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

Chris Schott – Analyst, JPMorgan Securities LLC
Nathan Rich – Analyst, Goldman Sachs & Co. LLC
Michael Ryskin – Analyst, BofA Securities, Inc.
Navann Ty – Analyst, BNP Paribas Securities Corp.
Erin Wilson Wright – Analyst, Morgan Stanley & Co. LLC
Jonathan D. Block – Analyst, Stifel, Nicolaus & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the IDEXX Laboratories Fourth 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 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 2023 results and initial 2024 guidance, please note all references to growth, organic growth and comparable growth refer to growth compared to the equivalent prior year period unless otherwise noted. 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 into 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 2023 results and to provide an overview of our financial outlook for 2024. IDEXX had a strong finish to 2023, reflected in our fourth quarter performance. Revenues increased 8% organically, supported by 10% organic gains in CAG Diagnostic recurring revenues, net of a 1% growth headwind from fewer equivalent selling days.

Operating profits increased 8% as reported and 10% on a comparable basis, benefiting from solid gross margin gains and OpEx leverage. These factors and a lower-than-expected effective tax rate supported delivery of $2.32 per share in EPS in Q4, up 17% on a comparable basis.

IDEXX execution enabled delivery of strong full year financial results reflected a 9% overall organic revenue growth and high comparable operating margin gains. This supported a 29% increase in EPS for the full year on a comparable basis, including 12% of combined EPS growth benefit from a customer contract resolution payment and the lapping of discrete 2022 R&D investments.

These results were driven by 10.5% full year organic growth in CAG Diagnostic recurring revenues, reflecting 11% organic gains in the US and 10% organic growth in an international regions, aligned with our original full year growth targets. We also achieved 19% full year organic growth in recurring software and digital imaging revenues sustained high customer retention levels and placed a record number of CAG premium instruments, which drove an 11% expansion of our global premium installed base.

These strong execution trends position us well as we enter 2024 and advance our growth strategy. This year, we're targeting 10% organic revenue growth at the high end of our initial guidance range of 7% to 10% overall organic revenue growth supported by 7.5% to 10.5% organic gains in CAG Diagnostic recurring revenues.

We're also planning for solid comparable operating margin gains, building on our long-term track record supporting continued high comparable EPS growth. We'll walk through the details of our financial guidance later in my comments. Let's begin with a review of our fourth quarter results. Fourth quarter organic revenue growth of 8% was driven by 9% organic gains in our CAG business.

CAG Diagnostic recurring revenue increased 10% organically in Q4, reflecting 9% gains in the US and 12% growth in international regions, net of a 1% global growth headwind from equivalent days effects. CAG Diagnostic organic recurring revenue growth in Q4 was supported by average global net price improvement of 6% to 7%, with US net price gains at the low end of this range.

IDEXX execution drivers supported volume gains of 4% in both US and international regions normalized for days effects, reflecting an improvement from Q3 volume growth levels and the strongest normalized volume growth quarter in 2023. IDEXX CAG Diagnostics recurring revenue growth remained solidly above sector growth levels.

In the US, CAG Diagnostic recurring revenue increased 9% organically, net of 1% negative growth rate impact from fewer equivalent selling days in Q4. This reflects 1,050 basis point normalized growth premium compared to US clinical visit growth levels, which declined and estimated 0.5% in the quarter on a same-store basis.

IDEXX execution drivers rose solid US volume growth in the quarter, reflecting benefits from new business gains, high customer retention levels and sustained diagnostic frequency levels per visit. International CAG Diagnostic recurring revenue growth was 12% in Q4, reflecting benefits from higher net price realization and improved volume gains.

International results were also supported by strong IDEXX execution reflected in continued solid growth in premium instrument placements, which supported a 13% year-on-year increase in our international premium instrument installed base.

IDEXX achieved solid organic gains across our major testing modalities in the fourth quarter. IDEXX VetLab consumable revenues increased 13% organically, reflecting double digit gains across US and international regions. Consumable gains were supported by an 11% increase in our global premium installed base in 2023, reflecting strong gains across our Catalyst, Premium Hematology and SediVue platforms.

For the full year 2023, we achieved a record 19,000 Premium instrument placements with excellent quality, reflected in sustained high new and competitive Catalyst placements. In Q4, we placed 5,241 Premium instruments, up 3% from high prior year levels driven by strong gains in SediVue placements and continued expansion of ProCyte One. Overall CAG instrument revenues declined 3% organically in the quarter, reflecting comparisons to high prior-year levels, program pricing effects and global mix.

Rapid assay revenue grew 9% organically in Q4, supported by benefits from net price increases and solid volume gains in the US. Global lab revenues expanded 7% organically, reflecting high-single-digit gains in the US and sustained solid organic revenue growth in international regions.

