water businesses. Operating profits increased 14% as reported and 17% on a comparable basis, benefiting from solid gross margin gains and OpEx leverage. Combined, these factors enabled delivery of $2.05 in EPS, up 14% on a comparable basis.

IDEXX execution drivers supported delivery of full year financial results at the high end of our updated guidance range. This performance is reflected in a 1,200 basis point US CAG recurring revenue growth premium to US clinical visits in the second half of 2022, driven by a solid volume growth premium and higher levels of price realization. We sustained record high customer retention levels and solid new business gains globally and achieved a record level of annual CAG premium instrument placements, which drove a 13% year-on-year expansion of our global premium instrument base.

Effective P&L management supported sustained full year comparable operating margins, adjusted for discrete R&D costs, aligned with our updated 2022 goals. These performance trends position us well as we enter 2023 and advance our growth strategy. This year we're targeting a return to 10% organic revenue growth at the high end of our initial guidance range. This outlook is supported by continued strong IDEXX execution and net price benefits captured in our goals for double-digit CAG Diagnostic recurring revenue gains across our US and international regions.

We're also targeting solid comparable operating margin gains, building on the higher profit levels we achieved through the pandemic. We'll walk through the details of our financial guidance later in my comments. We'll highlight the building blocks of our growth outlook and discuss how we're factoring in expectations for overall sector trends and potential macro impacts into our planning. We'll also review estimates for effects from FX and interest rate changes on our reported results in 2023.

Let's begin with a review of our fourth quarter results. Fourth quarter organic revenue growth of 7% was supported by solid organic gains across our major business segments, including 8% organic growth in our CAG business, 10% organic growth in Water, and 6% organic growth in LPD revenues. CAG Diagnostic recurring revenues increased 8% organically in Q4 compared to 13% prior year growth levels, reflecting 9% gains in the US and 6% growth in international regions. On a two- and three-year basis, Q4 results were in line with strong Q3 performance.

We achieved continued double-digit organic revenue growth benefits from key execution drivers, including expansion of our premium instrument base, solid new business gains, sustained high customer retention levels and expansion of diagnostics revenue per visit, including benefits from higher price realization. Overall organic revenue gains were also supported by 17% growth in veterinary software and diagnostic imaging revenues.

CAG instrument revenue was down modestly, reflecting placement mix and comparisons to high prior year placement levels. In terms of CAG sector demand drivers, we estimate same-store diagnostics revenue in US veterinary practices increased 7% in Q4. These gains continue to be supported by expansion of diagnostic test frequency and utilization, reflected in a nearly 10% increase in diagnostics revenue per clinical visit that included diagnostics. Clinical visit levels declined 2.8% in the quarter, with consistent growth trends across wellness and non-wellness categories, as we continue to work through impacts from reductions in vet clinic capacity from peak levels and lap the significant step-up in demand we saw in 2021, including benefits from new patient growth.

IDEXX's US CAG Diagnostic recurring revenue growth of 9% in Q4 continues to outpace sector growth trends. IDEXX's US performance was supported by a 1,200 basis point growth benefit from IDEXX execution drivers, including approximately 7% in net price gains and continued solid growth contributions from customer additions and leverage of IDEXX innovation.

IDEXX achieved solid organic gains across our testing modalities in the fourth quarter. IDEXX VetLab consumable revenues increased 9% organically, reflecting solid gains across US and international regions compared to strong prior year growth levels. Consumable gains were supported by a 13% increase in our global premium installed base in 2022, reflecting double-digit gains across our Catalyst, Premium Hematology and SediVue platforms. We placed 5,065 premium instruments in Q4, down modestly from high prior year levels.

The quality of placements continues to be excellent, reflected in 3% global gains in new and competitive Catalyst placements, including 7% gains in the US. We also saw 5% growth in new and competitive Premium Hematology placements globally, leveraging strong customer interest in ProCyte One.

Rapid assay revenue grew 9% organically, supported by benefits from net price increases and solid volume gains in the US. Global lab revenues expanded 8% organically, reflecting high-single-digit gains in the US, which were impacted to a degree by holiday week weather impacts and improved organic growth in international regions.

CAG Diagnostic recurring revenue results were supported by relatively higher levels of net price realization, including benefits from our second half price initiatives. We estimate net price changes contributed approximately 7% to worldwide CAG Diagnostic recurring revenue growth in Q4, reflecting product and service enhancements and coverage of inflationary impacts. As we'll discuss, we've incorporated an expectation for a 7% to 8% global net price growth benefit for the full year in 2023, building in effects from annual list price changes which were communicated recently to our customers.

In other areas of our CAG business, veterinary software and diagnostic imaging revenues increased 17% organically in Q4. Results were supported by continued strong growth in recurring revenues and ongoing momentum in cloud-based software placements. For the full year 2022, veterinary software and diagnostic imaging revenues reached $251 million, up 15% organically and 22% as reported. This includes benefits from the ezyVet acquisition, which continues to track above our acquisition model projections.

