

IDEXX Laboratories (IDXX)

\$265.02 (As of 01/02/20)

Price Target (6-12 Months): **\$278.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/02/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM: C

Value: D

Growth: B

Momentum: C

Summary

Shares of IDEXX have outperformed its industry in a year's time. IDEXX exited the third quarter on an impressive note with better-than-expected numbers. The company's solid organic revenue growth is encouraging. The top line was driven by strong sales at the CAG and LPD businesses. Specifically, the company witnessed sturdy gains from CAG Diagnostics in the quarter. It also witnessed strong performances in IDEXX VetLab consumables, reference laboratory diagnostic and consulting, and moderately robust growth in rapid assay products' revenues globally. The global adoption of its latest products and services, including the rapid expansion of Catalyst installed base, and increased utilization of the Fecal Dx Antigen Panel and IDEXX SDMA test, is another driving factor. However, a lowered EPS view for 2019 is a concern.

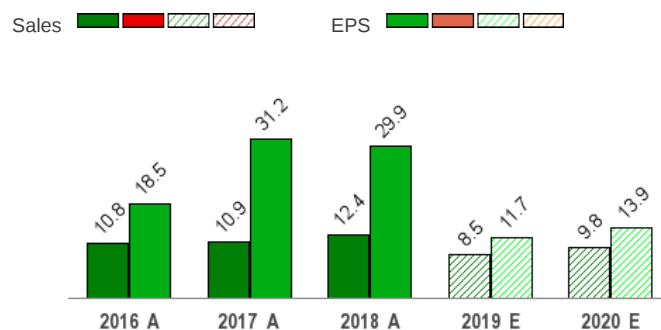
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$294.57 - \$176.11
20 Day Average Volume (sh)	394,800
Market Cap	\$22.7 B
YTD Price Change	1.5%
Beta	0.72
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Top 32% (80 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.7%
Last Sales Surprise	1.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/07/2020
Earnings ESP	0.0%
P/E TTM	55.0
P/E F1	48.9
PEG F1	NA
P/S TTM	9.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	632 E	681 E	665 E	659 E	2,636 E
2019	576 A	620 A	605 A	600 E	2,401 E
2018	538 A	581 A	545 A	549 A	2,213 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.23 E	\$1.55 E	\$1.35 E	\$1.29 E	\$5.42 E
2019	\$1.17 A	\$1.43 A	\$1.24 A	\$0.91 E	\$4.76 E
2018	\$1.01 A	\$1.23 A	\$1.05 A	\$0.98 A	\$4.26 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/02/2020. The reports text is as of 01/03/2020.

Overview

Headquartered in Delaware NJ, IDEXX Laboratories, Inc. (IDXX) is a developer, manufacturer and distributor of products and services primarily for the companion animal veterinary, livestock and poultry, water testing and dairy markets. The company also sells a series of portable electrolytes and blood gas analyzers for the human point-of-care medical diagnostics market.

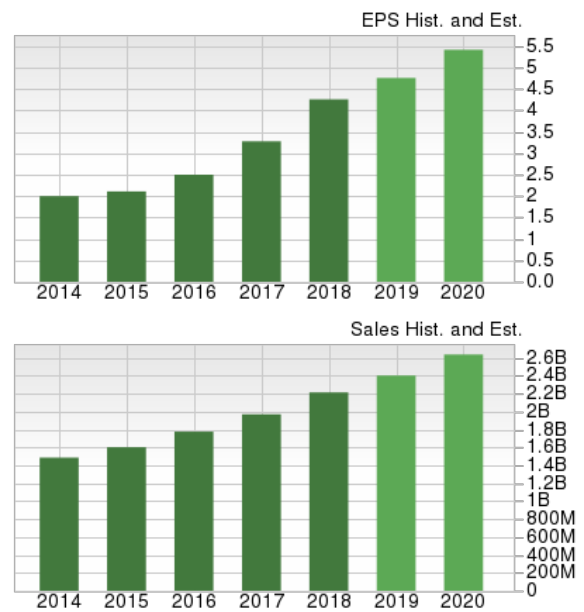
IDEXX operates through three primary segments:

Companion Animal Group (CAG) (87.3% of revenues in 2018): This segment provides veterinarians with diagnostic capabilities and information management solutions that enhance the health and well-being of pets. The complementary nature of these products and services provides a unique competitive advantage known as the IDEXX Diagnostic Advantage, providing vets with tools and services necessary to offer advanced veterinary medical care. In 2018, this segment grew 13.6% from 2017.