CAG veterinary software and diagnostic imaging revenues increased 6% organically in Q4 compared to strong prior year levels. Results continued to be supported by double-digit growth in recurring revenues and ongoing momentum in cloud-based software placements. For the full year, veterinary software and diagnostic imaging revenues increased 11% organically, supported by 19% organic gains in recurring revenues.

In our other business segments, Water revenues increased 5% organically in Q4 compared to strong prior year levels, supported by continued solid gains in the US and Europe. Overall growth in the quarter was moderated by lower China revenues and year-end order timing. For the full year, Water revenues grew 8% overall and 7% organically.

Livestock, Poultry, and Dairy revenues decreased 4% organically in Q4 as solid gains in the US, Europe, and Latin America were offset by declines in herd health screening revenues and comparisons to higher prior year swine testing levels in China.

For the full year, LPD revenues were down 1% organically, as solid gains across our core ruminant, poultry and swine businesses were offset by declines in areas like herd health screening, reflecting regional macro dynamics. We expect to work through comparison issues in herd health screening post the first quarter of 2024.

Turning to the P&L, Q4 operating profits increased 8% as reported and 10% on a comparable basis, supported by solid comparable operating margin gains. Gross profit increased 9% as reported and on a comparable basis. Gross margins were 58.4%, up 50 basis points on a comparable basis, adjusting for 70 basis points of negative FX impact, primarily related to the lapping of prior year hedge gains.

Gross margin gains reflected benefits from net price improvement, which offset inflationary cost impacts, favorable business mix impacts from strong consumable growth, and higher software service gross margins.

Operating expenses were up 9% as reported and 7% on a comparable basis in the quarter, reflecting growth in commercial investments and increases in R&D spending aligned with advancing our innovation initiatives, including our new instrument platforms.

For the full year 2023, operating margins were 30%, including approximately 40 basis points of benefit from the Q1 customer contract resolution payment. On a comparable basis, full year operating margins increased 390 basis points, including 280 basis points of combined benefit from the customer contract resolution payment and the lapping of discrete 2022 R&D investments.

For the full year, foreign exchange reduced operating margin gains by 60 basis points, primarily related to the lapping of prior year hedge gains. Q4 EPS was $2.32 per share, up 17% on a comparable basis. In Q4, EPS benefited from a lower effective tax rate. This reflected the release of valuation allowances in certain jurisdictions, which lowered our full year effective tax rate by approximately 100 basis points and increased EPS by $0.10 per share.

Fourth quarter EPS included $0.02 in tax benefits from share-based compensation activity and $0.04 in headwind from foreign exchange changes, primarily related to the lapping of 2022 hedge gains. FX hedge gains were $2 million in the quarter.

Full year EPS was $10.06 per share, an increase of 29% on a comparable basis, including 12% of combined EPS growth benefit from the Q1 customer contract resolution payment and the lapping of discrete 2022 R&D investments.

For the full year, stock-based compensation activity provided $14 million or $0.16 per share in tax benefit, lowering our effective tax rate by 130 basis points. As noted, full year comparable EPS growth also benefited by $0.10 per share or approximately 1% from the release of tax valuation allowances in certain jurisdictions.

Foreign exchange increased Q4 and full year revenue growth by approximately 1% and 0%, respectively. For the full year, foreign exchange reduced operating profits by $25 million and EPS by $0.24 per share, primarily related to the lapping of 2022 hedge gains.

In 2023, full year foreign exchange hedge gains were $4 million. Free cash flow was $773 million for 2023 or 91% of net income. Free cash flow conversion was above the high end of earlier projections, reflecting timing and control of capital spending. Capital spending was $134 million for the full year or 3.7% of revenue.

Our balance sheet remains in a strong position. We ended 2023 with leverage ratios of 0.7 times gross and 0.4 times net of cash. Our 2024 interest expense outlook incorporates recent forward interest rates and expectations for similar leverage ratios this year. We allocated $38 million to repurchase 90,000 shares in the fourth quarter. For the full year 2023, we allocated $83 million to repurchase 175,000 shares. Targeted deployment of cash to share repurchases supports our projected 0.5% to 1% reduction in diluted shares outstanding for the full year 2024.

Turning to our 2024 full year outlook, we're providing initial guidance for revenues of $3,930 million to $4,040 million, an increase of 7.5% to 10.5% on a reported basis. On an organic basis, this reflects a growth range of 7% to 10% overall, supported by 7.5% to 10.5% organic growth in CAG Diagnostic recurring revenues. Foreign exchange rates, we expect foreign exchange to have limited impact on full year revenue growth. Our reported revenue growth outlook includes approximately $15 million of projected revenue from our recent software acquisition, which Jay will highlight in his comments.

In terms of the key drivers of our 2024 organic growth outlook, the midpoint of our CAG Diagnostic recurring revenue growth range incorporates expectations for global net price gains of approximately 5% and volume gains of approximately 4%, aligned with assumptions for relatively flat US clinical visit same-store growth levels post Q1.

