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

Michael Ryskin – Analyst, BofA Securities, Inc.
Nathan Rich – Analyst, Goldman Sachs & Co. LLC
Erin Wilson Wright – Analyst, Morgan Stanley & Co. LLC
Chris Schott – Analyst, JPMorgan Securities LLC
Jonathan D. Block – Analyst, Stifel, Nicolaus & Co., Inc.
Brandon Vazquez – Analyst, William Blair & Co. LLC

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Good morning, and welcome to the IDEXX Laboratories third 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 noticed 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 are provided in our earnings release, which may also be found by visiting the Investor Relations section of our website.

In reviewing our third 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 conference call concludes. I would now like to turn the call over to Brian McKeon.

Brian Patrick McKeon, Executive Vice President, Chief Financial Officer & Treasurer, IDEXX Laboratories, Inc.

Good morning, and welcome to our third quarter earnings call. Today, I'll take you through our Q3 results and review our updated financial outlook for 2023.

In terms of highlights, IDEXX achieved solid revenue growth and strong profit gains in the third quarter. Overall revenues increased 8% organically, supported by 9% organic growth in CAG Diagnostic recurring revenues, net of approximately 50 basis points of negative impact from fewer equivalent selling days.

Organic revenue growth was supported by sustained benefits from IDEXX execution drivers, including continued strong premium instrument placements, solid new business gains, high levels of customer retention, and high growth in recurring veterinary software revenues.

Overall, CAG Diagnostics recurring revenue gains in the quarter were moderated by a 2% same-store decline in US clinical visits. This was below our expectations for relatively flattening US clinic visit trends, reflecting ongoing capacity management challenges at US clinics and relatively softer wellness visit levels.

Operating profit results were ahead of our expectations, supported by gross margin gains and operating expense leverage, which enabled EPS delivery of $2.53 per share, up 18% as reported and 16% on a comparable basis.

Based on our strong financial results in the quarter, we're updating our full-year EPS outlook aligned with the higher end of our previous guidance range. This reflects expectations for strong comparable operating margin gains this year. We're also updating our full-year revenue guidance ranges to incorporate our Q3 results and recent sector trends, as well as to reflect the recent strengthening of the US dollar.

We'll review our updated guidance detail later in my comments. Let's begin with a review of our third quarter results. Third quarter organic revenue growth of 8% was driven by 8% organic CAG gains and 7% organic growth in our Water business. Overall organic revenue growth was moderated by 2% organic growth in our LPD business, and approximately $3 million of headwind related to lower OPTI Medical revenues, including effects from the wind down of our human COVID testing business.

CAG Diagnostic recurring revenue increased 9% organically, reflecting 8.3% gains in the US and 10.3% growth in international regions, net of a 0.5% global growth headwind from equivalent days effects. CAG Diagnostic organic recurring revenue growth in Q3 was supported by average global net price improvement of approximately 7%, in line with our expectations for 6% to 7% gains in the second half of this year.

Overall organic revenue growth was supported by 13% organic growth in veterinary software and diagnostic imaging revenues, driven by continued strong gains in recurring software revenues. CAG instrument revenues were down 10% 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, CAG Diagnostic recurring revenue organic growth was 8.3%, including approximately 50 basis points of negative impact from fewer selling days in Q3. This reflects an approximate 1,100-basis-point normalized growth premium compared to same-store US clinic visit growth levels, which declined an estimated 2% overall in the quarter.

IDEXX's growth results reflect continued increases in diagnostic frequency and utilization per clinical visit at the practice level, and strong benefits from IDEXX execution drivers, including higher net price realization, solid new business gains, and sustained high customer retention levels.

As noted, same-store US clinic visit declines of 2% were below our expectations for relatively flat clinic visit growth in the second half of 2023. Software trends in Q3 appear to have been impacted by ongoing capacity management challenges at US clinics, including effects from high staff turnover.

We also saw a relative slowdown in wellness visits in the quarter, which may reflect some macro impacts on demand at the clinic level. We've refined our full-year revenue outlook to capture potential impacts from these trends in Q4, while reinforcing our strong outlook for 2023 profit performance.

IDEXX International CAG Diagnostic recurring revenue growth was 10.3% in Q3, reflecting continued benefits from higher net price realization and improved volume gains. International results were also supported by strong IDEXX execution, reflected in sustained new business gains and high Q3 premium instrument placements, which supported a double-digit expansion of our premium instrument installed base.

Double-digit growth rate benefits from IDEXX execution offset negative impacts from international macro conditions, which continued to pressure same-store volume growth trends in the quarter.

Globally, Q3 results were supported by strong growth of IDEXX in-clinic CAG Diagnostic recurring revenues. IDEXX VetLab consumable revenues increased 11% organically, with double-digit gains in US 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 4,571 CAG premium instruments in Q3, a decrease of 4% year-on-year compared to record prior-year levels, which included benefits from our international launch of ProCyte One. The quality of the instrument placements continues to be excellent, reflected in solid global gains in EVI metrics and sustained high new and competitive Catalyst placements in the US.

