



IDEXX Laboratories, Inc.

Q2 Fiscal Year 2023 Earnings Call – Prepared Remarks

Introduction

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

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

Brian P. McKeon

Executive Vice President, Chief Financial Officer

Good morning and welcome to our second quarter earnings call. Today — I'll take you through our Q2 results and review our updated financial outlook for 2023.

In terms of highlights:

- IDEXX achieved strong growth and financial performance in the second quarter, aligned with our full year performance goals.
- Overall revenues increased 10% organically — supported by 12% organic growth in CAG Diagnostics recurring revenues, with double digit gains in U.S. and international regions.
- Key execution metrics remained very strong globally — reflected in record second quarter premium instrument placements, continued solid new business gains and sustained high growth in recurring veterinary software revenues.
- Operating profit results were ahead of our expectations, reflecting solid gross margin gains and operating expense leverage — both benefiting from strong CAG recurring revenue growth.

For the first half of 2023, we achieved 10% overall organic revenue growth and nearly 12% growth in CAG Diagnostics recurring revenues. We also achieved better than targeted operating margin improvement. We've made positive refinements to our full year operational outlook incorporating this performance — which we'll discuss later in my comments.

Let's begin with a review of our second quarter results.

Second quarter organic revenue growth of 10% was driven by 11% CAG gains and 9% organic growth in our Water business. Overall organic revenue growth was constrained by modest gains in our LPD business and ~\$3 million of headwind related to lower OPTI Medical revenues, reflecting the wind down of our human Covid testing business.

CAG Diagnostics recurring revenue increased 12% organically — reflecting 12% gains in the U.S. and 10% growth in international regions. CAG Diagnostics recurring revenue growth in Q2 was supported by global net price gains at the higher end of our targeted 8% — 9% improvement range for the first half of 2023.

Overall organic revenue growth was supported by 13% growth in veterinary software and

diagnostic imaging revenues. CAG instrument revenues were down 6% organically, reflecting comparisons to high prior year levels, program pricing effects and global mix.

IDEXX CAG Diagnostics recurring revenue growth remained solidly above sector growth levels.

In the U.S, we achieved a consistent, strong 1370 basis point growth premium in Q2 compared to same store U.S. clinical visit growth levels, which declined an estimated 1.3% in the quarter. These results reflect benefits from IDEXX execution drivers — including higher net price realization. Solid U.S. volume growth was supported by new business gains, high customer retention levels and continued increases in diagnostics frequency and utilization at the practice level.

International CAG Diagnostics recurring revenue growth improved organically to 10% in Q2 — reflecting positive volume gains and benefits from higher net price realization. International results were also supported by strong IDEXX execution — reflected in sustained new business gains and record Q2 premium instrument placements, which supported a double-digit expansion of our premium instrument installed base. Double-digit growth rate benefits from IDEXX execution offset impacts from challenging international macro conditions — which continued to pressure same store volume growth trends in the quarter.

Globally — Q2 results were supported by strong growth of IDEXX in clinic CAG diagnostic revenues.

IDEXX VetLab® consumable revenues increased 15% organically — with double-digit gains in U.S. and international regions. Consumable gains were supported by 11% year-on-year growth in our global premium instrument installed base — reflecting strong gains across our Catalyst, Premium Hematology and SediVue® platforms. We placed 4,740 CAG premium instruments in Q2 — an increase of 7% year-on-year compared to very strong prior year levels — which

included benefits from our international launch of ProCyte One®. Catalyst placements increased 15% globally — reflecting 8% gains in the U.S. and 19% placement growth in international regions. The quality of instrument placements continues to be excellent — demonstrated by 9% global growth in new and competitive Catalyst placements and solid gains in EVI metrics. ProCyte One momentum also continues to be strong globally — reflected in a global installed base of ~10,800 instruments.

Global Rapid Assay revenues expanded 12% organically in Q2 — driven by strong growth in the U.S., reflecting solid volume gains and benefits from higher net price realization.

Global lab revenues increased 9% organically — reflecting double-digit gains in the U.S. and mid-single digit growth in International, with growth in international regions moderated by macro-economic impacts which pressured same store sales.

In other areas of our CAG business — Veterinary Software and Diagnostic Imaging revenues increased 13% organically. Results were supported by continued high levels of organic growth in recurring software and digital imaging revenues — and ongoing momentum in cloud-based software placements.

Water revenues increased 9% organically in Q2 — reflecting continued solid gains in the U.S., Europe and Latin America, including benefits from net price improvement. The integration and performance of our recent Tecta-PDS acquisition continues to progress well — expanding our capabilities in Water safety testing — and adding ~2% to reported Water growth.

Livestock, Poultry and Dairy revenue increased 1% organically — as strong gains in the U.S. were offset by impacts from lower herd health screening revenues related to reduced China import testing.