As we'll discuss, we have seen some effects from severe US weather trends in January, which we expect will impact overall Q1 clinical visit growth levels. Our full year outlook reflects a US volume growth premium to US clinical visits aligned with our trends in the second half of 2023, supported by expectations for continued solid global growth benefits from IDEXX execution drivers.

The higher end of our CAG Diagnostic recurring revenue growth outlook range captures the potential for improved sector visit and same-store growth trends and overall IDEXX volume growth potential. The lower end of the range calibrates for potential risk to our targeted growth goals, including effects from macroeconomic conditions. The high end of our overall organic revenue growth guidance of 10% is aligned with our long-term goals.

We expect overall organic growth to be constrained somewhat by expectations for modest organic growth in LPD and comparisons to strong prior year instrument placement levels. Our reported operating margin guidance for the full year of 2024 is 30.2% to 30.7%. On a comparable basis, this reflects an outlook for 20 to 70 basis points of improvement in comparable annual operating margins, net of a negative 40 basis point operating margin impact related to the lapping of the Q1 2023 customer contract resolution payment.

We're planning for solid gross margin gains on a comparable basis in 2023, supported by continued strong growth in CAG Diagnostic recurring revenues, expansion of our cloud-based software business, and benefits from lab productivity initiatives.

We expect limited impact from foreign exchange on 2024 revenue growth and operating margin, at the rates assumed in our press release. We estimate foreign exchange will increase full year EPS by $0.02 per share, given current hedge positions.

In terms of sensitivities to changes to the foreign exchange 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 $13 million and operating income by approximately $4 million net of hedges.

Our 2024 EPS outlook is $10.84 to $11.33 per share. This reflects an increase of 8% to 13% as reported and on a comparable basis, net of a 2% EPS growth headwind from the lapping of the customer contract resolution payment and 1% of headwind related to lapping and benefits from tax valuation reserve releases in 2023.

Our EPS outlook factors in a 1.5% increase in our overall effective tax rate to approximately 22% in 2024, reflecting these lapping impacts and lower projected benefits from share-based compensation activity. Our EPS outlook captures expected benefits in 2024 from lower interest expense compared to 2023, as well as expectations for reductions in average share count.

Our 2024 free cash flow outlook is for a net income to free cash flow conversion ratio of 90% to 95%, aligned with our long-term goals. This reflects estimated capital spending of $180 million or approximately 4.5% of revenues. Overall, we're well positioned to deliver continued strong financial performance in 2024.

In terms of our operational outlook for Q1, we're planning for overall organic revenue growth of 6% to 8%, factoring in approximately 1% of negative growth impact from severe weather in the US in January, and constraints on Q1 growth in areas like LPD related to tougher year-on-year comparisons.

Reported revenue growth should be largely in line with organic revenue growth estimates. In terms of our profit outlook, we're planning for reported operating margins of 29.4% to 29.8% in Q1. This reflects an outlook for flat to moderate expansion in comparable operating margins, adjusting for the lapping of the prior year $16 million customer contract resolution payment recorded in Q1 2023, as an offset to operating expense. That concludes our financial review.

I'll now turn the call over to Jay for his comments.

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

Thank you, Brian, and good morning. IDEXX delivered strong performance in the fourth quarter, capping a year where we advanced our strategic priorities, while driving strong business growth and excellent financial results. Our high-touch commercial model, deep focus on the customer, and accelerated innovation drivers supported ongoing sector development. The use of growth in relevant diagnostic testing generates important clinical insights that informed veterinarians' mission to deliver better medical care, while growing their businesses in a highly profitable diagnostics category.

High levels of execution against our strategy drove double-digit CAG Diagnostics recurring revenue growth in the fourth quarter and for the full year of 2023. This was aligned with our original full year growth targets and reflected strong gains across our major regions.

High growth in our durable, high return annuity revenues included strong growth in our recurring software and digital imaging annuity streams. These gains reflected the cumulative impact of double-digit growth in our global premium instrument installed base, supported by high-quality instrument placements, solid new business gains, expansion of integrated cloud-based software solutions, and net price realization aligned with the value we deliver.

IDEXX commercial teams delivered improved volume gains this quarter, as we continued to work through factors constraining clinical visit levels. The solid growth momentum we carried through 2023 demonstrates that customers of all types appreciate IDEXX's purpose-built solutions, and seek these tools and services to achieve sought after efficiency gains. We're excited to build on this momentum in 2024.

Today, I'll highlight the key capabilities and initiatives that have advanced our strategy to address the long-term growth opportunity for our business, through direct commercial partnership and innovation to enhance care delivery. I'll start with a review of our global commercial execution and its foundational role in creating awareness, education and, ultimately, the increased use of IDEXX Diagnostics.

