



IDEXX Laboratories, Inc.

Q4 Fiscal Year 2022 Earnings Call – Prepared Remarks

Introduction

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

In these remarks, we will be discussing certain financial measures, not prepared in accordance with Generally Accepted Accounting Principles or GAAP.

A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures is provided in our earnings release, which may also be found by visiting the Investor Relations section of our website.

In reviewing our fourth quarter 2022 results, please note all references to growth, organic growth, and comparable growth refer to growth compared to the equivalent period in 2021 unless otherwise noted.

Brian P. McKeon

Executive Vice President, Chief Financial Officer

Good morning, everyone. I am pleased to take you through our fourth quarter and full year 2022 results – and to provide an overview of our financial outlook for 2023.

IDEXX had a strong finish to 2022 – reflected in our fourth quarter performance.

- Revenues increased 7% organically, driven by 8% organic gains in CAG Diagnostics recurring revenues and continued strong growth in our software and Water businesses.
- Operating profits increased 14% as reported and 17% on a comparable basis – benefiting from solid gross margin gains and Opex leverage.
- Combined – these factors enabled delivery of \$2.05 in EPS, up 14% on a comparable basis.

IDEXX execution drivers supported delivery of full year financial results at the high end of our updated guidance range. This performance is reflected in a 1,200 basis point US CAG recurring revenue growth premium to US clinical visits in the second half of 2022 -- driven by a solid volume growth premium and higher levels of price realization. We sustained record high customer retention levels and solid new business gains globally – and achieved a record level of annual CAG premium instruments placements, which drove a 13% year-on-year expansion of our global premium instrument base. Effective P&L management supported sustained full year comparable operating margins – adjusted for discrete R&D costs – aligned with our updated 2022 goals.

These performance trends position us well as we enter 2023 and advance our growth strategy. This year, we're targeting a return to 10% organic revenue growth at the high end of our initial guidance range. This outlook is supported by continued strong IDEXX execution and net price benefits, captured in our goals for double-digit CAG Diagnostics recurring revenue gains across our US and international regions. We're also targeting solid comparable operating margin gains – building on the higher profit levels we achieved through the pandemic.

We'll walk through the details of our financial guidance later in my comments. We'll highlight the building blocks of our growth outlook and discuss how we are factoring in expectations for overall sector trends and potential macro impacts into our planning. We'll also review estimates for effects from FX and interest rate changes on our reported results in 2023.

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

Fourth quarter organic revenue growth of 7% was supported by solid organic gains across our major business segments – including 8% organic growth in our CAG business, 10% organic growth in Water and 6% organic growth in LPD revenues.

CAG Diagnostics recurring revenues increased 8% organically in Q4 – compared to 13% prior year growth levels – reflecting 9% gains in the US and 6% growth in international regions. On a two- and three-year basis – Q4 results were in line with strong Q3 performance. We achieved continued double-digit organic revenue growth benefits from key execution drivers – including expansion of our premium instrument base, solid new business gains, sustained high customer retention levels and expansion of diagnostics revenue per visit, including benefits from higher price realization.

Overall organic revenue gains were also supported by 17% growth in veterinary software and diagnostic imaging revenues. CAG instrument revenue was down modestly reflecting placement mix and comparisons to high prior year placement levels.

In terms of CAG sector demand drivers – we estimate same store diagnostics revenue in US veterinary practices increased 7% in Q4. These gains continue to be supported by expansion of diagnostic test frequency and utilization – reflected in a nearly 10% increase in diagnostics revenue per clinical visit that included diagnostics. Clinical visit levels declined 2.8% in the quarter – with consistent growth trends across wellness and non-wellness categories – as we continue to work through impacts from reductions in

vet clinic capacity from peak levels and lap the significant step up in demand we saw in 2021, including benefits from new patient growth.

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

IDEXX achieved solid organic gains across our testing modalities in the fourth quarter.

IDEXX VetLab[®] consumables revenues increased 9% organically -- reflecting solid gains across US and international regions, compared to strong prior year growth levels. Consumable gains were supported by a 13% increase in our global premium installed base in 2022 -- reflecting double-digit gains across our Catalyst, premium Hematology and SediVue[®] Dx platforms. We placed 5,065 premium instruments in Q4 -- down modestly from high prior year levels. The quality of placements continues to be excellent -- reflected in 3% global gains in new and competitive Catalyst placements, including 7% gains in the US. We also saw 5% growth in new and competitive premium hematology placements globally, leveraging strong customer interest in ProCyte One[®].