Global Catalyst placements decreased 2% overall, reflecting tough comparisons to high prior-year international placement levels. ProCyte One installed base expansion continued at a solid pace, reflected in a global installed base of over 12,000 instruments. Global rapid assay revenues expanded 8% organically in Q3, supported by strong growth in the US, including benefits from higher net price realization. Global lab revenues increased 7% organically, reflecting high-single-digit gains in the US and relatively improved mid to high-single-digit growth in international regions.

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 diagnostic imaging revenues, and ongoing momentum in cloud-based software placements.

Water revenues increased 7% organically in Q3 compared to strong prior-year growth levels. Growth was driven by continued solid gains in the US, including benefits from net price improvement. Our TECTA-PDS acquisition integration continues to progress well and added approximately 1% to reported Water growth.

Livestock, Poultry and Dairy revenues increased 2% organically as strong gains in the US continued to be moderated by constraints on international growth, including impacts from lower herd health screening revenues related to reduced China import testing.

Turning to the P&L, Q3 profit results were supported by high comparable operating margin gains, including benefits from operating expense leverage. Gross profit increased 8% in the quarter, as reported and on a comparable basis. Gross margins were 59.9%, up 30 basis points on a comparable basis compared to strong prior-year levels. Gross margin gains reflected benefits from higher net price realization, business mix, and improvement in software service gross margins.

As expected, reported gross margin gains were moderated by a 60-basis-point negative impact related to FX driven by the lapping of prior-year hedge gains. We're projecting an approximate 70-basis-point gross margin headwind in Q4 related to FX, again, primarily related to the lapping of prior-year hedge gains.

On a reported basis, operating expenses increased 4% year-on-year, as reported and on a comparable basis, reflecting benefits from cost controls and lapping of prior-year R&D and commercial investments. We're planning for a higher level of OpEx growth in Q4 as we advance our US commercial expansion and increase R&D investments aligned with our innovation initiatives, including our planned 2024 new platform launch.

EPS was $2.53 per share in Q3, an increase of 18% as reported and 16% on a comparable basis. Foreign exchange reduced operating profits by $1 million and EPS by $0.01 per share in the quarter, including impacts from the lapping of $9 million in prior-year hedge gains. Impacts from 2023 foreign exchange hedges resulted in a $1 million gain in the quarter.

Free cash flow was $238 million in the third quarter. On a trailing 12-month basis, our net income to free cash flow conversion ratio was 83%. For the full year, we're updating our outlook for free cash flow conversion to 85% to 90% of net income, at the higher end of earlier projections, reflecting estimated capital spending of $160 million to $180 million.

Our balance sheet remains in a strong position. We ended the quarter with leverage ratios of 0.8 times gross and 0.6 times net of cash.

Share repurchases over the last year supported a 0.1% reduction in diluted shares outstanding for the quarter. We allocated $35 million in capital to share repurchases in the third quarter, as we continue to manage our balance sheet relatively more conservatively in the current interest rate environment.

Turning to our 2023 P&L guidance, we're updating our full-year outlook to incorporate our Q3 results and revised estimates for foreign exchange impacts, reflecting the recent strengthening of the US dollar.

Our updated full-year guidance for reported revenues is $3.635 billion to $3.650 billion, reflecting a 7.9% to 8.4% reported growth range. The updated reported revenue outlook includes a $20 million reduction for FX impacts compared to prior estimates. We now estimate FX will reduce fully reported growth by approximately 0.5% with limited year-on-year revenue growth effects in Q4.

In terms of our operational revenue growth outlook, we're updating our full-year organic growth guidance to 8.3% to 8.8%, supported by an outlook for CAG Diagnostic recurring revenue organic growth of 9.8% to 10.3%. This aligns with the lower end of our most recent guidance ranges and the midpoint of our original guidance for 2023. Our organic growth guidance assumes a level of continued pressure on US same-store clinical visits and international same-store sales levels in Q4, reflecting ongoing clinic capacity, management dynamics, and macroeconomic impacts on demand.

Consistent with earlier guidance, our outlook for CAG diagnostic recurring revenue growth reflects continued solid positive benefits from IDEXX execution drivers, including consistent expectations for 6% to 7% net price improvement in the second half of 2023. In Q4, we expect global net price improvement within this range, with US net price gains of approximately 6%, reflecting the lapping of prior-year price increases. Our Q4 outlook also incorporates a 1% equivalent day volume growth headwind.

We're maintaining the high end of our reported EPS outlook and narrowing the full-year EPS guidance range to $9.74 to $9.90 per share, an increase of $0.05 per share at midpoint. At midpoint, we're maintaining a consistent operational EPS outlook as revisions to our organic revenue growth range are offset by positive adjustments to our projections for operating margins, incorporating our strong year-to-date performance.

We've increased the outlook for reported operating margins to 29.6% to 29.8% for the full year. This reflects an outlook for 360 to 380 basis points in comparable operating margin expansion, including 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.

