

IDEXX Laboratories (IDXX)

\$283.59 (As of 05/06/20)

Price Target (6-12 Months): **\$298.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/02/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: C

Momentum: F

Summary

IDEXX exited the first quarter with better-than-expected earnings. Organic revenue growth was encouraging. Strong sales at CAG arm led the top line in the quarter. Sturdy gains in Diagnostics recurring revenues came from organic gains in both U.S. and international markets. In terms of COVID-19-related progress, availability of RealPCR Test for pets and application for FDA's EUA for a RT-PCR test kit for virus detection buoy optimism. Favorable order timings also boosted segmental revenues. Over the past six months, IDEXX has been outperforming its industry with respect to share price movement. However, lower-than-expected revenues and margin contractions from cost escalations are worrying. A weak solvency and capital structure is deterring. Other headwinds for the company are foreign exchange fluctuations and third-party distribution impacts.

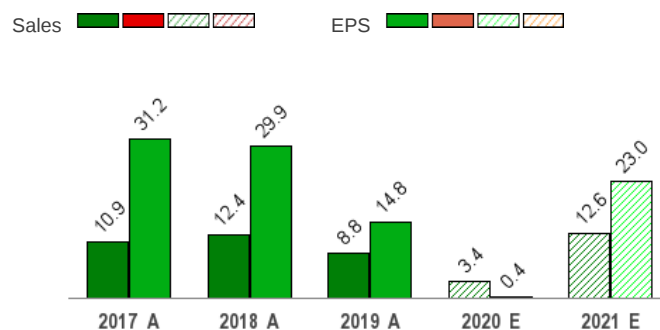
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$296.25 - \$168.65
20 Day Average Volume (sh)	482,444
Market Cap	\$24.1 B
YTD Price Change	8.6%
Beta	0.80
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Top 19% (47 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.9%
Last Sales Surprise	-0.9%
EPS F1 Est- 4 week change	-7.8%
Expected Report Date	08/06/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	682 E	695 E	706 E	720 E	2,803 E
2020	626 A	573 E	634 E	655 E	2,489 E
2019	576 A	620 A	605 A	605 A	2,407 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.41 E	\$1.68 E	\$1.51 E	\$1.48 E	\$6.04 E
2020	\$1.29 A	\$1.14 E	\$1.27 E	\$1.24 E	\$4.91 E
2019	\$1.17 A	\$1.43 A	\$1.24 A	\$1.04 A	\$4.89 A

*Quarterly figures may not add up to annual.

P/E TTM	56.7
P/E F1	57.8
PEG F1	5.6
P/S TTM	9.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/06/2020. The reports text is as of 05/07/2020.

Overview

Headquartered in Delaware NJ, IDEXX Laboratories, Inc. 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.

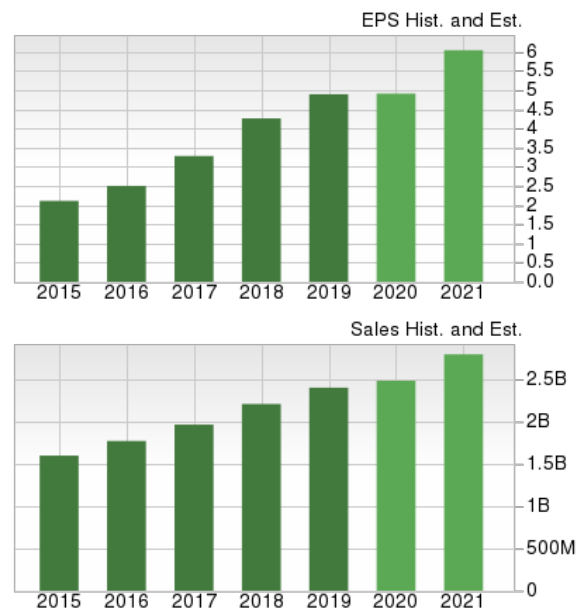
IDEXX operates through four segments:

Companion Animal Group (CAG) (87.5% of revenues in 2019): 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 2019, this segment grew 9.5% from 2018.

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 2019, this segment grew 6.1% from 2018.

Livestock, Poultry and Dairy (LPD) (5.4%): 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 2019, this segment grew 1.6% from 2018.

Other (0.8%): 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 2019, this segment rose 0.9% from 2018.