Turning to our other business segments, Water revenues increased 10% organically in Q4 and for the full year 2022, reflecting strong performance across our major regions, including benefits from net price improvement and volume gains. Livestock, Poultry and Dairy revenues increased 6% organically in Q4. Results benefited from growth in herd health screening, shipment timing and improved performance in China where we worked through comparisons to high prior year levels for African Swine Fever and core Swine testing.

Turning to the P&L, we achieved strong operating profit and comparable operating margin gains in the fourth quarter. Operating profits increased 14% as reported and 17% on a comparable basis, driven by gross profit gains and OpEx leverage. Gross profit increased 6% as reported and 10% on a comparable basis.

Gross margins were 58.5%, up 110 basis points on a comparable basis. Net price gains, higher software service gross margins, lab productivity gains, and comparisons to higher prior year investment levels and business mix all contributed positively, offsetting inflationary cost effects.

Operating expenses were flat as reported and up 4% on a comparable basis in the quarter. We benefited from investment prioritization and leverage from our prior commercial expansions, as well as favorable comparisons to higher prior year OpEx levels related to incentive compensation accruals, the ezyVet acquisition and specific R&D investments.

For the full year 2022, operating margins were 26.7%, supported by strong second half gains. On a comparable basis, full year operating margins declined 240 basis points, driven by 230 basis points of impact from discrete R&D investments.

Q4 EPS was $2.05 per share, up 14% on a comparable basis. Fourth quarter EPS results reflected $0.05 in tax benefits from share-based compensation activity and $0.07 in headwind from foreign exchange changes, net of $9 million in Q4 hedge gains. Full year EPS was $8.03, a decline of 1% on a comparable basis, net of approximately 9% of EPS growth impact from discrete R&D investments. For the full year, stock-based compensation activity provided $13 million or $0.15 per share in tax benefit, lowering our effective tax rate by 150 basis points.

Foreign exchange reduced Q4 and full year revenue growth by approximately 4% and 3%, respectively. For the full year, foreign exchange reduced operating profits by $25 million and EPS by $0.22 per share, net of foreign exchange hedge gains of $26 million. Foreign exchange trends have improved significantly since our last call update, resulting in relatively lower projected financial impacts in 2023, which we've captured in our outlook.

Free cash flow was $394 million for 2022 or approximately 58% of net income, net of $149 million in capital spending. This performance reflects 25% to 30% of free cash flow conversion impact this year from discrete R&D investments, higher inventory levels aligned with sustaining product availability, higher deferred R&D tax credits, and investments in a major facility expansion.

Free cash flow conversion came in modestly below our guidance outlook of 60% to 65%, reflecting higher than forecast year-end working capital levels, including impacts from timing. We're targeting improvement in inventory levels in 2023, which is reflected in our outlook for 80% to 90% in free cash flow conversion this year.

Our balance sheet remains in a strong position. We ended 2022 with leverage ratios of 1.3 times gross and 1.2 times net of cash. Our 2023 interest expense outlook incorporates current forward interest rates and expectations for a modestly lower net leverage ratio this year.

We allocated $68 million to repurchase 199,000 shares in the fourth quarter. For the full year 2022, we allocated $811 million to repurchase approximately 2 million shares. Effects from share repurchases support our projected 1% to 1.5% reduction in diluted shares outstanding for the full year 2023.

Turning to our 2023 full year outlook, we're providing initial guidance for reported revenues of $3.590 billion to $3.690 billion. On an organic basis, this reflects a range of 7% to 10% growth overall and 8.5% to 11% growth in CAG Diagnostic recurring revenues.

Our 10% overall organic growth high-end outlook is aligned with our long-term goals and reflects targets for 11.5% CAG Diagnostic recurring revenue gains in the US and 10% growth in international regions. These targets incorporate a continued high growth premium from IDEXX execution drivers, including growth benefits from our expanded global premium instrument installed base, new customer gains, and increases in testing utilization supported by IDEXX innovation. Our high-end outlook also incorporates expectations for a relative flattening of clinical visit growth trends in the US as we work through 2023.

As noted, CAG Diagnostic recurring revenue gains will be supported by an estimated 7% to 8% full year growth benefit from net price realization, with expectations for 8% to 9% global net price gains in H1 and 6% to 7% net price benefit in H2. In addition to benefits from solid CAG Diagnostic recurring revenue growth, our overall growth outlook reflects goals for continued strong growth in our veterinary software and Water businesses.

We expect these gains will be moderated by a flat to modest organic growth at LPD revenues in 2023, reflecting current macro trends and approximately $10 million of impacts from lower human COVID testing revenues. The low end of our overall organic growth outlook of 7% incorporates potential risk to our targeted growth goals, including effects from macroeconomic conditions.

In terms of reported revenue, we now estimate foreign exchange will reduce full year revenue growth by approximately 0.5% at the rates assumed in our press release. FX revenue growth headwinds are projected to be approximately 3% in Q1 with relative improvement in the second half of the year. In terms of sensitivities to changes to the FX rates assumed in our press release, we projected a 1% change in the value of the US dollar would impact full year reported revenue by approximately $12 million and operating income by approximately $3 million to $4 million, net of currently established hedge positions.