Rapid Assay revenue grew 9% organically -- supported by benefits from net price increases and solid volume gains in the US.

Global lab revenues expanded 8% organically -- reflecting high single-digit gains in the US, which were impacted to a degree by holiday week weather impacts and improved organic growth in international regions.

CAG Diagnostics recurring revenue results were supported by relatively higher levels of net price realization, including benefits from our second half price initiatives. We

estimate net price changes contributed ~7% to worldwide CAG Diagnostics recurring revenue growth in Q4 – reflecting product and service enhancements and coverage of inflationary impacts. As we'll discuss – we've incorporated an expectation for a 7% - 8% global net price growth benefit for the full year in 2023, building in effects from annual list price changes which were communicated recently to our customers.

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

Turning to our other business segments, Water revenues increased 10% organically in Q4 – and for the full year 2022– reflecting strong performance across our major regions, including benefits from net price improvement and volume gains.

Livestock, Poultry, and Dairy revenues increased 6% organically in Q4. Results benefited from growth in herd health screening, shipment timing and improved performance in China -- where we've worked through comparisons to high prior year levels for African Swine Fever and core Swine testing.

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

Gross profit increased 6% as reported and 10% on a comparable basis. Gross margins were 58.5% – up 110 basis points on a comparable basis. Net price gains, higher software service gross margins, lab productivity gains and comparisons to higher prior

year investment levels, and business mix all contributed positively – offsetting inflationary cost effects.

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

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

Q4 EPS was \$2.05 per share, up 14% on a comparable basis. Fourth quarter EPS results reflected \$0.05 in tax benefits from share-based compensation activity and \$0.07 in headwind from foreign exchange changes, net of \$9 million in Q4 hedge gains.

Full year EPS was \$8.03 – a decline of 1% of a comparable basis, net of ~9% of EPS growth impact from discrete R&D investments. For the full year, stock-based compensation activity provided \$13 million, or \$0.15 per share, in tax benefit – lowering our effective tax rate by 150 basis points.

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

Free cash flow was \$394 million for 2022 – or ~58% of net income – net of \$149 million in capital spending. This performance reflects 25% - 30% of free cash flow

conversion impact this year from discrete R&D investments, higher inventory levels aligned with sustaining product availability, higher deferred R&D tax credits and investments in a major facility expansion. Free cash flow conversion came in modestly below our guidance outlook of 60% to 65% – reflecting higher than forecast year-end working capital levels, including impacts from timing. We're targeting improvement in inventory levels in 2023 – which is reflected in our outlook for 80% - 90% in free cash flow conversion this year.

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

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

Turning to our 2023 full year outlook – we're providing initial guidance for reported revenues of \$3,590 million to \$3,690 million. On an organic basis, this reflects a range of 7% - 10% growth overall and 8.5% - 11% growth in CAG Diagnostics recurring revenues.

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

As noted – CAG Diagnostics recurring revenue gains will be supported by an estimated 7% - 8% full year growth benefit from net price realization – with expectations for ~8% - 9% global net price gains in H1 and ~6% - 7% net price benefit in H2.

In addition to benefits from solid CAG Diagnostics recurring revenue growth – our overall growth outlook reflects goals for continued strong growth in our Veterinary Software and Water businesses. We expect these gains will be moderated by flat to modest organic growth in LPD revenues in 2023 – reflecting current macro trends – and ~\$10 million of impacts from lower human Covid testing revenues.

The low end of our overall organic growth outlook of 7% incorporates potential risks to our targeted growth goals, including effects from macro-economic conditions.

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

Our reported operating margin outlook for the full year 2023 is 29.0% - 29.6%. At the high end, this reflects an outlook for ~340 basis points in comparable annual operating margin expansion including ~230 basis points of benefit from lapping discrete R&D investments in 2022. We're planning for constrained gross margin gains on a comparable basis in 2023 – as benefits from pricing and lab productivity initiatives help to offset product and labor inflationary cost impacts, including effects from steps we've taken to ensure high levels of supply chain and service continuity. We estimate foreign exchange will reduce full year reported operating margins by ~50 basis points – driven by the lapping of the \$26 million in 2022 hedge gains.