Our updated full-year EPS guidance incorporates $0.11 per share and positive revisions combined to our interest expense and tax rate outlook, including $0.04 in upsize related to share-based compensation tax benefits. These gains are partially offset by $0.05 of negative impact from foreign exchange changes at updated rates.

We now estimate that foreign exchange impacts will decrease EPS by $0.25 per share for the full year, and will reduce full-year operating margins by approximately 70 basis points, including impacts from the lapping of $26 million in 2022 hedge gains. We provided details on our updated 2023 outlook in the press release tables and earnings snapshots.

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

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

Thank you, Brian, and good morning. IDEXX continued to make excellent progress in advancing our business strategy in Q3, while delivering solid organic revenue growth and strong financial performance. Our strategy of high-touch commercial engagement, supported by relevant testing and workflow innovations, drove continued adoption of IDEXX's world-class products and services.

IDEXX solutions support our customers' mission to deliver high standards of care, enabled through the continued expansion of diagnostics frequency and utilization at the practice level. Diagnostics revenue remains the fastest-growing area of veterinary clinic revenues, a durable trend since the determination of a patient's health status and the best treatment path very often requires testing.

IDEXX's strong financial performance in Q3 was supported by solid gains in CAG Diagnostics recurring revenues across our major regions. The expansion of recurring revenues benefit from multiple IDEXX execution drivers, including solid placements of premium instruments building off high prior-year levels, sustained new business gains, net price realization, and continued momentum in placements of cloud-based software solutions.

These gains are offsetting near-term headwinds in overall clinic visit levels globally, reflecting ongoing capacity management challenges at veterinary practices, as well as impacts from macroeconomic dynamics.

Productivity remains a top priority for veterinary clinics, who continue to refine their business approach and make trade-offs necessary to balance staffing management challenges with strong demand for medical services. IDEXX's solutions, anchored by our software-enabled multi-modality offering, give clinics the tools to address these dynamics.

Today I'll review how we're advancing our strategy focused on developing the significant long-term growth opportunity for our business while delivering strong financial performance. I'll start with an update on our global commercial performance and how our focus on customer engagement supports the increase in adoption and utilization of diagnostics.

IDEXX commercial teams are highly engaged in a customer-centric model that supports both existing customers' use of diagnostics and expanding our customer base. Our commercial professionals delivered another excellent quarter of results in Q3.

Solid CAG Diagnostics recurring revenue reflects benefits from our expanding loyal installed base and our veterinary partnership model to communicate the importance of diagnostics to clinicians. It also reflects benefits from our focus on placing high-value analyzers at existing and competitive accounts in order to drive profitable future recurring revenues, including 5% competitive Catalyst placement growth in North America, which supported solid EVI growth.

Our continued progress on this front reflects a relentless focus on providing busy clinicians with the products, services and the support they need to serve the high demand for veterinary services and meet the expectations of pet owners who seek and increasingly demand no compromises in the care for their pets.

In addition to driving the core growth in medical services in the clinic, diagnostics are also a key profit center continued growth in both diagnostics frequency and utilization per clinical visit was supported by gains in wellness testing per visit, building on substantial increases through the pandemic. This demonstrates that veterinarians continue to incorporate and expand the use of diagnostics in their care protocols, while pet owners continue to show willingness to spend on their pets.

This focus supported solid 7% gains in same-store diagnostic revenue gain at a practice level, growth that is being achieved despite ongoing headwinds in clinical, visit growth in a resource-constrained and challenging macro environment. This performance shows that pet owners continue to prioritize healthcare for their pets, which reinforces the resiliency of our sector.

And IDEXX customers are growing even faster, supported by our direct customer engagement model and superior integrated diagnostic solutions. IDEXX's experienced sales professionals' deep partnership with the veterinarians they serve supported sector diagnostics revenue growth that outpaced both practice revenue and clinical revenue growth by 200-plus basis points in Q3, building on our strong momentum in helping to advance pet healthcare through diagnostics testing.

Growing our commercial footprint in a disciplined way is a key element of our customer engagement strategy. As we shared at Investor Day, extensive practice data analysis shows that customers using our broader DX offering generate approximately 200 basis points higher practice clinical and diagnostics revenue growth, consistent with our execution trends. This benefits the patient, practice economics, and, by extension, IDEXX.

Our US commercial expansion is progressing to plan, and we expect to enter the new year with an expanded team in place. This is the first US expansion in four years, and many territories have appreciably increased in size since then. Increasing reach and engagement with clinics in our largest and most developed region prepares us well to support the growing portfolio of IDEXX innovations.

Outside of the US, we remain focused on deploying our commercial playbook in countries across the world, and are encouraged to report that third quarter international CAG Diagnostics recurring revenues benefited from another quarter of improving volume growth.

Higher reach to revenue metrics strengthened relationships between IDEXX commercial professionals and in-region veterinarians. Our increased commercial presence as a result of 7 international commercial expansions since 2020 helped drive solid double-digit year-over-year gains in our international premium instrument installed base across platforms. This includes record third quarter instrument placements in the Asia Pacific region, which helped drive 13% growth in our international installed base.