Turning to the P&L — Q2 profit results were supported by solid gross profit gains.

Gross profit increased 11% in the quarter as reported and 13% on a comparable basis. Gross margins were 60.7% — up 160 basis points on a comparable basis. These gains reflect benefits from higher net price realization, lab productivity and operational initiatives, improvement in software service gross margins and business mix — which offset inflationary cost effects. As expected, reported gross margin gains were moderated by a 60 basis point negative impact related to foreign exchange changes, including the lapping of prior year hedge gains. While foreign exchange trends have improved — we're expecting ~70-80 basis points of negative impact in year-on-year reported gross margin comparisons in the second half of 2023 — as we work through lapping of \$18 million of prior year foreign exchange hedge gains.

On a reported basis — operating expenses decreased 17% year-on-year, reflecting a 26% favorable growth rate impact from comparisons to prior year levels, which included \$80 million in discrete R&D investment. Adjusting for this effect, operating expense growth was modestly below revenue growth in the quarter, supporting operating margin gains.

EPS was \$2.67 per share in Q2, an increase of 71% as reported. On a comparable basis, EPS increased 77%, including ~54% of growth rate benefit from lapping the \$0.72 per share prior year impact from discrete R&D investments. Foreign exchange reduced operating profits by \$8 million and EPS by \$0.07 per share in the quarter, including impacts from the lapping of \$6 million in prior year hedge gains. Impacts from 2023 foreign exchange hedges were limited in the quarter.

Free cash flow was \$173 million in the second quarter. On a trailing 12-month basis, our net income to FCF conversion ratio was 75%. For the full year, we're maintaining our outlook for FCF conversion of 80%-90%, including estimated capital spending of ~\$180 million.

Our balance sheet remains in a strong position. We ended the quarter with leverage ratios of

0.9x gross and 0.7x net of cash. Share repurchases over the last year supported a 1.0% reduction in diluted shares outstanding. We didn't allocate capital to share repurchase in the second quarter, as we manage 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 first half operating results and updated estimates for foreign exchange impacts.

Our updated full year guidance for reported revenues is \$3,660 million — \$3,715 million, reflecting a 8.5% to 10% organic growth range. This outlook includes a \$15 million favorable adjustment for foreign exchange changes — which we now estimate will have a relatively flat full year impact on reported revenue growth at the rates shown in our press release.

In terms of our operational growth outlook — we're maintaining our performance goals aligned with the high end of our guidance range of 10% overall organic revenue growth, supported by 11% CAG Diagnostic recurring revenue gains. This reflects expectations for consistent strong levels of IDEXX execution — aligned with H1 trends. Our outlook incorporates ~1% of expected H2 headwinds for CAG Diagnostics recurring revenues from equivalent days effects. Consistent with earlier guidance — our high-end outlook for CAG Diagnostics recurring revenue growth reflects expectations for 6% — 7% net price gains and a relative flattening of U.S. same store clinical visit growth trends in H2.

We raised the low end of our full year organic revenue growth outlook by 1% to reflect our strong first half performance.

We've also made positive adjustments to our outlook for operating margin performance in 2023. Our updated outlook is for reported operating margins in the range of 29.3% — 29.7% for the full year. At the high end, this reflects an outlook for ~360 basis points in comparable

operating margin expansion. This includes ~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. Our operating margin outlook reflects expectations for moderated year-on-year comparable gross margin gains in the second half compared to strong prior year levels.

We continue to project that foreign exchange will reduce reported operating margins by ~60 basis points this year — primarily related to impacts from the lapping of \$26 million in 2022 hedge gains. We estimate that foreign exchange impacts will decrease EPS by ~\$0.21 per share for the full year — with ~\$0.02 per share of negative impact in the second half, including effects from hedge gain lapping.

Our updated EPS outlook is \$9.64 to \$9.90 per share. This is an increase of \$0.23 per share at midpoint — reflecting \$0.17 in benefit from our raised operational outlook and \$0.06 in combined benefit from refined interest expense and foreign exchange estimates.

In terms of our operational outlook for Q3, we're planning for organic revenue growth at the lower end of our updated full year growth range — incorporating expected impacts from ~1% of equivalent day headwinds. We expect foreign exchange to provide ~1.5% in reported growth rate benefit in the quarter. We're planning for operating margins in the 28.5% - 29% range, reflecting expectations for relatively consistent comparable operating margin performance, adjusting for unfavorable foreign exchange margin impacts of ~50 basis points driven by hedge gain lapping.

We've provided details on our updated full year outlook in the press release tables and earnings snapshot.

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

Jay Mazelsky
President & Chief Executive Officer

Thank you, Brian, and good morning.