IDEXX's commercial teams bring deep subject matter expertise and a partnership mindset that has resulted in gains above sector growth levels. Solid premium instrument placement growth in Q4 capped off a year of record premium instrument placements. Outstanding full year performance was reflected in sustained high levels of Catalyst placements at new and competitive accounts, including record new and competitive placement levels in the US.

We also realized double-digit expansion of our premium Hematology and SediVue installed bases, high-quality, high EVI placements, coupled with sustained customer retention rates in the 97% to 99% range for the US and, similarly, high levels globally, set a solid foundation for future CAG Diagnostics recurring revenue growth. It also demonstrates our customers' appreciation for IDEXX's easy to use in-clinic platforms that provide them with deep diagnostic insights necessary to delivering high levels of pet healthcare, while managing workflow effectively in a busy and dynamic clinic backdrop.

Our effectiveness in growing the installed base for premium instruments not only benefits our consumables' recurring revenue stream, but also drives growth across our diagnostic modalities as testing begets testing, and our customers are inspired to expand their use of IDEXX solutions. This adoption of our multi-modality offering is supported by strong customer interest in marketing programs like IDEXX 360, which makes the adoption of IDEXX technology easy and financially appealing.

The adoption of these technologies help support sector diagnostics revenue growth in the US in the fourth quarter, which benefited from diagnostic frequency expansion and wellness visits and diagnostics utilization gains overall. Diagnostics remains one of the fastest-growing areas in the veterinary practice, reflected in solid and sustained high-single-digit same-store revenue growth at the practice level.

Our long-term investments in commercial and R&D resources positions IDEXX well to help our customers build on this momentum. Our growing global direct commercial capability is an important element of this strategy to sustain strong CAG Diagnostics recurring revenue growth.

Our most recent commercial expansion was completed in the US during Q4, and is the first in four years as many of our territories have become very large. It complements the seven targeted international expansions we've advanced since 2021 in countries around the world. These are attractive, high return investments that support future growth by delivering high-touch commercial engagement in our fastest growing regions, and our commercial teams have consistently shown the ability to complete these expansions while still delivering strong business results.

Our international business performance is showing the benefits of our expanded global commercial capability. We continue to achieve strong new business gains, reflected in the 13% expansion of our international premium installed base this year, driven by double-digit installed base growth across our chemistry, hematology and urine sediment in clinic platforms. These gains drove improved international CAG Diagnostics recurring revenue growth, specifically, four sequential quarters of volume growth normalized for days despite macro headwinds that have pressured same-store sales levels.

The expanded footprint of our VDC-based commercial model in international regions, customer-friendly marketing programs like IDEXX 360, and an expanded international lab network gives us the right tools to successfully address the approximately two-thirds of the total opportunity estimate which exists outside the US.

In addition to growth in CAG Diagnostics recurring revenues, IDEXX also delivered very strong performance this year in expanding our veterinary software services and diagnostic imaging segment. Our software and imaging solutions provide busy customers with an intuitive and efficient way to access diagnostic insights and manage important workflow and communications across our clinics.

Clinics continue to embrace the opportunity to embed software in many aspects of their business and use technology to generate diagnostic insights, eliminate pain points across back-end areas of the clinic, and open meaningful lines of communication with their increasingly younger customer demographic.

By adopting these contemporary software solutions, clinicians and their staff are significantly better able to focus on providing high levels of care for their patients and reduce their time spent on unrewarded administrative activities that neither help them practice medicine nor help them drive business growth.

Supported by excellent commercial engagement and performance, fourth quarter PIMS placements continue to be driven by interest in cloud native products, which represented over 90% of placements in the fourth quarter and for the full year of 2023, supporting strong double-digit cloud PIMS installed base growth for the year. This high adoption of IDEXX software solutions drove 19% organic gains in our highly profitable recurring revenues in the veterinary software diagnostic imaging segment this year. These gains provide a growing attractive profit stream to the company and delivers a multiplier benefit as loyal software customers grow their diagnostic revenues faster.

Our veterinary software services and diagnostic imaging recurring revenues benefit from growth in our PIMS installed base and from our focus on expanding IDEXX's subscription-based service portfolio. IDEXX Web PACS, our cloud native workflow engine for digital imaging, is a great example. We're pleased with the continued double-digit Web PACS subscriber growth which thousands of practices have adopted and fully integrated into the IDEXX software technology stack.

We recently added advanced dental imaging workflows to Web PACS, addressing a major pain point for the 75% of practices who regularly take dental x-rays. These integrated dental imaging workflows, including full dental charts and tooth specific image sorting, streamlines what is otherwise a complicated and time-intensive process for practices. These results demonstrate the benefits from our innovative integrated software offering that is globally relevant to a wide variety of clinics.