This growth demonstrates that our highly capable sales teams have the right products at the right time, and reinforces significant potential associated with the development of international regions. These geographies represent an outsized portion of our long-term opportunity of over 200,000 incremental premium placements for existing instrument categories.

Turning to our innovation agenda, software is a key pillar in our growth strategy, and an area of important focus in the clinic, a trend that we are well positioned to facilitate and enable. Clinics are embracing software to improve efficiency in all aspects of their business, from patient processing and billing to diagnostics interpretation and pet owner communication.

Higher software adoption is driven by the desire to realize the benefits of modern technology and applications to address these significant workflow pain points. It also positions practices to incorporate solutions that increase engagement with pet owners through scheduling and other tools that they use and rely on in other aspects of their lives. The multiplier benefit to our business from the adoption of IDEXX software is significant, reflected in third quarter growth in our Software and Diagnostics Imaging segment with high-teen organic gains in our highly-profitable recurring annuity stream.

Excellent commercial execution and strong customer interest drove outstanding third quarter PIMS placements. Most notably, our cloud-based PIMS products represent 95% of total PIMS placements, and as a result, now comprise over 50% of our PIMS installed base. This achievement reflects broad-based adoption of cloud-based products that reflects an inflection point in technology adoption.

While veterinarians earlier in their careers are more digitally native, sales profiles indicate that customers of all career stages appreciate the workflow benefits and easy use of our wide-ranging software stack. The common denominator is that contemporary software solutions allow them to better focus on the delivery of care and minimize non-value-add administrative activities.

Our software product offering also includes an integrated diagnostics portal, VetConnect PLUS with IDEXX DecisionIQ that not only provides testing results, but also decision support, clinical insights, and next-step considerations across a growing range of clinical use cases.

IDEXX software and data solutions situate us well to benefit from these trends, as well as the accretion in operating margin drop-through associated with a revenue base that is increasingly recurring in nature.

Our software innovation is deeply integrated with our diagnostics innovation approach, as evidenced by our highly successful instrument platform strategy, enabled by cloud-based capabilities and connectivity that enhance practice insight and workflow. We're very excited about our continued progress in bringing transformative solutions to point of care, and we are on plan to announce our new platform at VMX in January.

Our product development efforts continue to advance, aligned to our timing expectations, and we're excited to share more details in just a few short months, in how it will add to our over 200,000 placement opportunity estimate for existing instrument categories.

We also continue to advance our innovation engine in other areas like advanced test menu. Innovation in assays that provide new clinical insights earlier in disease states is especially valued by veterinarians since they drive higher standards of care aligned with the goal of improving health outcomes for their patients.

Earlier this year, we announced the launch of an important new testing assay, Cystatin B, that expands our industry-leading renal portfolio and will be available in early December, beginning with our North American lab network. This will be followed by international launches over the course of 2024.

This novel marker uses IDEXX IP to help clinicians detect kidney injury earlier and more definitively and is receiving broad support from key opinion leaders. Notably, a recent article in the Journal of Internal Veterinary Medicine (sic) [Journal of Veterinary Internal Medicine] (00:25:19), coauthored by multiple Renal Interest Society members highlights the beneficial insights in distinguishing progressive from stable kidney disease by detecting active injury.

These clinical insights represent important medical contributions, and the test will be included in close to two million urine panels run at IDEXX Reference Labs in our first year post launch. Looking forward, we will announce an additional expansion to our reference lab testing menu in Q1.

In addition to these examples of product and service innovation, we continue to advance differentiated service delivery as a key element of our expansion strategy. We made a notable advancement in this area early in the third quarter when we opened our newest reference laboratory in Perth, Western Australia.

Perth is an economically vibrant city that is 5.5-hour flight from our Brisbane laboratory, including a two-hour time difference, making it particularly difficult to service in the past. The addition of this new lab to our global network ensures customers will receive faster turnaround times for test results, enabling them to make timely and informed decisions for their patients' wellbeing.

IDEXX provides the only veterinary dedicated and accredited reference laboratory network in Australia and New Zealand. So bringing this location online is an important achievement as we strive to deliver sustainable long-term value. The expansion of our global reference lab footprint is just one way we're addressing the approximately two-thirds of our estimated TAM opportunity outside of the US, an area of focus.

With that, I'll now conclude the prepared remarks portion of the call. Before we move to Q&A, I want to take a moment to express our heartfelt sympathy for everyone affected by the events in Lewiston, Maine last week. We are deeply saddened by the senseless act of violence impacting our communities. Keeping our colleagues safe, supporting each other, and providing health and well-being support is a top priority during this difficult time.

I also want to thank law enforcement and public safety personnel, who are working tirelessly to keep our community safe, and medical teams who continue to aid all who have been impacted.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll move first to Michael Ryskin of Bank of America. Your line is open. Please go ahead.