Reasons To Buy:

▲ **Share Price Movement:** Over the past six months, IDEXX has been outperforming its industry with respect to share price movement. The stock has gained 11.3% against the 0.3% fall of the industry. IDEXX exited the first quarter with better-than-expected earnings. Organic revenue growth was encouraging. The top line in the quarter was driven by strong sales at the CAG business. The company witnessed sturdy gains in Diagnostics recurring revenues, supported by double-digit organic gains in both U.S. and international markets in the quarter under review. In terms of COVID-19-related progress, the company's SARS-CoV-2 (COVID-19) RealPCR Test for pets in response to customer demand buoys optimism.

Further, the company's human health business, OPTI Medical Systems, developed a PCR laboratory test kit named OPTI SARS-CoV-2 RNA RT-PCR. The company has applied for FDA's Emergency Use Authorization (EUA) for the same for the detection of SARS-CoV-2.

The company has also received a boost in segmental revenues due to order timings, including accelerated customer stocking orders related to the COVID-19 pandemic.

▲ **Strong Global Performance:** IDEXX continues to demonstrate solid growth globally. International revenues in the first quarter of 2020 were up 9% organically, aided by a 10% rise in CAG Diagnostics recurring revenues. This reflected robust gains across the United States as well as international markets along with solid gains in Water and LPD businesses. This growth in CAG Diagnostics recurring revenues resulted from double-digit growth in the United States and internationally despite adverse impacts from all over the world spread throughout the quarter.

Global CAG Diagnostics recurring revenue gains were strong and above the high end of the company's full-year expectations of 11-12% organic growth. Global Reference Lab revenues increased 9%, reflecting 8% organic gains and 2% growth benefits from acquisitions. Further, VetLab consumable revenues grew 14% organically despite impacts from the COVID-19 toward the quarter-end. This reflects low double-digit gains in the United States and mid-teen growth in international markets. These results reflected solid momentum across international markets in diagnostic test utilization and expansion of the company's global catalyst installed base.

Rapid assay revenues grew 6% organically in the first quarter, supported by volume gains across its SNAP portfolio of products (including SNAP 4Dx Plus Test), high customer retention rates and moderate net price gains.

▲ **Boost From Coronavirus Outbreak:** While the economy is reeling under the coronavirus pandemic, IDEXX benefited from it. The company's Water segment recorded 13% year-over-year growth (up 15% organically), while the LPD segment recorded 8% year-over-year growth (up 12% organically), both resulting from favorable order timings. This includes accelerated customer stocking orders related to the COVID-19 pandemic.

▲ **CAG Continues to Perform Well Despite Coronavirus:** IDEXX derives the lion's share of its revenues from the CAG segment. The company registered stellar first-quarter revenue growth within CAG.

In the first quarter till early March, global CAG Diagnostics recurring revenue gains were robust. These gains resulted from improved market trends, reflected in 4% same-store growth in U.S. clinical visits. Despite adoption of social distancing policies in Europe and the United States through March and significant declines in clinical visit activity and restriction on access to vet clinics, the momentum was strong enough to result in robust revenue growth.

The CAG instrument placements remained strong in the reported quarter, reflecting catalyst placements at new and competitive accounts in North America and in international markets. The company also benefited from second catalyst placements driven by momentum with North American customers.

Veterinary software and diagnostic imaging revenues saw 11% organic growth on continued strong gains in recurring service revenues and sustained solid sales of new Cornerstone and digital imaging systems. The strong growth in the Neo and SmartFlow cloud-based software offerings also contributed to the revenue uptick.

Of late, IDEXX has been steadily expanding the test menu with CAG. Product innovation, announced at VMX, were launched on schedule and were well received by the customers. A notable launch includes Catalyst Bile Acids test along with latest updates to its SediVue Neural Network 5.0.

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:** Majority of IDEXX's consolidated revenues are derived from sale of products in international markets. 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.
- ▼ **Contraction in Margins:** During the first quarter, gross margin contracted 15 basis points (bps) to 57.4% due to a 9.1% rise in cost of revenues. Sales and marketing expenses rose 8.9% to \$116.1 million, while general and administrative expenses moved up 9% to \$65.8 million. Additionally, research and development expenses rose 5.7% to \$33.3 million. Accordingly, operating margin in the quarter contracted 7 bps to 23%.
- ▼ **Weak Solvency and Capital Structure:** IDEXX exited the first quarter with cash and cash equivalents of \$81 million compared with \$90 million at the end of 2019. Meanwhile, total debt was \$1.25 billion for the period, reflecting a surge from \$1.06 billion in the sequentially last-reported quarter. This figure, however, was much higher than the year-end cash and cash equivalent level. Moreover, the company's current-year-payable debt level of \$487 million was pretty high compared to the quarter-ended cash in hand, bad news in terms of the company's solvency position. This implies, during the year of economic downturn, the company is not holding enough cash for immediate debt repayment.