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

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

Overall – we're well positioned to deliver strong financial performance in 2023. In terms of our operational outlook for Q1 – we're planning for overall organic revenue growth closer to the midpoint of our full year guidance range, as we continue to work through some effects from relatively higher prior year clinic capacity comparisons and macro impacts on demand in international regions. In terms of our profit outlook – we are planning for a 50 - 100 basis point year-on-year improvement in reported operating margins in Q1. This includes benefits from a customer contract resolution payment of \$16 million received in Q1 that will be recorded as an offset to operating expense – as well as expectations for foreign exchange impacts and relatively higher Opex growth in the first quarter related to specific factors such as the return of in person sales meetings this year.

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

Jay Mazelsky

President & Chief Executive Officer

Thank you, Brian, and good morning.

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

For Q4 and the full year 2022, we achieved 8% organic growth in CAG Diagnostics recurring revenues supported by double-digit contribution in growth from IDEXX execution drivers. This strong performance is reflected in record full year placements for both CAG Diagnostics premium instruments and software practice information management systems, continued solid contribution from new business gains, sustained high customer retention rates, and net price realization aligned with our expectations. These execution growth drivers helped to offset impacts from adjustments in vet clinic capacity – following a period of extraordinary growth during the pandemic – as well as macro impacts which globally pressured clinical visit levels in 2022. IDEXX's ability to deliver solid organic growth with underlying strong performance in operational metrics demonstrates the attractiveness and durability of our business, as well as the outstanding work by teams across our organization to deliver results every day. Our decades-long strategic focus on diagnostics sector development – including building strong commercial engagement and innovating to expand adoption of technologies that integrate diagnostics and information management – position us to build on this momentum.

This morning I'll highlight how IDEXX advanced our commercial and innovation priorities in 2022 while delivering strong financial results. I'll also discuss our areas of focus for 2023 that build on this progress.

Let's start with an update on our commercial execution.

High levels of execution by IDEXX commercial teams, who are trusted advisors to our customers, continue to drive revenue gains above sector growth levels. These teams delivered fourth quarter global premium instrument placement levels that were the second highest for any quarter in company history, supporting 13% growth in our global premium instrument installed base and contributing to record annual premium instrument placements for the full year 2022. IDEXX's highly accurate and easy-to-use in-clinic platforms allow clinicians to gain the deeper diagnostic insights necessary to delivering high levels of pet healthcare. These platforms are highly integrated into practice workflow giving customers the tools necessary to meet higher levels of demand for pet healthcare services. This strong placement performance throughout 2022 highlights how IDEXX has been able to support veterinarians during this past year of capacity constraints in a highly effective way.

Not only was the magnitude of placements impressive but they were also a very high quality. This is reflected in strong growth for Catalyst and Premium Hematology placements at new and competitive accounts globally. These gains demonstrate strong clinical interest in IDEXX's products and the compelling value proposition that our multi-modality strategy and customer-friendly marketing programs provide to veterinarians. New and competitive placements helped drive US revenue contribution from new business in the fourth quarter above historic levels – which is an encouraging signal for future growth as this new business will drive future recurring revenue flow-through, supported by very high customer retention levels. Customer retention rates remained at or above 97% across our major modalities throughout 2022 – another trend that

highlights the strong capabilities of our commercial organization and the value that an IDEXX relationship brings to our customers.

International premium placement growth was strong as well – while also reflecting high quality placements at new and competitive accounts which supported solid net customer gains across modalities. This is the result of our global commercial team's increased leverage of our successful VDC model which encourages a laser-focus on engaging with veterinarians, educating them on the value of diagnostics and the way IDEXX can support their needs, and ultimately building a loyal installed base – a key driver of our international growth opportunity. Installed base growth was supported by double-digit Catalyst placement growth in European countries where we have completed expansions since 2021. Commercial expansion is a key component of our international strategy, along with an optimized reference lab network and software tools like VetConnect® PLUS. These results highlight our progress executing against that strategy. Moving forward, we look forward to building on these initiatives to address the two-thirds of our global TAM represented by international regions.