Our reported operating margin outlook for the full year 2023 is 29.0% to 29.6%. At the high end, this reflects an outlook for approximately 340 basis points in comparable annual operating margin expansion, including approximately 230 basis points of benefit from lapping discrete R&D investments in 2022.

We're planning for constrained gross margin gains on a comparable basis in 2023, as benefits from pricing and lab productivity initiatives help to offset product and labor inflationary cost impacts, including effects from steps we've taken to ensure high levels of supply chain and service continuity. We estimate foreign exchange will reduce full year reported operating margins by approximately 50 basis points, driven by the lapping of the $26 million in 2022 hedge gains.

Our 2023 EPS outlook is $9.27 per share to $9.75 per share, an increase of 16% to 21% as reported and 19% to 26% on a comparable basis, including approximately 10% of EPS growth benefit from the lapping of discrete R&D investments. We estimate that foreign exchange will reduce full year EPS by approximately $0.23 per share at the rates assumed in our press release, with the bulk of this impact in the first half. We also expect impacts in 2023 from higher interest expense of approximately $0.11 per share compared to 2022. Our EPS outlook factors in a 1% increase in our overall effective tax rate to 22% in 2023, reflecting lower projected benefits from share-based compensation activity.

Our free cash flow outlook is for a net income to free cash flow conversion ratio of 80% to 90%. This reflects estimated capital spending of approximately $180 million or approximately 5% of revenues, including approximately $35 million of spending or about 5% of free cash flow conversion impact related to the completion of a major facility expansion.

Overall, we're well positioned to deliver strong financial performance in 2023. In terms of our operational outlook for Q1, we're planning for overall organic revenue growth closer to the midpoint of our full year guidance range, as we continue to work through some effects from relatively higher prior year clinic capacity comparisons and macro impacts on demand in international regions.

In terms of our profit outlook, we're planning for a 50 to 100 basis point year-on-year improvement in reported operating margins in Q1. This includes benefits from a customer contract resolution payment of $16 million received in Q1 that will be recorded as an offset to operating expense as well as expectations for foreign exchange impacts and relatively higher OpEx growth in the first quarter related to specific factors such as the return of in-person sales meetings this year.

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

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

Thank you, Brian, and good morning. IDEXX delivered excellent results in the fourth quarter, reflecting sustained high levels of execution of our growth strategy. Demand for veterinary services remained strong, resulting in increased diagnostics frequency and utilization per clinical visit, building on accelerated gains achieved through the pandemic. To address this strong demand, veterinarians look to IDEXX as their preferred partner in diagnostics and software, which supported high levels of care and helped drive our solid growth results for the fourth quarter and full year.

For Q4 and the full year 2022, we achieved 8% organic growth in CAG Diagnostics recurring revenues, supported by double-digit contribution in growth from IDEXX execution drivers. This strong performance is reflected in record full year placements for both CAG Diagnostics premium instruments and software practice information management systems, continued solid contribution from new business gains, sustained high customer retention rates, and net price realization aligned with our expectations. These execution growth drivers helped to offset impacts from adjustments in vet clinic capacity, following a period of extraordinary growth during the pandemic, as well as macro impacts which globally pressured clinical visit levels in 2022.

IDEXX's ability to deliver solid organic growth with underlying strong performance in operational metrics demonstrates the attractiveness and durability of our business as well as the outstanding work by teams across our organization to deliver results every day. Our decades-long strategic focus on diagnostics sector development, including building strong commercial engagement and innovating to expand adoption of technologies that integrate diagnostics and information management, position us to build on this momentum.

This morning, I'll highlight how IDEXX advanced our commercial and innovation priorities in 2022, while delivering strong financial results. I'll also discuss our areas of focus for 2023 that build on this progress. Let's start with an update on our commercial execution. High levels of execution by IDEXX commercial teams, who are trusted advisor to our customers, continue to drive revenue gains above sector growth levels. These teams delivered fourth quarter global premium instrument placement levels that were the second highest for any quarter in company history, supporting 13% growth in our global premium instrument installed base and contributing to record annual premium instrument placements for the full year 2022.

IDEXX's highly accurate and easy-to-use in-clinic platforms allow clinicians to gain the deeper diagnostic insights necessary to delivering high levels of pet healthcare. These platforms are highly integrated into practice workflow, giving customers the tools necessary to meet higher levels of demand for pet healthcare services. This strong placement performance throughout 2022 highlights how IDEXX has been able to support veterinarians during this past year of capacity constraints in a highly effective way.

Not only was the magnitude of placements impressive, but they were also of very high quality. This is reflected in strong growth for Catalyst and Premium Hematology placements at new and competitive accounts globally. These gains demonstrate strong clinical interest in IDEXX's products and the compelling value proposition that our multi-modality strategy and customer-friendly marketing programs provide to veterinarians.

New and competitive placements helped drive US revenue contribution from new business in the fourth quarter above historic levels, which is an encouraging signal for future growth as this new business will drive future recurring revenue flow-through, supported by very high customer retention levels. Customer retention rates remained at or above 97% across our major modalities throughout 2022, another trend that highlights the strong capabilities of our commercial organization and the value that an IDEXX relationship brings to our customers.