<Q – Mike Ryskin – BofA Securities, Inc.>: Hey, guys. Thanks for taking the question. First, I want to talk about the broader market. I mean, as you – vet visit trends. As you've said, the pressures remain. Saw some of the numbers in the snapshot, relatively consistent with what we expected from third-party data, so not a huge surprise there. But I think it's safe to say that it's lasting a lot longer than anyone had expected going into this year. If this continues without any significant improvement, how does this impact your long-term model and longer-term expectations for the business?

Or maybe put another way, you're targeting 8.5% organic growth this year, well below your 10% long-term target, and that's despite taking 7% to 8% price. So if pricing power's not there, or not there to the same extent, and volumes don't recover, I mean, what other levers do you have to offset that?

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. Good morning, Mike. This is Jay. Just a couple things, maybe at a higher level, and I'll turn it over to Brian to talk about some of the specifics related to the model.

Keep in mind, the backdrop of the sectors very positive. There's just been an expanded pet population. I think the human health and pet pop has been very, very strong. Our execution drivers as a company, the things that we could directly influence, have been very strong. We've seen that in instrument placements and in PIMS placements, at net retention, pricing realization. So all those things, I think, are very good.

We think there's been very good end customer demand, as we cited. There are some constraints related to practice capacity and some challenges there. I think the good news on that front is the practices have hired. There may be some additional churn that they're working through, but they're investing heavily in technology. We see that with the use of our lab equipment, both in-clinic as well as reference labs. And obviously, the appetite for software and applications that help them with optimized workflow has continued to grow.

And then, overall, our competitive position is very strong and we think, as a result of our innovation pipeline, will continue to be strong and offer some differentiated advantages. So I think from an industry standpoint, it's a very positive story. I think we're well positioned to capitalize on those trends and the practices just continue to work through some of the constraints we cited.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Yeah, Mike, just to reinforce Jay's points, I think our long-term 10% growth potential, the key drivers that we look towards, we see a lot of positive factors sustaining in terms of our competitive positioning, expansion of diagnostics frequency and utilization, the adoption of IDEXX technologies, the long-term demand dynamics that we see associated with the expanded pet population and favorable demographics in terms of pet ownership. So all of those factors are positive.

I think the thing that we're working through is a combination of near-term capacity management challenges at the clinics. And I think that's something we're assisting with and believe we'll have solutions to help with that over time. But that is something that has continued, and I think is a factor impacting near-term growth as well as some of the near-term macro impacts.

So I think, as we've stated many times in the past, we're a business that's very resilient, but not immune to those types of impacts. And that's something that I think is also impacting our near-term growth at the margin, but we don't see that – either of those factors as being long-term constraints to the growth potential for the company. And I think, from a competitive positioning point of view, we're in as strong a position as we've ever been in terms of our ability to support the continued expansion of the sector, globally.

<Q – Mike Ryskin – BofA Securities, Inc.>: Okay. All right. And maybe I'll use my follow-up to just be a little bit more direct, then, on 2024. I know you're not guiding for 2024. I'm not asking for a 2024 guide. But just looking at where consensus is right now, it is still at that roughly 10% number. Just given what we see about market conditions as we sit today, I mean, in November, we've already got a pretty good sense of where they are. Do you think that there's a risk that 2024 is also below that long-term trend line – that long-term model?

<A – Brian McKeon – IDEXX Laboratories, Inc.>: We're not going to be guiding, obviously, today, but I think we've got a number of positive factors that we see heading into next year in terms of our execution, the competitive position that I noted, the innovation pipeline that we're looking forward to sharing more on as we move forward.

And I think those are all things that we'll be leaning on to continue delivering solid growth and continue delivering strong financial performance, which I think we're demonstrating our ability to do this year. So we'll share more on that front as we get into next year. We're focusing on the drivers that we have a direct impact on, and we feel very good about our execution on that front.

<Q – Mike Ryskin – BofA Securities, Inc.>: Thanks.

Operator: Our next question comes from Nathan Rich with Goldman Sachs. Your line is open. Please go ahead.

<Q – Nate Rich – Goldman Sachs & Co. LLC>: Hi. Good morning. Can you hear me?

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

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: We do. Yeah.

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

<Q – Nate Rich – Goldman Sachs & Co. LLC>: Oh, great. Hey, good morning. Thanks for the questions. Just wanted to ask about the US CAG Diagnostic recurring performance in the third quarter. And maybe just if you could go into a little bit more detail on how that played out relative to expectations. Obviously, traffic decelerated during the quarter. But from a diagnostic volume standpoint, I'd wonder if you could maybe – was there anything from a category standpoint that was more challenging than you had expected? And I'll stop there and then maybe ask my follow-up next.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Yeah. The performance in the quarter, just to reinforce some of the metrics I shared and then Jay can expand on this, was our execution dimensions were very much in line with what we expected. The difference here was we're planning for flattening clinical visit trends and they were down 2% in the quarter. We did see some softening through the quarter, and it was relatively more on the wellness side. So I think that was – that's a smaller part of the overall testing volume, but that is something that we did see relative impact. So that was – it was the visit trend that was different than we had been planning for or hoping for. And the execution metrics held up well and that enabled us to deliver solid growth in terms of the CAG Dx recurring revenues.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. Couple additional comments for cover. We always start with the end customer demand, and from what we've seen and in talking with our customers, there's good end-market demand. Certainly, pet owners continue to prioritize and, against all other spending categories, they're bringing their pets to the veterinarian and making sure that they get the care that they need.