We're building on our momentum with existing platforms such as VetConnect PLUS and with new solutions to further drive efficiencies within the clinic. One example of which is an updated user experience for the IDEXX VetLab Station, which is a practice teams one-stop control panel and workflow engine.

Announced recently at VMX and coming to our customers in the second half of 2024, this new interface will deliver 2 times faster in-clinic diagnostic workflows for all instruments across the IDEXX VetLab suite.

Additionally, while both our diagnostics and software businesses rely primarily on organic growth, we continue to look for attractive and strategic acquisitions to deliver more value to our customers and their clients.

We recently closed the acquisition of a private US-based software and data platform that enhances our software ecosystem and further accelerates our growth in that business. This acquisition extends our PIMS cloud-native workflow and deliver strategic data solutions to our customers and their clients. As we integrate its capabilities deeply inside PIMS platforms, we believe there will be sector growth benefits from deeper engagement between manufacturers, customers and pet owners to drive adoption of highly relevant clinical offerings.

Innovation is a bedrock of how IDEXX has been able to provide our customers with critical diagnostic insights that enable and drive the medical care envelope. We've invested over $2 billion over the last 20-plus years in instrument platform development, differentiated assay discovery and customer-facing software, data and connectivity. Our commitment and leadership in innovation has driven sector development through higher standards of care in global animal health.

The most recent example of our commitment to transformational innovation is within our point-of-care business. The IDEXX inVue Dx Cellular Analyzer is an advanced optics and AI platform for cellular imaging that removes the need for clinic staff to prepare and interpret slides, delivering clinically insightful diagnostic test results while giving valuable time back to the practice. It works by interrogating and interpreting cells in intracellular structures in their natural state, providing spectacular 3D images that enables differential diagnosis to slide-based methods.

The near-term menu for this new platform will address highly relevant, high-volume established categories, including ear cytology and blood morphology, both available when we begin shipping the product in Q4 of this year with fine needle aspirate testing on lumps and bumps to be available next. With built-in advanced optics, powerful AI leveraging our global pathology expertise, and two-way connectivity, the IDEXX inVue Dx analyzer allows for continued menu expansion, building off our proven track record of increasing value over time of IDEXX products and service offerings.

We estimate a 20,000 global placement opportunity over five years from the point of shipment in Q4 of this year, driven by a highly relevant menu and intuitive time saving workflow. Customer response to initial trials and to our announcement at VMX were overwhelmingly positive.

In addition to the IDEXX inVue Dx Analyzer, we also recently announced the latest addition to our fecal Dx antigen platform at our reference labs. Already the gold standard for fecal diagnostics, the fecal Dx antigen platform now identifies Cystoisospora, a common intestinal parasite that typically impacts young dogs and cats, representing the second extension in as many years. Available at no additional costs starting next month, the addition of Cystoisospora will make the best even better and help clinicians have even greater confidence when they choose IDEXX's reference labs for one of the most common time consuming preventive screening tests.

In addition to this expansion on our fecal Dx antigen panel as planned, we have successfully launched of IDEXX Cystatin B in North America in December, adding kidney injury detection to what is already the most comprehensive menu for kidney health in the industry. Since launch, about 10,000 IDEXX customers have benefited from over 200,000 IDEXX Cystatin B test in North America.

Overall, we're very proud of the accomplishments we've been able to advance this year in expanding our business capabilities and value-added partnerships with our customers. Our focus on attractive investment and innovation opportunities, while delivering strong financial results, helped drive exceptional return on invested capital in 2023.

With that, I'll conclude by thanking our nearly 11,000 IDEXX colleagues for their ongoing commitment to our purpose and their strong execution against our strategy. These business results require coordinated, intensive work across the organization and IDEXX teams rose to the challenge.

High levels of performance across the company, both delivered the day in 2023 and set us up well to build off this growth through 2024. There's a significant attractive opportunity to continue to inspire the adoption and utilization of diagnostic solutions and related products.

Our IDEXX teams continue to work tirelessly to address this opportunity, while pursuing our mission to provide a better future for animals, people and our planet. It's an honor to report IDEXX's progress and results on behalf of our colleagues. So, on behalf of the IDEXX management team, thank you for all your efforts this year.

With that, we'll now conclude our prepared remarks and open the line for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today comes from Chris Schott of JPMorgan. Please go ahead.

<Q – Chris Schott – JPMorgan Securities LLC>: Great. Thanks so much for the question and the color and the remarks here. I guess my question here is just, it seems like you have a bit wider range on the 2024 revenue guidance than in the past. So, I just would like a little bit more color in terms of what's driving that range and where you're seeing the most uncertainty in the year. And maybe just part of that, just latest thinking on the macro environment and how you're kind of reflecting kind of the broader macro environment and the guidance for this year? Thanks so much.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Thanks, Chris. Yes, the guidance range represents about a 3% range. I think we highlighted in our comments some of the logic around the midpoint outlook, which largely captures, I think, the underlying sector trends that we've seen recently in the business, as well as the benefits that we're getting from our execution.