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

The quarter's total debt-to-capital of 87.6% stands at a very high level indicating a highly leveraged balance sheet. It also represents a sequential increase from 81.2% at the end of 2019. The overall data shows a difficult solvency position for IDEXX.

The times interest earned for the company stands at 18.6%, representing a sequential increase from 17.8% at the end of the fourth quarter 2019.

IDEXX recently suspended share repurchase activity.

Last Earnings Report

IDEXX Q1 Earnings Top Estimates, Margins Decline

IDEXX posted first-quarter 2020 earnings per share of \$1.29, reflecting a 10.2% year-over-year rise. The figure surpassed the Zacks Consensus Estimate by 4.9%.

Comparable-constant-currency earnings per share growth was 13%, which excludes the impact of changes in foreign exchange rates and the tax benefits of share-based compensation activity.

Revenues in Detail

First-quarter revenues grew 9% year over year to \$626.3 million. The metric, however, missed the Zacks Consensus Estimate by 0.9%. The year-over-year upside was primarily driven by strong global gains in 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 first quarter, **CAG** revenues rose 8% (up 9% organically) year over year to \$551.9 million.

The **Water** segment's revenues were up 13% (up 15% organically) year over year to \$34.1 million.

LPD revenues rose 8% (up 12% organically) to \$34.1 million.

Revenues at the **Other** segment grew 13.4% on a reported basis to \$6 million.

Margins

Gross profit in the first quarter rose 8.4% to \$359.6 million. However, gross margin contracted 15 basis points (bps) to 57.4% on a 9.1% rise in cost of revenues to \$266.7 million.

Sales and marketing expenses rose 8.9% to \$116.1 million, while general and administrative expenses moved up 9% to \$65.8 million. Additionally, research and development expenses rose 5.7% to \$33.3 million. Operating margin in the quarter contracted 7 bps to 23%.

Financial Position

IDEXX exited the first quarter with cash and cash equivalents of \$81.4 million compared with \$90.3 million at the end of 2019.

Net cash provided by operating activities at the end of the first quarter was \$27.9 million compared with \$34.4 million at the end of 2019.

2020 Outlook Withdrawn

The uncertainties regarding the duration and impact of the coronavirus pandemic on veterinary service providers have compelled IDEXX Laboratories to withdraw its previously-issued 2020 financial guidance. It did not even provide a guidance for the second quarter.

Quarter Ending 03/2020

Report Date	Apr 30, 2020
Sales Surprise	-0.86%
EPS Surprise	4.88%
Quarterly EPS	1.29
Annual EPS (TTM)	5.00

Recent News

On **Apr 20, 2020**, IDEXX announced that the SARS-CoV-2 (COVID-19) RealPCR Test is now available for the pets.

Valuation

IDEXX shares are up 8.6% in the year-to date period and up 15.4% in the trailing 12-month periods. Stocks in the Zacks sub-industry are down 1.7% while the Zacks Medical sector fell 4% in the year-to-date period. Over the past year, the Zacks sub-industry is up 4.1% and sector is up 0.8%.

The S&P 500 index is down 11.5% in the year-to-date period and fell 1.3% in the past year.

The stock is currently trading at 51.2X Forward 12-months earnings, which compares to 37.5X for the Zacks sub-industry, 22.1X for the Zacks sector and 20.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 55.7X and as low as 14.7X, with a 5-year median 44.7X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$298 price target reflects 53.8X forward 12-months earnings.

The table below shows summary valuation data for IDEXX.