The other piece that we've been spending time looking at is just overall employment levels within the practice. And we think that that has increased, and that's in a good position. We don't necessarily have insights in terms of how many hours they may be working. But in terms of just availability of staff within practices, we think that's in reasonably good shape.

We have done some qualitative surveying. There is some additional churn within practices as staff goes from practice to practice. That is obviously something that will work its way through the system.

Just picking up what Brian mentioned against the non-wellness or sick patient visits versus the wellness visits, the diagnostics usage on the non-wellness side is higher. It's much higher. It's 70% or so. I think we mapped that out as part of Investor Day. And so that's, I think, an important tailwind for the business.

The other thing that I would point out is the relative frequency and utilization of diagnostics continues to grow within the practice. We've seen that in the US. We think that's a very positive trend. Obviously, veterinarians see the importance of core medical services. And to be able to treat a patient, they very often have to first test. So it's great to see that those trends have held up and continue to grow, and we think that's a strong positive.

<Q – Nate Rich – Goldman Sachs & Co. LLC>: And if I could just ask on margins. I guess if you see the visit pressure persist, just the ability to grow margins in line with the 50 to 100-basis-point constant currency range into next year. If you do see an overall softer top line environment, just I'm curious on how much leverage, how much of the margin expansion is dependent on that top line growth? Thank you.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: I think we've been consistently demonstrating our ability to perform well on that front in – despite some of the headwinds that we've seen this year. So I think our updated outlook for margins, if you take out the – if you normalize for the customer credit that we've highlighted as well as the lapping of R&D and foreign exchange, we're most recent guidance is to be 80 to 100 bps above prior year, and that's despite some of the headwinds that we've seen this year.

So we've consistently demonstrated an ability to leverage a business model, which we have a number of favorable dynamics that support that. We highlighted the strong growth in the software business. That's a positive driver for us as we grow. And I think we've got investments that we can leverage, and we've got new innovation coming to market. So a number of factors that I think will help us and position us well to keep building on that strong margin delivery trend.

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

Operator: [Operator Instructions] We will move next to Erin Wright with Morgan Stanley. Please go ahead.

<Q – Erin Wright – Morgan Stanley & Co. LLC>: Thanks. Has there been any early testing on the new platform you plan to launch at VMX? And if so, like what's the initial feedback? And on the second platform technology, is that on track as weill and will both roll out in 2024? Or will both have material contributions in 2024? Thanks.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. Good morning, Erin. Not going talk about the new platform other than just to reiterate, we're looking forward. It's just a couple months away from VMX, and we can talk more about that. More generally speaking, the way the new product development process works is you develop prototypes, you put it in the hands of customers. They provide feedback, and it goes through an iterative process as you get ready to go to marketplace. So we're excited. We think it's a platform that will make – will have the right clinical and business contribution, but we really can't go into additional details beyond that.

<Q – Erin Wright – Morgan Stanley & Co. LLC>: Okay. And thinking about, and this is kind of a broader question, just thinking about the competitive landscape. And you have this unique positioning now being less encumbered than your closest peers in both point-of-care and reference lab, particularly in the US. I guess, can you talk a little bit more about your ability to take share? Could this accelerate, particularly with also your new innovation, but with any disruption associated with the other models of your peers? And how are you capitalizing on this now and how are you taking advantage of maybe the competitive landscape where it stands today?

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. So a couple maybe high-level points, and then I'll get more specific. Our strategic and innovation approach is really to bring an integrated solution set to the marketplace. So that's in-clinic as well as reference lab. And the connectivity and workflow optimization provided by our software suite we think is highly differentiated. It supports what the practices are trying to accomplish in terms of improved standards of care, optimization, staff productivity, client communications, all of those important things. And we continue to innovate through menu expansion and then more specifically, new platforms.

And new platforms, it's an important component of our business model in terms of really being able to give our customers reference lab quality testing capability within the practice. We tend to place these through marketing programs, IDEXX 360 being the primary one. Customers are able to get that placement and then use reference labs or rapid assay or our Software-as-a-Service based PIMS systems as part of a dollar volume commitment.

So there's a significant multiplier impact when you come out with new innovations. We just continue to build it through a technology for life philosophy. So we have existing platforms on the marketplace. We will continue to innovate with new slides, for example, in chemistry or lots and lots of other examples, fecal antigen within the reference labs, so that it becomes more valuable clinically over time as customers use more of it. As they grow, we grow.

Operator: We'll move next to Chris Schott with JPMorgan. Your line is open. Please go ahead.