Water (5.4%): Through this segment, IDEXX provides innovative testing solutions for easy, rapid and accurate detection and quantification of various microbiological parameters in water, helping to ensure water safety for people around the world. In 2018, this segment grew 9.4% from 2017.

Livestock, Poultry and Dairy (LPD) (5.9%): Within this segment, IDEXX provides diagnostic tests and related instrumentation required to manage the health status of livestock and poultry, to improve bovine reproductive efficiency, and to ensure the quality and safety of milk and food. These products are purchased by government and private laboratories that provide testing services to cattle, swine and poultry veterinarians, producers and processors. this segment) In 2018, this segment grew 1.6% from 2017.

Other (0.9%): The company's OPTI Medical operating segment has been combined and presented with the remaining pharmaceutical product line and the out-licensing arrangements in an 'Other' category, primarily because they do not meet the quantitative or qualitative thresholds for reportable segments. In 2018, this segment fell 3.4% from 2017.



Reasons To Buy:

▲ **Share Price Movement:** Over the past one year, IDEXX has been outperforming its industry with respect to share price movement. The stock has rallied 41.4% in comparison to 22.8% rise of the industry. In the third quarter, IDEXX achieved 12% organic revenue growth, driven by strong sales at the CAG business. The company also witnessed sturdy gains from global premium instrument installed base in the quarter. We note that the Companion Animal market fundamentals remain solid with tremendous global runway for growth. Management's innovation-based, multi-modality global strategy, enabled by enhanced commercial capability accelerated recurring CAG Diagnostics revenue growth. Expansion of strategic initiatives like IDEXX Preventive Care and recent acquisition of Marshfield Labs have also contributed to the share price rally.

▲ **Strong International Performance:** IDEXX continues to demonstrate solid growth globally, with strong international expansion. International revenues in the third quarter of 2019 were up 13.4% organically, aided by 14% organic gains in CAG Diagnostics recurring revenues.

International CAG Diagnostic recurring revenue increased 16% organically in the third quarter, led by international Reference Lab organic revenue growth as well as strong growth in international consumable revenues. These results reflected solid momentum across international markets in diagnostic test utilization and expansion of the company's global catalyst installed base.

Globally, the company placed 1,898 catalysts in the September-end quarter with 360 yet new and competitive accounts in North America and 910 new and competitive placements in international markets. The company also witnessed 965 premium hematology placements, (which was up 18% globally) and 589 SediVue placements, keeping in line with the prior-year placement levels.

Growth in high customer retention in the company's Rapid assay business continues to be driven by expansion of its engaged SNAP Pro installed base. In the third quarter, there was an additional 2,683 SNAP Pro placements globally, bringing the company's entire global installed base to more than 34,000.

▲ **CAG Continues to Perform Well:** IDEXX derives the lion's share of its revenues from the Companion Animal Group (CAG) segment. The company registered stellar third-quarter revenue growth within CAG. Global revenues increased 13% organically, reflecting 14% organic gains in CAG Diagnostic recurring revenues. Within United States, CAG Diagnostic recurring revenues increased 13% organically, which mirrored continued momentum in consumables and Reference Labs.

Total visits per practice grew 1.4% year on year, with clinical visits per practice growing at 2.7% and overall revenue per practice increasing 5.3%. This reflected continued solid growth trends in the U.S. Companion Animal Healthcare market.

International CAG Diagnostic recurring revenue increased 16% organically in the third quarter, backed by growth in international consumable revenues and growth in international Reference Lab organic revenues, which improved to high single-digit rates.

Of late, IDEXX has been steadily expanding the test menu with CAG. Recently, the company launched catalysts progesterone, which is off to a strong start globally. This apart, it registered strong placements of its recently-launched Cornerstone, Neo, Animana and Smart Flow systems in the third quarter. Incorporation of software systems, on the IDEXX 360 program is enhancing commercial efforts in North America. In the United States, practice management software placements grew 35% year on year.

▲ **Attractive Returns to Shareholders:** IDEXX exited the third quarter of 2019 with cash and cash equivalents of \$103.9 million compared with the \$110.8 million reported at the end of the second quarter of 2019. Year-to-date net cash provided by operating activities was \$303.7 million compared with the year-ago period's \$264.4 million.

IDEXX's robust worldwide commercial capabilities and best-in-class products, which include the next-generation chemistry analyzer – Catalyst One, are the key growth drivers over the near term.