The higher end of the range really builds in the potential for sector improvement I think that with the clinical visit growth levels, same-store sales levels internationally have been below what we think will be the longer-term trends in our sector. And so that captures a potential for upside on that front as well as even stronger execution from our teams.

And I think the downside from that midpoint view is capturing risks, including macro risks. And so it's not all that different than I think where we started last year, and we ended up delivering at the higher end of our range, supported by strong execution. So, we'll always strive to do that, but that will involve some improvement in the sector trends in terms of the assumptions that we laid out.

Operator: Our next question today comes from Nathan Rich of Goldman Sachs. Please go ahead.

<Q – Nate Rich – Goldman Sachs & Co. LLC>: Great. Good morning. Thanks for the questions. Maybe just kind of following up on that. I wanted to make sure I kind of understood the kind of underlying end market assumptions that's embedded in guidance. I guess, could you may be kind of talk us through how you see the year playing out? I know you said 100 basis point impact from weather. But I'd be kind of interested if you can maybe just detail your kind of clinical visit expectations for the first quarter.

And then you said kind of flat same-store visits kind of post Q1, would you expect to be around that level in Q2 and then over the balance of the year?

And the other thing that I think stood out from your prepared remarks was just the strongest kind of normalized volume growth in the fourth quarter of 2023. Just any color you could share on kind of what drove that and maybe what you're kind of expecting over the balance of 2024? Thank you.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Thanks, Nate. Yeah, maybe I can start with your last question just to set context. But we had a very good finish to the year in terms of our performance. As I mentioned, the volume trends when you normalize for days effects, we had 4% volume growth US and internationally that was improved from a softer Q3 and actually was our strongest volume growth quarter for the year. So we feel very good about that and reflects the ongoing benefits that we're getting from the strong execution by our teams.

As we thought about our outlook for – and our plans for 2024, we're looking to build on that. We highlighted that that's our volume growth expectation for the year at midpoint is roughly in line with the strong trends we have coming out of the second half, we'll get additional benefit from the pricing that we noted.

I think before the weather impacts that we highlighted, we were – our midpoint view was for largely flat clinical visits in 2024 in the US and somewhat similar trends in international, which had improved in the second of half last year, but were still somewhat of a headwind.

We explicitly factored in and we're about $10 million of impact, we think, in the US from the severe weather in January. So we're just trying to capture that in Q1 and flowing that through as well for the full year. But we think that's isolated to January. We're hopeful we'll see kind of – or at least assuming we get a flattening of trends and hopefully we'll see some over time aligned with the long-term growth potential we see.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. And then – and just to add some color to Brian's remarks. Yeah, the end market appears to be stabilized and healthy. There's good underlying client and pet owner demand, if you take a look at both practice revenue and clinic revenue, it was about 5% in the fourth quarter.

From a positioning standpoint, I think customers appreciate the technology solutions that we bring across in all the diagnostics testing modalities. Even more so with software, I think there's a new hunger for really looking at tools that can help them run their practices better, whether it's workflow productivity, play, communications, client and internal communications, but also as part of the delivery of care and the way it all integrates. So I think the assumption is that customers will continue to work through some of the capacity challenges that they've had and looking for tools and partnerships to be able to do that. And we're especially, I think, well-positioned to help them.

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

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

<Q – Mike Ryskin – BofA Securities, Inc.>: Hey, thanks for taking the question guys, and congrats on the quarter, strong end to the year. I wanted to expand a little bit on the inVue. You guys had a great launch of VMX that was really informative. Just curious, you talked about late 2024 launch or 4Q launch, are you embedding any contribution in numbers this year, obviously, since it's only going to be couple of months, it's not going to be meaningful? But I'm just wondering, of that revenue target how much are you attributing to inVue already?

And then the other question, I'll just throw both at once. You talked about 5% net price this year. If that compares to, I believe you ended last year at 7% to 8%, so you're kind of sort of moderate back down to historical levels.

Just wondering what's sort of been the feedback to price recently as you've announced the 2024 price rollout? And if you could provide any difference on US versus OUS price, that would be helpful. Thanks.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Mike, why don't I just briefly address the guidance question then let Jay talk more about the inVue launch. But we've included the assumptions for the launch in our overall guidance. It would be principally instrument revenue benefits in the fourth quarter as we build the annuity revenues over time from that instrument, but that's – it's all captured in our outlook.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. Just some follow-up commentary on the inVue launch. Customers, I think, are very excited to learn more about that, as well as our commercial organization. Talking to the customers who are looking for help with the very high volume relevant tests that they do today, I think, with the ear cytology and blood morphology, it certainly fits into that profile.