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

Next, an update on our software strategy and our progress in delivering an integrated solution of information management with our reference lab and point of care

diagnostics platforms. IDEXX's software and diagnostic imaging businesses continue to deliver high placement and recurring revenue growth. This business includes an end-to-end stack of software products that create a seamless connected ecosystem across the whole vet clinic – which in turn enables deeper diagnostics insights, supports pet-owner communication, creates workflow efficiencies, and helps support greater diagnostics usage and revenue growth. Customers have never had a greater need for these solutions as capacity constraints in some instances have limited their ability to support patient demand. This is evidenced by record PIMS placements and high-teens growth in IDEXX Web PACS™ subscribers in 2022 which helped drive a continued shift towards recurring revenue for this business. On a full year basis, software and diagnostic imaging revenues reached over \$250 million— up 15% organically. As we expand our software business – our recurring revenues are growing even faster, supporting strong gains in profit contribution, and also reinforcing the value of software as a standalone business.

PIMS placements continued to be driven by customer adoption of cloud-based solutions. As we highlighted at Investor Day this past year, the cloud is gaining momentum rapidly in the veterinary software space. We are in the midst of significant shift towards these types of products – and IDEXX's software portfolio is very well positioned to address this trend towards efficient, easy-to-use cloud-based solutions. Cloud-based PIMS comprised approximately 90% of placements in 2022 – delivering a durable revenue stream and significant benefits to CAG gross margins given the SaaS-based model for these products. We are on track for cloud based PIMS to represent over 50% of our global footprint this year and expect this shift to accelerate over the rest of this decade.

These results were achieved while our software team was tasked with delivering the rapid integration of the ezyVet® solution into our business – a multi-year priority that is tracking well and driving revenue and profit delivery ahead of the expectations established during the acquisition process. This progress is a great example of how

IDEXX consistently delivers high levels of return on invested capital – by deploying resources in the right place, at the right time, and delivering seamless execution and integration. This not only benefits our financial performance but also drives the sector forward and puts world-class products in the hands of our customers. Our software business will continue to provide attractive, highly synergistic, investment opportunities. The early success of our cloud-first strategy, anchored by ezyVet®, positions IDEXX well over the coming years as software and cloud-native products increase in relevance and importance to veterinary clinics.

In addition to this excellent software performance, strong commercial results were also supported by IDEXX's relentless focus on innovation as a key driver of diagnostics adoption and utilization. 2022 was an exciting year of innovation for IDEXX in multiple ways, starting with continued strong adoption of our ProCyte One® premium hematology analyzer which launched in 2021. ProCyte One® offers customers very high clinical performance, in an efficient, lower cost, and smaller footprint platform – and is critical to our efforts to address the ~240 thousand worldwide premium instrument placement opportunity given its relevance in many hematology-first international countries and its high attach rates with Catalyst. Worldwide placements grew 16% for ProCyte One® in the fourth quarter – elevating the installed base of this new piece of technology to more than 8 thousand units. This is very strong progress against our target for 20,000 incremental premium hematology placements by 2026 – and we look forward to building on this momentum to achieve our long-term goals.

In terms of more recent innovation launches, we were excited to announce multiple expansions to our preventive care solutions recently at VMX. These program extensions will provide veterinarians with deeper insights and allow them to detect issues sooner, and include:

- The launch of IDEXX Nu.Q® Canine Cancer Screen, now available at our US reference lab network, which expands our growing oncology platform by adding a

more accessible way for veterinarians to screen for a disease that impacts nearly 6 million dogs annually in the US, and secondly

- The rollout of IDEXX Preventive Care Simple Start, formerly Preventive Care Challenge, an improved wellness program designed for the capacity-constrained practice which includes staff training and tools for custom diagnostics profile development and client communications.

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

Innovation does not stop at the point of launching a new product, however; integrating new technology into practice workflows and protocols, and supporting customers with our Medical Consulting Group, is an important step in driving adoption and utilization of our diagnostic solutions. We have recently seen good traction in this area with some of our products and services which were launched in 2022. Our improved 4Dx® Plus and Fecal Dx® antigen test with detection of flea tapeworms are now included with the Preventive Care Simple Start program we announced at VMX. Another example is FGF-23 – a biomarker that helps determine dietary phosphate restriction in cats with kidney disease that is offered through our reference labs – has now been integrated into updated International Renal Interest Society guidelines.

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

frequency and utilization that we saw in 2022 – and continued adoption of new technologies to help build off these higher levels in 2023.

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

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

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

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

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