<Q – Chris Schott – JPMorgan Securities LLC>: Great. Thanks so much. Just two questions for me. I guess just coming back to the dynamics with the visit trends that we're seeing versus your expectations, is it possible to tease out how much of what you're seeing right now is macro versus how much is capacity? So, as I'm trying to get my hands around this, is this a situation where we're now seeing some macro pressures and capacity just isn't getting better relative to where maybe you stood at mid-year, or are we also seeing some setbacks on the vet capacity side as well, as we think about the updated guidance? And then I just have one follow-up from there.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. Good morning, Chris. We think it's primarily capacity and continues to be capacity. I think practices are definitely working through that. We've seen a number of things that practices have done. And it takes time. I mean they're making investments. I think they're investing in their staff as well as technology; they've hired. They're also just trying to balance the work-life balance of their team so that they don't lose folks and make sure that it could be stabilized. So I think that's important.

We do think at the margin, there could be some macro impacts that we've seen in wellness. And I would just also point out that the wellness piece is a relatively lower use intensity wise of diagnostics. 70% of diagnostics – 70-plus percent of diagnostics are consumed through non-wellness or the sick patient visits.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: And Chris, just, it's a great question. I think we've always said that the – in terms of macro, where we might see it is on the wellness side, where there may be more of a discretionary choice for the pet owner. Interestingly, while the visits were down in wellness in the quarter, frequency and utilization of diagnostics per wellness visit was up, actually stronger than non-wellness.

So for the pet owners that are able to come in and get their pets in, they're actually doing more diagnostic testing. But overall, we saw lower levels of wellness visits. So it does get probably commingled into some of the dynamics that are going on with capacity management. And there may be a level of impact there. We have seen that in international markets that we've been highlighting as we go. And so it's something that we're paying attention for. We're planning appropriately for. But I think it's – as Jay pointed out, I think we think this continues to be more of an impact from the ongoing ability of the practices to staff and be able to manage the demand that they're facing.

<Q – Chris Schott – JPMorgan Securities LLC>: Okay. Great. Thanks, very much. And just a second question was just, I think you mentioned a little bit about US versus international. Can you just – kind of bigger picture, are you seeing noticeable differences in terms of what's happening in the US versus some of your international markets? And just as part of that, is this guidance update assuming a global impact in terms of visit slowdowns, or is this skewing more US versus international? Thank you.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: We definitely saw more of an impact internationally on – from macro pressures really starting at the end of 2021. And I would say that that has normalized over time and is now relatively more in line with the US trends. We've done quite well internationally. We're benefiting from our premium instrument installed base expansion, so that really helps our growth rate.

And we highlighted this quarter, we've seen, actually for a few quarters now, relative improvement in the volume trends. So I think it's more in line, I think, with what we're seeing in some of the US pressures more recently, and it does seem to be normalizing and relatively improving. You can see that in some of the international metrics, things like our reference lab growth was improved in Q3. So that's a positive trend. And we're just being realistic about the macro backdrop that we're facing and planning appropriately.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: And keep in mind, the international sectors, just a bit different in terms of its overall characteristics. It tends to be more of a sick patient or rollout testing approach from a veterinary practice standpoint. So obviously, that's an area of richer diagnostics usage. It's an area less sensitive to some of the discretionary spend that you may see in a difficult macro environment. So as Brian said, we're happy with our progress. It continues to improve. We think that the team is executing extremely well and the opportunity over time is very substantial.

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

Operator: We'll go next to Jon Block with Stifel. Your line is open. Please go ahead.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: Thanks, guys. Good morning. Brian, maybe just to start with you, the 3Q 2023 sales and marketing expense was down roughly 3% to 4% Q-over-Q. I've got it usually like flat to slightly up 2Q to 3Q. And this year's decline was despite ongoing increases that you guys have called out on the commercial investment. So I don't know, I'm guessing FX may have played a little bit of a role Q-over-Q this year in 2023. But anything to highlight on what costs you were able to take out in the S&M side that drove the sequential decline, and what you were able to do or lean on even in light of the commercial investments that seem to be ongoing through the end of the year.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Yeah. Jon, it's principally a lapping dynamic. We, last year in Q3, had some relatively higher sales and meeting costs. Specifically, there were some discrete costs on both the sales and marketing and the R&D side that we're lapping. And so, as I noted in our outlook, we're expecting a relatively higher level of OpEx growth in Q4. So it's more related to this year-on-year specific factor dynamic.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: Okay. Sorry. Just my question was sequentially, not year-over-year. So my apologies, the 2Q to 3Q was down 3% to 4%. It's usually up 1%. You're making commercial investments. I guess what I'm trying to get at a little bit is like managing the bottom line in the near term and getting to the EPS, and we're exceeding the EPS number. Were there anything in sales and marketing that you scaled back on in light of the lighter revenue number, again, Q-over-Q?

<A – Brian McKeon – IDEXX Laboratories, Inc.>: No.