It helps address what I think is a gap from a care standpoint, especially on the blood morphology standpoint where they'd like to do more blood morphologies, but due to the complexities and variability and time constraints to slides, they don't always do as many as they would like to do. So we're very excited by that.

And I think it fits the marketplace and it fits that need. And importantly, it doesn't add work. It's not moving work around. It eliminates work that would otherwise practices are left with. So I think it hits on both the cylinders of delivering excellent medical care but also workflow productivity improvements.

Operator: We will now take a...

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Oh yeah...

Operator: question...

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Sorry, Michael, you had also asked about the pricing piece. And keep in mind that pricing is – there's a mix of combination by different customer types. And so there's not a single way to talk about it. We obviously have corporate customers who may be under longer-term contracts, as well as different program effects. So we think that the 5% net that we provided as a guide both reflects – is commensurate with the value that we're delivering and very much in line with what customers see from an IDEXX contribution standpoint.

Keep in mind, we don't set the end pet owner price. That's up to the veterinarian to decide how they decide to price that and mark it up. And typically, there's an uplift that they factor into their practice management systems. And they obviously price through differentiation – not just differentiation in terms of the test itself, but also the medical services piece of it.

<Q – Mike Ryskin – BofA Securities, Inc.>: Thanks so much for coming back to me. Appreciate that, Jay.

Operator: Our next question comes from Navann Ty of BNP Paribas.

<Q – Navann Ty – BNP Paribas Securities Corp.>: Hi. Good morning. Thanks for taking my question. Just a follow-up on inVue, if you could provide maybe the early KOL feedback regarding the slide-free and load-and-go technology or any other area of feedback.

And whether you're able to provide more information for modeling purposes, including the timing of additional indication. And I just have also a second question, whether we could expect further innovation to be announced on assays in 2024? And would you consider further M&A in software? Thank you.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. So let me talk a little bit about inVue and some of the key opinion leader feedback. We've had a number of key opinion leaders involved as part of the upfront definition and development of inVue. So there's – and we typically do involve them when we're bringing something new to the market, new to the world like this. I think the exciting thing from their perspective is that you're looking at cellular structures including intracellular structures within their natural state. When you prepare a slide, it's a 2D, I don't want to use the word squish, but I'll use the word you're sort of squishing it. So you're getting not a natural look at it when you have a 3-dimensional view and can interrogate it in that natural state, you see things that you don't otherwise – you wouldn't otherwise see and are able to provide differential diagnosis from that. So they're very excited by that. I think veterinarians, in general, are very excited by the fact that you don't have to prepare a slide. They know they spend 10 to 20 minutes on that. It's technique-sensitive, it's highly variable. Therefore, the output in interpretation is variable. So having a solution like that, that's relevant, that's something that they – is well understood, I think they're very enthusiastic about that.

With respect to innovation this year and announcing innovation, I'm not going to talk about that. At this point, we're constantly innovating our product development pipeline, and funnel is filled with very interesting activities. And as we get closer to launch a particular assay or software or instrument, then we talk about it and then we'll disclose more.

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

<Q – Erin Wright – Morgan Stanley & Co. LLC>: Hi. Thanks for taking my question. So I just had another follow-up on inVue and then I have another follow-up after that. But on inVue, could the launch be expedited at all? Or could you do like an earlier soft launch with that instrument? And do you still have that other diagnostic platform in the pipeline? Is that more of a 2025 event or later? Thanks.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. So with respect to the point-of-care platform launches, we have a very well-defined tried and true method of developing platforms, putting it in the hands of customers, getting feedback in terms of how it works within a real operating environment. We know that there's a difference between benchtop development and what you see within the clinic when we launch something and begin shipping it. We want to make sure that the average time between support events are four, five, six years. These are world-class levels of performance. And our customers expect that of us. We don't want to premature the launch and maybe have issues that are disruptive to the practice environment.

So we're comfortable with what we've guided to in terms of the timing of that and making sure that it fits within the software ecosystem and the overall operating environment of the practice itself. We're not further disclosing our next point-of-care platform other than what we've talked in the past and we have one, it's outside of the existing testing categories, and when we get closer to launch, we'll talk about it.

<Q – Erin Wright – Morgan Stanley & Co. LLC>: Okay. And then a bigger picture question. Just, has there been any sort of changes or evolving opportunities as it relates to the competitive landscape, I guess, particularly in the US? Could disruptions in sort of new ownership of one of your competitors or changes in distribution for the other – one of your competitors, is that presenting opportunities for you to take share at this point that you may not have seen previously in either across individual accounts or corporate accounts too? Thanks.

<A – Jay Mazelsky – IDEXX Laboratories, Inc.>: Yeah. Our markets have been very competitive for a long time. I think new ownership hasn't really changed that dynamic. Some of our competitors were also partners with on the clinical services and equipment side. Customers have a choice. Our focus is on continuing to innovate to help address the challenging problems they have in the practice, whether it's capacity constraints, whether it's introducing new testing solutions, to give them better medical results.