International premium placement growth was strong as well, while also reflecting high quality placements at new and competitive accounts, which supported solid net customer gains across modalities. This is the result of our global commercial team's increased leverage of our successful VDC model, which encourages a laser-focus on engaging with veterinarians, educating them on the value of diagnostics and the way IDEXX can support their needs, and ultimately building a loyal installed base, a key driver of our international growth opportunity.

Installed base growth was supported by double-digit Catalyst placement growth in European countries where we have completed expansions since 2021. Commercial expansion is a key component of our international strategy, along with an optimized reference lab network and software tools like VetConnect PLUS. These results highlight our progress executing against that strategy. Moving forward, we look forward to building on these initiatives to address the two-thirds of our global TAM represented by international regions.

The clinical and economic benefits of growing our installed base of premium instruments on CAG Diagnostics recurring revenue are notable. Let's take an example of Catalyst, our chemistry analyzer, and our Catalyst SDMA Slide or SDMA in combination with Total T4. In 2022, customers ran and paid for over 5 million SDMA Slides on a global basis in well over 40,000 clinics, supported by VetConnect PLUS and IDEXX DecisionIQ. These are customers who have decided that SDMA, an early biomarker for kidney impairment, is a clinically important parameter in a wide variety of use cases. It's a great example IDEXX brings not just highly differentiated innovations to our customers, but then invests in creating awareness, education, adoption and ultimately, continued utilization as part of our sector development strategy.

Next, an update on our software strategy and our progress in delivering an integrated solution of information management with our reference lab and point-of-care diagnostics platforms. IDEXX's software and diagnostic imaging businesses continue to deliver high placement and recurring revenue growth. This business includes an end-to-end stack of software products that create a seamless connected ecosystem across the whole vet clinic, which in turn enables deeper diagnostic insights, supports pet owner communications, creates workflow efficiencies, and helps support greater diagnostics usage and revenue growth.

Customers have never had a greater need for these solutions, as capacity constraints in some instances have limited their ability to support patient demand. This is evidenced by record PIMS placements and high-teens growth in Web PACS subscribers in 2022, which helped drive a continued shift towards recurring revenue for this business.

On a full year basis, software and diagnostic imaging revenues reached over $250 million, up 15% organically. As we expand our software business, our recurring revenues are growing even faster, supporting strong gains in profit contribution, and also reinforcing the value of software as a standalone business.

PIMS placements continued to be driven by customer adoption of cloud-based solutions. As we highlighted at Investor Day this past year, the cloud is gaining momentum rapidly in the veterinary software space. We are in the midst of significant shift towards these type of products, and IDEXX's software portfolio is very well positioned to address this trend towards efficient, easy-to-use cloud-based solutions.

Cloud-based PIMS comprised approximately 90% of placements in 2022, delivering a durable revenue stream and significant benefits to CAG gross margins over the – given the SaaS-based model for these products. We are on track for cloud-based PIMS to represent over 50% of our global footprint this year and expect this shift to accelerate over the rest of this decade.

These results were achieved while our software team was tasked with delivering the rapid integration of the ezyVet solution into our business, a multi-year priority that is tracking well and

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driving revenue and profit delivery ahead of the expectations established during the acquisition process. This progress is a great example of how IDEXX consistently delivers high levels of return on invested capital, by deploying resources in the right place, at the right time, and delivering seamless execution and integration. This not only benefits our financial performance, but also drives the sector forward and puts world-class products in the hands of our customers.

Our software business will continue to provide attractive, highly synergistic investment opportunities. The early success of our cloud-first strategy, anchored by ezyVet, positions IDEXX well over the coming years as software and cloud-native products increase in relevance and importance to veterinary clinics.

In addition to this excellent software performance, strong commercial results were also supported by IDEXX's relentless focus on innovation as a key driver of diagnostics adoption and utilization. 2022 was an exciting year of innovation for IDEXX in multiple ways, starting with continued strong adoption of our ProCyte One premium hematology analyzer which launched in 2021. ProCyte One offers customers very high clinical performance, in an efficient, lower cost, and smaller footprint platform and is critical to our efforts to address the approximately 240,000 worldwide premium instrument placement opportunity, given its relevance in many hematology-first international countries and its high attach rates with Catalyst.

Worldwide placements grew 16% for ProCyte One in the fourth quarter, elevating the installed base of this new piece of technology to more than 8,000 units. This is very strong progress against our target for 20,000 incremental Premium Hematology placements by 2026, and we look forward to building on this momentum to achieve our long-term goals.

In terms of more recent innovation launches, we were excited to announce multiple expansions to our preventive care solutions recently at VMX. These program extensions will provide veterinarians with deeper insights and allow them to detect issues sooner and include the launch of IDEXX Nu.Q Canine Cancer Screen, now available at our US reference lab network, which expands our growing oncology platform by adding a more accessible way for veterinarians to screen for a disease that impacts nearly 6 million dogs annually in the US. And secondly, the rollout of IDEXX Preventive Care Simple Start, formerly Preventive Care Challenge, an improved wellness program designed for the capacity-constrained practice, which includes staff training and tools for custom diagnostics profile development and client communications.