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

<A – Brian McKeon – IDEXX Laboratories, Inc.>: No, you have – there's typically some variation in costs quarter-to-quarter that are unrelated to things like staffing. So we haven't scaled back on anything.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: Okay. And then, maybe just to shift gears second question, I'm going to show my age and flash back to SediVue. Initially, you guys expected, I think it was, $3,000 to $6,000 in consumable revenue per box on SediVue. and a couple quarters in, that forecast came down to $3,000 to $4,500. Maybe you can just talk about how that eventually shook out as that product cycle matured. And then, any comments on the IDEXX INVUE trademark, which hit last week? It seems like to us, that's probably the VMX analyzer, and then how to think about the revs per box on the new system. Thanks.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: So on SediVue, if I got your question right, the utilization per placement played out actually quite – very much in line with what we expected. So I think we haven't updated that for a bit. But I think that that was – tracked consistently in line with our original estimates and sustained over time. So I think that that has been on track to our estimates.

And it's premature for us to get into the specifics on the new instrument launch. We look forward to sharing more on that next year.

To just reinforce this – as you know, these types of platforms build over time. Really, the biggest effects from them are that they open the door for conversation with veterinarians to talk about IDEXX technology and innovations and adopt them in their practice. And so we're very excited about building on the momentum we had from ProCyte One to continue those dialogues and deepen our relationships with our customers, help them grow faster. And we'll share more on the specifics related to new innovations as we get into next year.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah, Jon, the other thing that I would add to that is I think we shared some data through when Mike Erickson presented on the evolution of menu and how that that impacts the overall economic value over time. And our technology for life approach where we come out to the marketplace, we introduce product. Obviously, the installed base grows over time. But as we continue to add menu and improve that, more revenue, more economics are generated. And we've been able to demonstrate that through all our platforms, including the reference labs.

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

Operator: And we'll move next to Brandon Vazquez with William Blair. Your line is open. Please go ahead.

<Q – Brandon Vazquez – William Blair & Co. LLC>: Hi everyone, thanks for taking the question. I first wanted to just follow up, maybe ask on some of the headwinds in the quarter slightly different. There's wellness and there's a little bit of labor. The question I want to ask is, are those getting – are they deteriorating? Are those headwinds increasing as we go into the end of the year? I guess I'm trying to ask for a little clarification. Are things stable, maybe just not improving as much as we thought? Or are we going into year-end with those two dynamics kind of worsening a little bit?

<A – Brian McKeon – IDEXX Laboratories, Inc.>: I think the key change here relative to what we expected to happen in the quarter was we were looking for flattening visit trends in the US, and they came in at minus 2%. So if you go fundamentally what's different than what we expected, that's it. I think our execution was strong and all those dimensions played out the way that we had hoped.

The US clinical visit trends were minus 1% in Q2 and minus 2% in Q3. On a two-year basis they're pretty similar. I think it's – we did see some relative softening through the quarter, some relatively weaker wellness clinical visit trends, more at the margin.

I think the bigger story here was had hoped that we had worked through the pullback effects on capacity, and we'd see some normalization there. And I think we're still working through some of the management dynamics. So that is very much reflected in our balance year outlook. I think we've calibrated for that appropriately while we're reinforcing our profit delivery. So I think we're able to manage that well, and teams are executing very well, and again, excited about a number of the things that we've got going into next year and relative to our positioning as a company and new innovation we're bringing to market. And look forward to continue delivering solid growth in that context.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. And keep in mind, the expanded pet population has been very, very substantial. So we know that the end customer demand is there. There's a lot of interest. I think that to Brian's point, as we work through that capacity at the clinic level, there's unmet, unserved demand out there.

<Q – Brandon Vazquez – William Blair & Co. LLC>: Okay. Great. And maybe as a follow-up, you guys are expanding the US sales force now. That seems on track as we go into 2024. Can you just talk about expectations? How long does it take to get those new reps trained? You'll probably also have a new innovative product for them next year, a new system. So what's the timeline to start seeing leverage, both sales and margin benefits from the expanded sales force? Thank you.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: This is something that we've been doing for a long time. I think we have a very successful formula in terms of how we expand the overall commercial ecosystem and footprint.

In North America, it tends to be a relatively short time to ramp. We have, I think, a very effective training approach. And when we bring new folks into the system, they're well trained, and they really come up to speed within quarters. Now they continue to become more productive over time, but they get a lot of support through professional service vets and the field service representatives. The entire ecosystem is there to support them.

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

Okay. Thank you for your questions. We'll now conclude our Q&A portion of this morning's call. Before we end today's call, I'd like to extend my thanks to the nearly 11,000 IDEXX colleagues for delivering another quarter of strong execution against our organic growth strategy.

Our sector remains very dynamic and your steadfast commitment to providing a better future for animals, people, and our planet has helped us maintain momentum and deliver strong results. Not only have you delivered today in the third quarter, but your efforts position us well to continue to develop our sector and support our customers well 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. So now we'll conclude the call. Thank you.

Operator: Thank you. Ladies and gentlemen, that does conclude today's call. We thank you for your participation. You may disconnect at this time.