What we find at the end of the day is customers appreciate the integrated nature of our offering, the ability to generate seamless user-friendly – customer-friendly way these critical insights that inform great medical decisions that help produce outcomes and do it productively. That's where our focus is and that's where our focus is going to remain.

Operator: We will now take a question from Jon Block of Stifel Financial.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: Thanks guys. Good morning. Brian, maybe just from a modeling perspective. Any way to think about the gross margin versus op margin expansion this year? Do we get GM expansion because another decent year with price? And then if you look at OpEx, R&D was up for the fourth quarter in a row, actually, the R&D was up 20% year-over-year, G&A down two quarters in a row. So, just anything on the GM or OpEx to detail as we sort of sharpen our pencils on 2024?

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Sure. Thanks for the question, Jon. Just to revisit what we shared was we're targeting 20 to 70 basis points of comparable improvement net of the 40 bps headwind from the customer contract resolution payment. So, normalized for that, that's 60 to 110 basis points. We think that will primarily be driven by gross margin gains, consistent with the progress that we supported our 110 basis point improvement in 2023.

We benefit as we help our customers grow faster and CAG Diagnostic recurring revenues grow. That includes price benefits that help us to offset inflationary impacts. We're also continuing to benefit as we grow our cloud-based software business. It's an excellent business for us and we're doing a great job expanding that business and improving our profitability in the software front.

And also have an ongoing focus on improving our lab operations, including benefits from expanding our business. So, we think we have a number of drivers that will help us to build on our gross profit gains.

In terms of our investment profile, I think you highlight where our priorities are. We want to support our innovation agenda. That's an area that's been very high return for us over time. We obviously have the platform that we're launching this year and ongoing innovation that we're supporting. We're continuing to invest in our commercial operations.

We had a US expansion recently that we invested in. And we'll continue to look at opportunities to enhance our commercial capability globally and be efficient overall and try to manage our OpEx largely in line with revenue growth. I think that's a reasonable assumption. I think if we do a better job of growing, grow faster that then always there's an opportunity to get some leverage on that front. But I think our plans are to sustain the OpEx investment in line with revenue and prioritize the innovation and commercial agenda.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: Okay. Great. That was very helpful. Thank you for that. And then just, sort of, a long second question, more clarification. So it seems like the 2024 vet visit growth expectation is zero, if I had that right, at the midpoint of your 7.5% to 10.5% CAG Diagnostic recurring. I just want to make sure I got that right.

And then what's the expectation for 1Q 2024 visits. Was that the negative 1% for full quarter? I'm just trying to sort of get at the implied 2Q to 4Q vet visit assumption? And then just sort of a quick miscellaneous tack-on, anything for price to call out US versus international when we think about the 5% global? And then what about days, do you get an extra day this year? And does that have any tailwind to the growth rates? Thanks guys.

<A – Brian McKeon – IDEXX Laboratories, Inc.>: Okay. So just on the first one, maybe a simple way to understand this is post Q1, we're, I think I said this in my comments, the midpoint assumes largely flat clinical visits in the US. So we're trying to capture that there's about $10 million of headwind that we saw from January. Weather that's principally going to impact the US business, it is US risk, and that will – we think we'll be seeing in the clinical visit numbers.

So we're not trying to estimate that for Q1, but that's obviously a headwind that we're trying to factor in. But I think the bigger picture, Jon, is the midpoint assumptions are largely flat, US clinical visits in Q2 to Q4 timeframe.

I think you had a question on price US versus international. We're not guiding regionally, but the 5%, we're expecting solid net price realization globally consistent with what we're able to execute this year. And so I think we're, again, without being specific, you should expect solid price realization in US and international regions. And days, we don't have a material kind of full year dynamic. We'll share clarity as we go through quarter-by-quarter on that, but we're not highlighting that as an issue in Q1 and it's – or for the full year.

<Q – Jon Block – Stifel, Nicolaus & Co., Inc.>: All right. Thanks guys.

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

Thank you. So we don't have further questions. So with that, thank you for your questions. We'll now conclude our Q&A portion of this morning's call. It's been a pleasure to review another quarter of strong IDEXX results.

In summary, IDEXX is well-positioned to sustain the momentum we've built into 2024, which will continue to help us address the significant decades long opportunity to raise the standard of care to companion animal healthcare. Our consistent strategy focused on supporting increased utilization of diagnostics is a key factor in elevating the standards of care and has helped us navigate the highly dynamic external environment in our sector. We look forward to continued strong execution against our strategic priorities by teams across IDEXX as we move forward through 2024 and beyond.

So thank you for your participation this morning, and we'll now conclude the call.

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