At VMX, we also shared an expansion to the menu for IDEXX DecisionIQ, formerly Clinical Decision Support, which now includes endocrine features in addition to the vector-borne disease and chronic kidney disease conditions we rolled out earlier in 2022. This software service applies intelligent insights to patient-specific data and delivers next-step considerations in VetConnect PLUS, valuable insights which support veterinarians to swiftly and confidently move through a case.

Innovation does not stop at the point of launching a new product, however; integrating new technology into practice workflows and protocols and supporting customers with our medical consulting group is an important step in driving adoption and utilization of our diagnostic solutions. We have recently seen good traction in this area with some of our products and services which were launched in 2022.

Our improved 4Dx Plus and Fecal Dx antigen test with detection of flea tapeworms are now included with the Preventive Care Simple Start program we announced at VMX. Another example is FGF-23, a biomarker that helps determine dietary phosphate restriction in cats with kidney disease that is offered through our reference labs, has now been integrated into updated International Renal Interest Society guidelines.

These product rollouts are critical to our long-term efforts to develop the companion animal diagnostics and information management sector. They help drive the consistent positive

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contribution to sector diagnostics revenue growth from both diagnostics frequency and utilization that we saw in 2022 and continued adoption of new technologies to help build off these higher levels in 2023.

The relentless focus on innovation demonstrates IDEXX's commitment to developing our sector and highlights our customer-first approach, which aims to address the most pressing needs of veterinarians. In this context, diagnostics has become an integral way for veterinarians to enable the provision of medical services and to grow their practices, reflecting same-store clinical diagnostics revenue growth of 7% that is outpacing total practice and clinical revenues gains, and becoming a larger contribution to practice profitability. Our customers are hungry for solutions that help them deliver a higher standard of care and help support workflow, client communications, and staff productivity. An additional key element necessary to provide this enablement is product and service continuity and turnaround time.

For these reasons, it is of great importance that IDEXX gives our customers confidence and reassurance that the products and services they need will be available when and where they need them. Our supply chain teams ensured this continuity by delivering 99% product availability and on-time delivery levels again in the fourth quarter, a standard we achieved in each quarter of 2022. This performance gives us the pride to confidently say that if and when our customers ever need our help, we're there to help them and, in turn, our customers reward us with high retention levels and world-class NPS scores for our products and services. This customer-first mindset is fundamental to our strategy, and we look forward to bringing it to our work on a daily basis in 2023.

That concludes our prepared remarks. Before we transition to Q&A, I would like to recognize our nearly 11,000 IDEXX colleagues for their ongoing passion and high levels of performance, which supported solid growth in 2022 in a very dynamic external environment. Their work helps us work towards providing a better future for animals, people and our planet today, while also addressing the significant sector development opportunity ahead of us.

It's an honor to report the results of this excellent execution against our strategic priorities and it's exciting to share how IDEXX remains well positioned to deliver solid growth and financial results into the future. So, on behalf of the management team, I'll say thank you to our colleagues for the enthusiasm and engagement you bring to our work every day. You are at the core of our progress we've made against our purpose to enhance the health and well-being of pets, people, and livestock.

With that, we'll now open the line for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] At this time, we'll take your first question from Nathan Rich from Goldman Sachs. Please go ahead.

<Q – Nate Rich – Goldman Sachs & Co. LLC>: Hi. Good morning. Thanks for the question. I guess starting with the US, how are you thinking about the cadence of US clinical visit growth this year? It sounds like 1Q, it will be similar to what you saw in the fourth quarter.

And then, Brian, I think you said the high end of guidance reflects a flattening of visits for the year. So, could you maybe just talk about your expectation for how the year plays out? And do you envision a return to positive clinical visit growth by the back half of the year in the high end of your guidance?

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Thanks for your question, Nate. We are expecting that we'll still be working through some of the compares in the US to the pullback in capacity that kind of happened through the first half of last year. And so, you're correct, I think that's something we're acknowledging. In the Q1 outlook, we'll still be working through that as well as some of the macro impacts internationally.

The guidance that we provided, as you pointed out the higher end, does for the US assume that we see a flattening of the trend and that's meant to imply in the back half of the year. And so, that would assume a relative level of improvement, but is not projecting growth. I think Jay can talk a bit more to that, but I think that's an appropriate assumption we feel with the changes that we've been working through.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. Good morning, Nate. I would just qualitatively add that what we see from a market standpoint and customer standpoint is they make good progress in working through some of the capacity constraints. They're not all working at the same pace. We've seen a bolus of practices who have just had care workflows added, staff particularly licensed veterinarians per overall veterinarian, so the mix is more towards staff and they've been able to increase productivity in that sense.

So, I think just as we forecasted, it's taken time, but I think the profession is making the progress, they're investing in technology. We've seen that with the purchase and installation of our in-clinic laboratories, software solutions, particularly cloud-based software solutions is something that veterinarians are looking to as a way of supporting staff productivity, client communications, just overall workflow optimization within the practice.