IDEXX once again delivered strong results supported by outstanding execution in the second quarter. We advanced our strategy by engaging customers with integrated testing solutions that support their mission and address real world clinical and practice problems. Demand for medical services remains high and veterinarians see diagnostics as a core enabler to guide individualized best care. As a result, we saw strong diagnostic sector revenue growth, with continued gains in diagnostic testing frequency and utilization. IDEXX remains well positioned to further benefit from these trends thanks to our decades-long focus on diagnostics and the software solutions that deliver key, differentiated insights into the patient's health.

IDEXX's strong results are reflected in double digit total company organic revenue growth, supported by expansion of CAG Diagnostics recurring revenues across regions. For the first time ever – U.S. revenues exceeded \$1 billion in the first half of 2023. IDEXX execution drivers continue to fire on all cylinders as reflected in our financial results, including growth in high quality premium instrument placements, sustained high customer retention levels, contribution from new business gains, and net price realization that remains aligned with our expectations. IDEXX commercial teams delivered yet another record quarter of global premium instrument placements, building off high prior year levels and supporting solid EVI gains for the quarter. IDEXX diagnostics and software solutions deliver key insights and productivity improvements through workflow transformation. These results demonstrate that a greater number of clinicians are partnering with IDEXX with the aim to deliver higher care standards and crucial efficiency gains. This support continues to be important given persistent clinic productivity constraints and a dynamic macro backdrop.

Today I'll discuss how IDEXX delivered continued strong performance through key strategic

initiatives aimed at driving sector development. I'll start by providing an update on our global commercial execution. It's a key component in driving increased testing utilization at both existing customers as well as new-to-IDEXX accounts.

Veterinarians around the world seek testing solutions that provide them with the key diagnostics insights necessary to choosing and delivering the right care path in an efficient and intuitive way. IDEXX commercial teams, as trusted advisors, seek to provide the most appropriate solution given a practice's objectives. There is a deep appetite for point of care solutions that deliver the right performance, ease-of-use, workflow integration and economics. Therefore, it was gratifying to see a record second quarter of global premium instrument placements — with record placements in both the U.S. and Internationally. Second quarter premium placements reflected growth across regions and platforms — highlighting the value that clinicians across different geographies at various stages of practice maturity see in our highly innovative platforms and integrated ecosystem. An important dimension of this success is our menu of customer-friendly marketing programs to adopt IDEXX innovations. The result was continued solid gains in EVI and excellent contribution from new business gains – including a new, key U.S. corporate account. Very strong ongoing placement performance, and our solid relationships with accounts of all types, reinforces our confidence in future flow-through of recurring revenues and our ability to address the estimated 220,000 global instrument placement opportunity.

Our commercial performance this year demonstrates that we have developed the right suite of innovative products to address this significant opportunity. ProCyte One® is a great example of this. It's our newest, easy-to-use premium hematology platform. ProCyte One® boasts efficiency gains including load-and-go reagents and a pay-per-run model — while still delivering uncompromised accuracy. It has been a key driver of strong premium hematology placements since its launch in early 2021, and supported record second-quarter Premium Hematology placements. Not only does the growing hematology installed base support flow-through of

recurring revenues, but also drives our broader in-clinic business. Sustained mid-90% attach rates with Catalyst provide a multiplier benefit that drives growth in our customer base and helps customers realize the benefits of an integrated IDEXX diagnostics suite within their clinics. These "multiplied effects" supported the strong 15% global growth achieved in Catalyst placements in Q2 — with strong gains globally in new and competitive accounts. ProCyte One® also helps to advance our long-term growth strategy in international regions, where most veterinarians are trained to do hematology testing when assessing a patient's baseline health.

Strong second quarter performance included double-digit CAG Diagnostics revenue growth also benefited from the country-level commercial expansions we began in mid-2020. By increasing the density of our commercial reach, IDEXX sales professionals are better able to build relationships with veterinarians and communicate the benefits of diagnostics and software solution utilization — and how IDEXX can support them on that journey. The global opportunity we have identified is significant, and these expanded commercial teams are the tip of the spear in our multi-modality strategy to drive continued sector development. Benefits from these investments are highly encouraging as evidenced by strong installed base growth supported by excellent placements at new and competitive accounts, revenue gains from new business, and improving customer engagement levels in key international regions.

Of additional note, we have also executed a modest expansion of U.S. territories and customer facing professionals based on highly attractive opportunities still before us in our largest geography. We anticipate all hiring to be completed and in place by the end of this year.

In addition to high quality and quantity of instrument placements across regions in Q2, commercial execution helped drive continued adoption of IDEXX innovations, including within our rapid vector-borne disease screening franchise. Our VDC teams have done a great job communicating the health benefits of a full vector-borne disease screen vs. Heartworm-only testing. We see, consequently, 4Dx® Plus making up a greater share of in-clinic vector-borne

disease revenue. This adoption is supported by our growing installed base of SNAP Pros — which provides an integrated solution while managing workflow and ensuring charge capture. These focused commercial efforts, combined with relevant and easy-to-use products, highlights how we continue to build our customer base which positions IDEXX well for long-term growth.