Valuation Multiples - IDEXX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	51.22	37.50	22.06	20.52
	5-Year High	55.66	37.50	22.06	20.52
	5-Year Low	14.71	23.30	15.81	15.19
	5-Year Median	44.67	27.72	18.73	17.44
P/S F12M	Current	8.95	3.68	2.73	3.21
	5-Year High	9.78	3.68	3.84	3.44
	5-Year Low	3.40	2.18	2.25	2.54
	5-Year Median	6.94	2.60	2.96	3.01
EV/EBITDA TTM	Current	37.88	16.77	10.22	10.44
	5-Year High	41.69	18.19	14.18	12.86
	5-Year Low	16.34	11.82	8.29	8.28
	5-Year Median	30.73	15.08	10.22	10.77

As of 05/06/2020

Industry Analysis Zacks Industry Rank: Top 19% (47 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Abbott Laboratories (ABT)	Neutral	3
Covetrus Inc (CVET)	Neutral	3
Elanco Animal Health Incorporated (ELAN)	Neutral	3
MerckCo Inc (MRK)	Neutral	3
Neogen Corporation (NEOG)	Neutral	3
Phibro Animal Health Corporation (PAHC)	Neutral	3
Roche Holding AG (RHHBY)	Neutral	3
Zoetis Inc (ZTS)	Neutral	3

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	IDXX	X Industry	S&P 500	ABT	CVET	ZTS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	F	A	C
Market Cap	24.09 B	114.08 M	19.11 B	161.11 B	1.20 B	59.69 B
# of Analysts	4	2	14	10	4	11
Dividend Yield	0.00%	0.00%	2.2%	1.58%	0.00%	0.64%
Value Score	D	-	-	D	A	D
Cash/Price	0.00	0.09	0.06	0.02	0.11	0.03
EV/EBITDA	38.62	-0.74	11.69	22.45	15.05	26.22
PEG Ratio	5.60	3.28	2.48	4.01	NA	3.70
Price/Book (P/B)	222.91	3.10	2.58	5.29	0.96	22.11
Price/Cash Flow (P/CF)	47.17	20.54	10.40	18.25	1.00	27.63
P/E (F1)	57.76	34.18	18.81	32.39	22.65	34.37
Price/Sales (P/S)	9.80	3.00	1.97	5.02	0.30	9.42
Earnings Yield	1.73%	-3.25%	4.99%	3.09%	4.37%	2.91%
Debt/Equity	7.06	0.09	0.75	0.55	0.90	2.26
Cash Flow (\$/share)	6.01	-0.13	7.01	4.99	10.71	4.55
Growth Score	C	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	23.99%	13.78%	10.87%	10.11%	NA	20.29%
Proj. EPS Growth (F1/F0)	0.36%	7.23%	-9.86%	-13.21%	-39.87%	0.48%
Curr. Cash Flow Growth	12.06%	4.95%	5.88%	4.54%	602.34%	18.22%
Hist. Cash Flow Growth (3-5 yrs)	14.54%	11.44%	8.55%	11.80%	NA	16.87%
Current Ratio	0.85	2.64	1.25	1.43	1.62	2.63
Debt/Capital	87.59%	14.81%	44.23%	35.58%	47.47%	69.29%
Net Margin	17.78%	-14.70%	10.87%	11.15%	-24.30%	25.41%
Return on Equity	264.71%	-15.04%	16.36%	18.61%	3.70%	68.72%
Sales/Assets	1.37	0.57	0.55	0.47	1.05	0.56
Proj. Sales Growth (F1/F0)	3.40%	0.00%	-2.18%	-2.16%	-2.29%	3.06%
Momentum Score	F	-	-	C	A	C
Daily Price Chg	0.54%	0.00%	-1.27%	-2.10%	-4.19%	-4.27%
1 Week Price Chg	-0.39%	0.39%	0.53%	-4.48%	24.52%	1.29%
4 Week Price Chg	11.33%	9.87%	0.68%	7.22%	43.28%	-1.23%
12 Week Price Chg	0.11%	-15.10%	-22.30%	2.58%	-20.21%	-12.09%
52 Week Price Chg	15.38%	-27.06%	-11.55%	19.50%	-64.76%	23.40%
20 Day Average Volume	482,444	211,155	2,470,143	9,702,094	1,588,760	2,341,627
(F1) EPS Est 1 week change	-6.88%	0.00%	0.00%	0.00%	-5.00%	-9.77%
(F1) EPS Est 4 week change	-7.80%	0.00%	-6.52%	-2.07%	1.06%	-13.01%
(F1) EPS Est 12 week change	-10.61%	-10.88%	-14.84%	-21.85%	-29.37%	-16.86%
(Q1) EPS Est Mthly Chg	-24.67%	0.00%	-12.48%	-25.24%	-28.95%	-3.70%

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	C
Momentum Score	F
VGM Score	F

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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