<Q – Nate Rich – Goldman Sachs & Co. LLC>: Okay. Great. And maybe just to follow up on that, you obviously talked about a higher level of net price realization expected for 2023. Could you maybe just talk about what the reaction from customers have been to the price increases that you took in 2022? And does the outlook kind of assume any impact on the level of utilization or volumes that you expect? And could you maybe also just comment on, is the price realization kind of brought across the different product lines in CAG? Thank you.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. So, let me take the back end of your question first. It is. So, this is a global approach that we've taken and we think pricing is appropriate within the current context. I'll say from a qualitative standpoint, we see demand holding up well relative to both the macro impacts in the economy as well as the different pricing scenarios we've articulated.

Keep in mind that from a customer standpoint that they're highly appreciative and they value the overall IDEXX value proposition, goods and services and they recognize that on a sustained basis we've invested and we'll continue to invest in innovation, but also the customer experience which is critically important to them, so that they can focus on providing care and don't have to worry about diagnostic service levels and just overall product continuity.

The other thing that I would say is they also recognize that we have taken a technology for life approach. If you take a look at our Catalyst, our chemistry analyzer over the last decade, there have been nine parameter extensions or upgrades, so that a customer who purchased our Catalyst chemistry analyzer today or 10 years ago would have the exact same features and functionality, and we think that's highly differentiating not just in our industry, but really any industry.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: I'd just reinforce too that our goals at the higher end which is what we're shooting for as a company, we reflect sustaining the solid volume growth premium that we've been able to achieve. So, independent of the pricing benefit, how much we've been able to drive volume growth above clinical visit growth and it reflects sustaining that strong level of performance.

<Q – Nate Rich – Goldman Sachs & Co. LLC>: Thanks very much.

Operator: We'll hear next from Chris Schott from JPMorgan.

<Q – Chris Schott – JPMorgan Securities LLC>: Great. Thanks so much for the questions. Just following up on the pricing one, can you just talk at least directionally about longer-term pricing dynamics? Not looking for specific numbers, but should we think about more normalized price increases as we look out to 2024 and beyond and this is kind of like a unique window with what's happening with inflation and everything else? Or is this going to be ongoing kind of trend with larger price increases? And then just a follow-up after that.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah, Chris, good morning. We're not projecting beyond this year, so this is guidance for 2023. We recognize just as a pricing philosophy, we want to maintain a good balance between the value we deliver and the price of our testing services. Keep in mind also that veterinary practices that the diagnostics is a core enabler to have medical services within the practice, it's a large profit center for them. They typically mark it up.

But having said that, we want to make sure we don't get in front of where the value is and we're taking a very long-term approach to developing the overall sector. And you've seen that historically in the way we've approached it. I think the difference in 2022 and 2023 is inflation and the macroeconomic cost impacts of running a business.

<Q – Chris Schott – JPMorgan Securities LLC>: Great. And then just can you just elaborate a little bit more on your outlook for Europe? I guess, how much of a macro headwind are you seeing in these markets? And maybe just talk a little bit about how you see those headwinds playing out as we move through 2023. Thank you.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Yeah. So, our goals, we came out of the second half of the year with about 6% CAG Diagnostic recurring growth. Our goals at the higher end for next year are 10%, and so that's obviously an improvement.

This year, it's tougher to calibrate. We don't have the same clinic-level data granularity, but I think the same-store sales headwinds in places like Europe were probably in the mid-single-digit range, so softer than the US. And so, consistent with what we're doing in our US business, we're targeting sustained execution driver leverage, so getting – growing faster than the same-store sales or the clinic visit growth levels and we are building in some expectation for less of a headwind, but still some headwinds.

And I think that's appropriate just given the macro backdrop that our international markets are still working through. But we are targeting double-digit growth. We've got the pricing benefits that Jay

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highlighted to help support that and still feel very optimistic about the long-term potential in our international regions.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah, let me pick up on that thread of the long-term potential. We see two-thirds of the future TAM outside our US geography. So, that's something that we've invested in over time. We've had seven expansions, commercial expansions over the last few years. Currently, there's some macro headwinds, as Brian described them. But I think the opportunity is very significant over time and we're approaching it in a similar way that we've approached our sector development in the US, which is through innovation, through engagement with our commercial model as partners, and really helping create the awareness and education and ultimately adoption.

So, we're very optimistic over the longer term. We think also I would just highlight the role that ProCyte One has played in our international geography. It's a very compelling solution for customers. It fits from a performance, profile, cost standpoint. Many of these markets are hematology first markets, and we're seeing very nice uptake and we expect as we've laid out at Investor Day that 20,000 Premium Hematology placements over the planning horizon.

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

Operator: We'll hear next from Erin Wright with Morgan Stanley.

<Q – Erin Wright – Morgan Stanley & Co. LLC>: Great. Thanks. Does your guidance for 2023 assume any sort of contribution from the two new platforms that you plan to launch here hopefully in the near future? And how should we think about those? Are they more of a 2024 event, and should we also just be thinking about the timing and magnitude in terms of the contribution from the innovation pipeline? Thanks.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. But we haven't provided any specifics on the two new point-of-care platforms, and as we get closer to launch, we'll talk about those.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Yeah. They're not in – there's nothing related to those platforms in the guidance.

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

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Other than the cost to support continuing innovation.