Building on these commercial efforts, IDEXX's growth will continue to benefit from advancement of our innovation strategy, a core component of which is expanding our highly accurate and relevant test menu. We made a significant step forward in this area during the second quarter when we announced the launch of the IDEXX Cystatin B test in our North American Reference Lab network. This novel marker leverages IDEXX IP to help clinicians detect kidney injury, a hard-to-diagnose condition that comprises approximately one-third of all kidney cases seen by veterinarians. Renal Care is a critical area for diagnostics insights since the kidneys regulate blood pressure, electrolyte balance, and red blood cell production while also removing toxins. By adding Cystatin B to our renal portfolio, and by pairing it with IDEXX SDMA, our customers will have access to the most comprehensive view of kidney health, helping them uncover structural injury and impaired kidney function. What's even more exciting is we will leverage our SDMA playbook to support adoption by including Cystatin B in test panels for approximately two million patients annually at no additional cost — helping clinicians realize the benefits of IDEXX's world class diagnostics and deliver a higher standard of care to their patients.

IDEXX diagnostics solutions, like the innovative Cystatin B test, when used in an integrated way with our software portfolio, can contextualize an individual patient's health status and support the veterinarian with interpretation and drawing out the appropriate clinical insights. Our software portfolio which includes a full stack of solutions — many of which leverage cloud-technology — touches all areas of the veterinary clinic. From enabling patient check-ins and the full diagnostics workflow, to pet owner communication and charge capture, IDEXX software solutions create a connected ecosystem that supports greater diagnostics utilization while also

helping our busy customers be more efficient. A key driver of customer interest we see in our software solutions is driven by the high demand customers are seeing for medical services. These solutions appeal to both independent and especially corporate customers, who are increasingly focused on using software to standardize their workflow at scale.

Given this backdrop of high demand for pet healthcare services, busy clinics continue to appreciate the value of cloud-based products, as these intuitive and easy to administer products allow them to spend more time focusing on their patients rather than on time-consuming back-office tasks. And IDEXX cloud-native products — including our ezyVet® and Neo® PIMS and Web PACs™ imaging software — continue to be in high demand as a response to this trend. For example, second-quarter cloud-based PIMS once again comprised over 90% of total PIMS placements and as a result make up nearly 50% of our PIMS installed base. This is a trend we expect to continue and are well positioned to address.

In our Digital Imaging business, record first-half instrument placements supported double-digit organic growth and demonstrate that customers are increasingly choosing IDEXX to partner on this piece of their business — and helps grow our base for future high-margin recurring revenues. One driver of this interest is continued innovation of our Web PACs™ software, which makes it even easier for clinicians to interpret and identify hard-to-detect internal abnormalities. The result of these efforts is an excellent customer experience, which helped earn a world class NPS rating for our Diagnostic Imaging business — one proof point of the solid overall experience that customers of all types have with IDEXX.

This concludes our review of our second quarter results. I would like to extend my thanks to the nearly 11,000 IDEXX employees who helped deliver continued strong performance aligned with our purpose of creating long-term value by enhancing the health and well-being of pets, people, and livestock. We look forward to building on this progress.

Before we move to Q&A, I would like to remind you that we will be hosting our annual Investor Day in August, beginning with a management dinner on Wednesday, August 9th followed by presentations at our Global Headquarters in Westbrook, Maine on Thursday, August 10th at 8 A.M. Thursday's event will also be livestreamed and recorded via IDEXX.com for those who cannot make it in person. This is an exciting opportunity for the IDEXX leadership team to provide updates on our strategy, execution drivers, innovation cycle, and long-term growth potential.

Participating will be members of my senior management team including Dr. Tina Hunt, Executive Vice President, Strategy, Sector Development and Global Operations; Dr. Mike Erickson, Senior Vice President and General Manager, Point of Care Diagnostics; Mike Lane, Executive Vice President and General Manager for Reference Laboratories & Information Technology; Michael Schreck, Senior Vice President and General Manager, Veterinary Software & Services and Corporate Accounts; and Brian McKeon, Executive Vice President & Chief Financial Officer. We are also excited to host a live customer conversation led by Jim Polewaczyk, Executive Vice President and Chief Commercial Officer, to provide a firsthand view of the role of diagnostics within the clinic and how IDEXX is supporting our customers in adapting to the dynamic sector backdrop. The event will last approximately four hours and will conclude with a Q&A session.

And with that, we'll end the prepared section of the call and open the line for Q&A.