Reasons To Sell:

- ▼ **Impact of Third Party Distribution:** The instrument consumables and rapid assay products in the company's CAG segment are sold domestically and in certain other geographies by third party distributors, who purchase products from IDEXX and sell them to veterinary practices, which are the end users. As a result, distributor purchasing dynamics have an impact on the company's reported sales of these products. Distributor purchasing dynamics can be affected by many factors which may not be directly related to the underlying end-user demand for the products. Consequently, reported results may reflect fluctuations in inventory levels held by distributors and may not necessarily mirror changes in the underlying end-user demand.
- ▼ **Foreign Exchange Headwind:** Approximately majority of IDEXX's consolidated revenues have been derived from sale of products in the international markets in 2018. Thus, the strengthening of the rate of exchange for the U.S. dollar relative to other currencies had a negative impact on the company's revenues derived in currencies other than the U.S. dollar and on profits from products manufactured in the U.S. and sold internationally.
- ▼ **Global Reference Lab Revenue Growth Moderates:** Internationally, a warmer than usual summer in Europe that adversely impacted patient visits had moderated reference lab revenue growth to low to mid-single-digit. Furthermore, the company believes the shift in focus from international lab business to increasing Catalyst placement growth has led to sluggishness in the former. Moreover, management expects this trend to continue in the near term as well.

Intense competition, currency fluctuations along with high dependence on third-party distributors remain a few overhangs for the company.

Last Earnings Report

IDEXX Tops Q3 Earnings Estimates

IDEXX Laboratories, Inc posted third-quarter 2019 earnings per share (EPS) of \$1.24, reflecting 18.1% year-over-year rise on a reported basis and 21% growth at comparable constant exchange rate (CER). The figure surpassed the Zacks Consensus Estimate by 9.7%.

Revenues in Detail

Third-quarter revenues grew 10.9% year over year (up 12% on an organic basis) to \$605.3 million. The metric also beat the Zacks Consensus Estimate by 1.4%.

The year-over-year upside was primarily driven by strong global gains from Companion Animal Group (CAG) Diagnostics' recurring revenues.

Segmental Analysis

IDEXX derives revenues from four operating segments — CAG; Water; Livestock, Poultry and Dairy (LPD); and Other. In the third quarter, CAG revenues rose 11.5% (up 12.7% organically) year over year to \$533.1 million. The Water segment's revenues were up 5.4% from the prior-year quarter (up 7.1% organically) to \$34.9 million. LPD revenues rose 6.6% (up 9.5% organically) to \$31.4 million. Revenues at the Other segment grew 22.2% on a reported basis to \$5.9 million.

Margins

Gross profit in the third quarter rose 12.9% to \$344.9 million despite 8.6% rise in cost of revenues to \$260.4 million. Accordingly, gross margin expanded 95 basis points (bps) to 56.9%.

Sales and marketing expenses rose 9.9% to \$104.6 million, while general and administrative expenses moved up 3.7% to \$66.3 million. Additionally, research and development expenses rose 17.4% to \$34.3 million. Operating margin in the quarter expanded 158 bps to 23.1%.

Financial Position

IDEXX exited the third quarter of 2019 with cash and cash equivalents of \$103.9 million compared with \$110.8 million at the end of the second quarter of 2019. Year-to-date net cash provided by operating activities was \$303.7 million compared with \$264.4 million in the year-ago period.

Updated 2019 Outlook

IDEXX slightly narrowed its revenue guidance for 2019. Revenues for the year are now estimated to be \$2.39-2.40 billion, (from \$2.38-2.41 billion mentioned earlier), indicating organic revenue growth of 10-10.5% (from earlier 9.5-10.5%) and reported revenue growth of 8-8.5% (7.5-9% mentioned earlier). The Zacks Consensus Estimate for revenues of \$2.40 billion falls in the upper end of the company's guided range.

Meanwhile, EPS projection has been lowered to \$4.72-4.78 (from \$4.82-4.92 mentioned previously), suggesting annualized growth of 15-16% at CER (compared with 17-20% growth stated earlier). The Zacks Consensus Estimate for EPS stands at \$4.86, above the company's projected range.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	1.33%
EPS Surprise	9.73%
Quarterly EPS	1.24
Annual EPS (TTM)	4.82

Valuation

IDEXX shares are down 4.9% and up 41.4% in the past six month period and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 4.2% while the Zacks Medical sector rose 4.6% in the past six month period. Over the past year, the Zacks sub-industry and sector are up 22.8% and 8.7%.

The S&P 500 index is up 8.3% in the past six month period and 26.3% in the past year.

The stock is currently trading at 55.6X Forward 12-months earnings, which compares to 34.21X for the Zacks sub-industry, 21.7X for the Zacks sector and 19.1X for the S&P 500 index.

Over the past five years, the stock has traded as high as 55.6X and as low as 14.7X, with a 5-year median 43.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$278 price target reflects 58.4X forward 12-months earnings.