<Q – Erin Wright – Morgan Stanley & Co. LLC>: Okay. Great. And on the cost side, I guess 7% to 8% price realization obviously tracking above historical and I think, Brian, you talked about some of this in your prepared remarks. But what are some of those key factors that we should be kind of aware of that are limiting the full drop-through from a pricing perspective to the bottom line? Thanks.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: The inflationary costs are real. We on the product cost front took a number of steps this year to ensure that we have high product availability and it's been a challenging kind of environment to manage the supply chain dynamics. Our operational teams have done a fantastic job on that front, but we did make choices to ensure we've got supply and that's going to be flowing through in our product costs for a period of time and there are higher labor costs as well.

I think the price increases that we advanced, I think, reflected in our margin outlook were appropriate given some of the dynamics that we're working through and we're able to improve gross margins through initiatives like productivity activity and initiatives in our lab operations and just a continued focus on growing our recurring revenues at a strong rate. But on the gross margin front, that's the primary impact and I think we're always trying to be balanced with our pace of overall investment and that's allowing us to deliver solid margin improvement overall at the higher end of our guidance range.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. I would also add just on the commercial front, we're back to more of a normal type operational cadence. We attended VMX and VMX was the biggest show in its history. We've had sales summits from a customer visit standpoint. Our field organization is – the majority of visits are now in person. So, it's much more of a pre-pandemic type operational cadence.

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

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Thank you, Erin.

Operator: Michael Ryskin with Bank of America, your line is open.

<Q – Mike Ryskin – BofA Securities, Inc.>: Great. Thanks for taking the question. Brian, I think in your earlier comments you talked a little bit about the IDEXX premium, the bridge between the underlying vet visit volume and price and then your actual revenue growth. I think you said that the high end of the guide assumes a similar premium to what you'd seen previously. Is there a lower premium at the lower end of the guide? Can you talk us through sort of what your expectations are for that between the 7% and the 10% and what are you thinking in terms of the IDEXX growth premium?

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Right. Thanks for the question, Mike. So, just starting with the high end, let me use the US. So, we've got an 11.5% growth goal with 7% to 8% pricing, that's approximately implied about 4% volume growth and with a – some level headwind from visits as we work through the first half of the year. That gets us to kind of the volume growth premium that we've been delivering and kind of consistent with pre-pandemic trends. So, that's how we're thinking about it.

We have a range which we think is appropriate to calibrate for risks to that outlook, primarily macroeconomic impacts. And so, I think that's not linked to one specific factor, but I think it's something that we think is prudent. It's the way we plan the business to make sure that we have financial plans where we can deliver solid profit gains if things don't all go the way that we anticipate. And so, again, it's not linked to one specific factor, but it builds in potential macro headwinds or if things don't recover the way that we're targeting in terms of the clinical visit trends.

<Q – Mike Ryskin – BofA Securities, Inc.>: Okay. And then for the follow-up, we're seeing last year in 2022 and this year some very specific product launches coming from Heska and Abaxis and others in the space. So, I'm wondering if you could touch on the competitive landscape just a little bit and kind of tied into that previous question as well as any changes you're seeing there, anything that's come up in conversations with customers, how that might factor into your pricing strategy.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. Good morning, Mike. We've said for a long time the diagnostics market is a very attractive market. There's a lot of competitive intensity. Nothing has changed on that front. We believe that through the customer lens that our overall solution portfolio is highly differentiated, the combination of our in-clinic laboratory, our reference laboratory, software, the connectivity of it all really helps support the practice mission.

We see that if you take a look at our new and competitive placements which we provided both for Catalyst and now for Premium Hematology, we're doing extremely well. We're growing our software and Web PACS and diagnostic imaging businesses very well. We feel very good about our focus on the customers and helping them to achieve their goals and we think it's reflected in the results.

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Operator: Mr. Block, do you have anything further – or Mr. Ryskin, my apologies.

<Q – Mike Ryskin – BofA Securities, Inc.>: No, that's it. Thank you.

Operator: We'll move next to Jon Block from Stifel.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: Great. Thanks, guys. Good morning. First one, Brian, maybe just a clarification. I thought you said a $16 million customer contract resolution. Was that in the first quarter of 2023? I'm not sure I heard you properly. And if so, is that in the GAAP 2023 EPS guide? I'm landing at $0.15-ish to the bottom line. Maybe you can comment on that. And last, just bolt-on, is that an offset to OpEx, if I'm right on all these assumptions, not a rev line item. And I'll start with that clarification, please.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: I think you got all that right. It is a Q1 2023 factor that we highlighted in our Q1 outlook and it is recorded as an – it's an other income item for us which is recorded as an offset to G&A. And that's correct.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: I got it all right. I don't know if I should push it, but the 9% to 16% comparable earnings growth that you sort of have in the release, once you back out the 10%, is it in that one as well, the 9% to 16% also benefits from the $0.15?

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

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: Okay. Perfect. And then just maybe to follow on Mike's question, I'm just sort of coming at it a little differently, for 2023 clinical visits, it sounds like you're landing around down 1% to 2% for the full year. I don't know, around there. So, if vols are down 1%-ish, 2%, and price is up 7% to 8%, and just to be clear on price, it's 7% to 8%, right? The press release read a little funny, saying they're like 7% to 8% was the case if you're at the high end of your range. I'm guessing price is price. Maybe you guys can clarify that. But to go back to the initial...