The table below shows summary valuation data for IDEXX.

Valuation Multiples -IDXX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	55.63	34.21	21.73	19.06
	5Year High	55.63	34.21	21.73	19.34
	5-Year Low	14.71	23.23	15.91	15.17
	5-Year Median	43.89	27.38	18.97	17.44
P/S F12M	Current	9.46	3.61	2.88	3.46
	5-Year High	9.78	3.61	3.80	3.46
	5-Year Low	3.40	2.13	2.42	2.54
	5-Year Median	6.62	2.49	2.94	3.00
EV/EBITDA TTM	Current	36.50	17.55	10.73	12.01
	5-Year High	41.66	17.55	14.05	12.86
	5-Year Low	16.75	11.39	8.42	8.49
	5-Year Median	29.77	14.58	10.17	10.66

As of 1/02/2020

Industry Analysis Zacks Industry Rank: Top 32% (80 out of 253)



Top Peers

Abbott Laboratories (ABT)	Neutral
Covetrus, Inc. (CVET)	Neutral
Elanco Animal Health Incorporated (ELAN)	Neutral
Merck & Co., Inc. (MRK)	Neutral
Neogen Corporation (NEOG)	Neutral
Phibro Animal Health Corporation (PAHC)	Neutral
Roche Holding AG (RHHBY)	Neutral
Zoetis Inc. (ZTS)	Neutral

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	IDXX Neutral	X Industry	S&P 500	ABT Neutral	CVET Neutral	ZTS Neutral
VGM Score	C	-	-	C	A	C
Market Cap	22.73 B	131.55 M	23.76 B	153.77 B	1.49 B	63.89 B
# of Analysts	4	2	13	10	4	10
Dividend Yield	0.00%	0.00%	1.78%	1.47%	0.00%	0.49%
Value Score	D	-	-	C	A	D
Cash/Price	0.00	0.09	0.04	0.03	0.05	0.03
EV/EBITDA	40.64	-0.58	13.97	23.84	12.36	31.16
PEG Ratio	NA	2.76	2.02	2.26	0.77	2.90
Price/Book (P/B)	112.14	4.55	3.38	4.80	1.12	23.92
Price/Cash Flow (P/CF)	49.66	23.79	13.70	18.09	NA	35.16
P/E (F1)	48.90	31.05	18.83	24.08	19.18	33.69
Price/Sales (P/S)	9.67	3.38	2.68	4.90	0.38	10.39
Earnings Yield	2.05%	-0.53%	5.30%	4.15%	5.20%	2.97%
Debt/Equity	3.76	0.10	0.72	0.55	0.86	2.47
Cash Flow (\$/share)	5.34	-0.06	6.94	4.81	NA	3.82
Growth Score	B	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	22.83%	13.24%	10.56%	7.68%	NA	19.65%
Proj. EPS Growth (F1/F0)	13.81%	20.35%	7.41%	11.31%	9.06%	10.55%
Curr. Cash Flow Growth	21.97%	9.84%	14.83%	1.30%	13.49%	28.45%
Hist. Cash Flow Growth (3-5 yrs)	13.68%	7.88%	9.00%	11.45%	NA	14.83%
Current Ratio	1.12	2.69	1.23	1.54	1.66	4.39
Debt/Capital	79.01%	17.32%	42.92%	35.52%	46.41%	71.19%
Net Margin	17.99%	-15.15%	11.08%	10.50%	-23.15%	23.76%
Return on Equity	405.71%	-17.95%	17.10%	17.65%	4.26%	70.78%
Sales/Assets	1.40	0.60	0.55	0.46	1.10	0.56
Proj. Sales Growth (F1/F0)	9.79%	10.54%	4.20%	6.63%	4.64%	7.50%
Momentum Score	C	-	-	C	A	D
Daily Price Chg	1.49%	0.00%	0.33%	0.10%	0.61%	1.35%
1 Week Price Chg	0.93%	0.56%	0.13%	0.85%	-6.09%	0.43%
4 Week Price Chg	5.23%	1.29%	3.31%	2.01%	-3.63%	11.68%
12 Week Price Chg	-2.65%	3.84%	9.70%	8.50%	18.04%	5.28%
52 Week Price Chg	48.87%	-11.37%	30.28%	31.31%	NA	64.47%
20 Day Average Volume	394,800	119,026	1,603,615	3,731,002	1,036,305	1,631,663
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.06%	0.00%	-0.48%
(F1) EPS Est 12 week change	-2.74%	0.00%	-0.57%	-0.57%	14.46%	0.38%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.93%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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