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Yeah, that's correct.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: Okay. So, price is price. So, yeah, there was confusion incoming on that. So, if vols are down 1% to 2% and price is up 7% to 8%, if I take your 10% CAG Dx recurring, you land at what we're calling 400 to 500 bps of non-price, non-visit growth, which seems like an ongoing deceleration throughout sort of 2022, certainly the back half of 2022. And I know there's moving parts with US and international, Brian, but sometimes we don't get such great granularity. So, just your thoughts on that 400 to 500 bp non-price, non-visit growth, the deceleration comments, and broadly speaking, is that sort of how we should view the business in the near term until maybe innovation kicks back in? Thanks, guys.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Thanks, Jon. I was trying to follow your analytics. We focus those discussions on our US numbers, just to be clear, because that's where we actually have the reporting. So, the 11.5% overall growth if you use the midpoint of the pricing guide and I do want to clarify the expected pricing benefit is something that we feel very good about across our performance range, so that is – we were focusing on kind of the analytics around our high end to help people understand that.

But going back to the high end of 11.5% CAG US recurring Diagnostic revenue growth, netting out the price benefit, you used the midpoint, that would be about 4% volume benefit. And we didn't explicitly highlight the clinical visit trend, but it bridges back to that 5% to 6% kind of volume growth premium that we saw in the second half. That's about what we've seen pre-pandemic. And so, we're looking – that's what we're shooting for. And all indications are execution is holding up really well if you look at the performance metric and just how we've consistently done, so looking to build on that momentum.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. I would just add to that, if you take a look at the execution metrics around customer retention, new customer acquisition, Brian highlighted price realization which we think is appropriate given the current context. Overall commercial execution has been excellent, and we anticipate being able to continue to execute well in the current year.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: Thanks for the time, guys.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Thank you.

Operator: Ryan Daniels from William Blair, your line is open.

<Q – Ryan Daniels – William Blair & Co. LLC>: Yeah, good morning. Thanks for taking the question. Jay, maybe a big picture one for you. I'm curious if you look back over the last year or so with the capacity constraints your practice clients are facing, have you noticed any material changes maybe either based on your data or conversations with your customer-facing team in regards to how they're using diagnostics? So, changing the point of care to reference lab versus on-site or maybe running larger panels so they don't have to do reruns, just anything like that from a macro trend basis that you're seeing.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. Good morning, Ryan. So, we have not. We continue to see that customers when they use one modality in diagnostics tends to use more of the other modality and vice versa. Testing begets testing. We've seen a continuation of that trend.

We've also seen wellness versus non-wellness testing hold up well. We think that that's really a function of pet owner demand. Pet owners want to be able to get great care, whether for health, happiness, even longevity of their pets, so they're selling into the practices and – for wellness and preventive care visits, so we continue to see that as an important aspect of developing the overall sector.

We do see practices, I think, to a greater extent than in previous times appreciate the role of their staff, retaining their staff, investing in education of their staff. I think they've gotten smarter around the use of technology and the importance of technology. We've seen that in software and the move to cloud-based PIMS systems, but also the applications that integrate and extend the capability of their PIMS systems. So, we think that overall even given the overall macro impacts that we've described, pet owner and consumer demand has held up relatively well.

<Q – Ryan Daniels – William Blair & Co. LLC>: Okay. Thank you for that. And then maybe digging a little bit deeper into some of the clinical decision support, you spent more time, I think, than in the past talking about the cloud and kind of data analytics and using that data. So, can you dive a little bit more into DecisionIQ and how broad that goes in regards to informing point-of-care clinical decisions and how widely used that is from the practitioners that are using it to do next-step diagnostics? Thanks.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: I'd be glad to. DecisionIQ is formerly known as Clinical Decision Support, is part of our VetConnect PLUS application. Keep in mind, just let me paint the broader context here is that the general practitioner is incredible busy. They're responsible for this wide range of clinical and medical services and having DecisionIQ, which can support the decision making which can suggest the possible things that they may not have considered and even, I think, to your question or point, suggest next step tests, we think is an important tool in the hands of veterinarians. We have tens of thousands of practices on a global basis which are now using VetConnect PLUS and therefore DecisionIQ as part of their daily practice.

The ability to support vector-borne disease and now endocrine, that menu will continue to be extended over time. So, it's becoming increasingly valuable in the hands of veterinarians and something that we think over time will just grow, grow in value. But thank you for that question.

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

That's a wrap. We're out of time. I'd like to thank everyone and conclude the Q&A portion of the call. I appreciate your participation this morning. So, in summary, we see a significant decades-long opportunity to increase the standard of care for companion animal healthcare and remain committed to our consistent, strategic approach to address this opportunity. Sustained high levels of performance by IDEXX teams enabled us to build on the decades-long investments in innovation, infrastructure, and commercial capabilities to deliver solid growth and strong financial returns in 2022 and positions us well for 2023.

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

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