

IDEX Laboratories (IDXX)

\$374.03 (As of 08/11/20)

Price Target (6-12 Months): **\$393.00**

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:A

Value: D

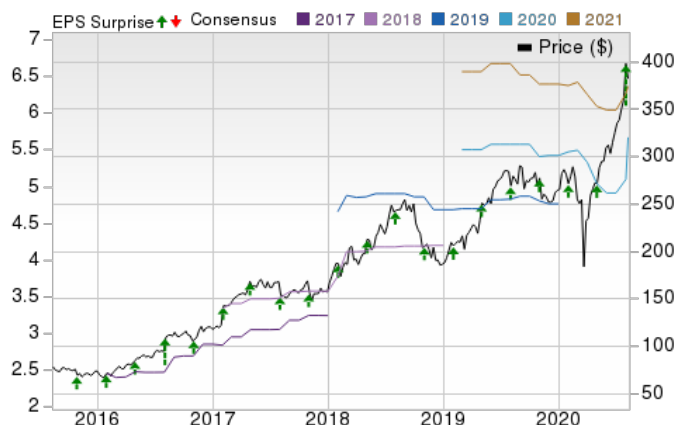
Growth: A

Momentum: A

Summary

IDEXX exited the second quarter of 2020 with better-than-expected results. Organic revenue growth was encouraging. Strong sales at CAG business drove the top line. Sturdy gains in Diagnostics recurring revenues was seen in the quarter, supported by organic gains in both U.S. and International markets. Further, regulatory clearances of OPTI SARS-CoV-2 RNA RT-PCR buoy optimism. Margin expansion looks encouraging. Over the past six months, IDEXX has outperformed its industry. However, pandemic-led business impacts dragged down revenues along with dismal performances by three of the four reporting segments. The company's inability to provide any financial outlook is concerning. A weak solvency and capital structure is deterring. Other headwinds for the company are foreign exchange fluctuations and third-party distribution impacts.

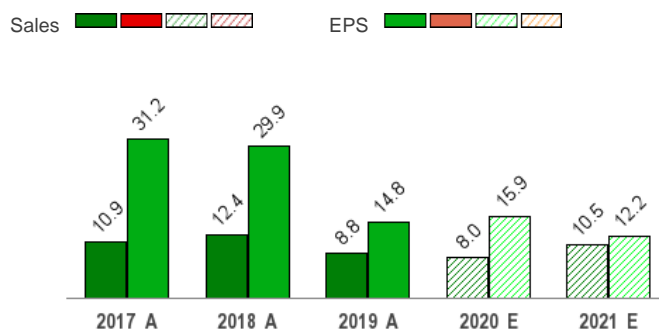
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$407.86 - \$168.65
20 Day Average Volume (sh)	450,577
Market Cap	\$31.8 B
YTD Price Change	43.2%
Beta	0.85
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Top 49% (124 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	43.3%
Last Sales Surprise	9.9%
EPS F1 Est- 4 week change	15.4%
Expected Report Date	10/29/2020
Earnings ESP	0.0%
P/E TTM	70.7
P/E F1	66.1
PEG F1	4.3
P/S TTM	12.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	693 E	727 E	739 E	735 E	2,872 E
2020	626 A	638 A	667 E	669 E	2,600 E
2019	576 A	620 A	605 A	605 A	2,407 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.47 E	\$1.74 E	\$1.69 E	\$1.52 E	\$6.36 E
2020	\$1.29 A	\$1.72 A	\$1.39 E	\$1.28 E	\$5.67 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

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.

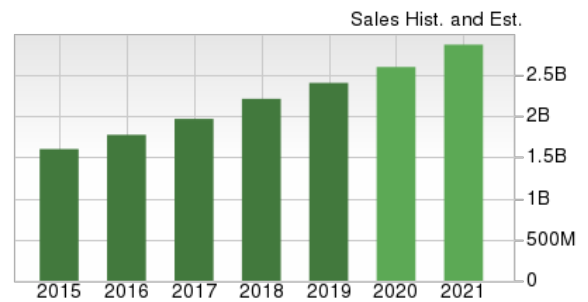
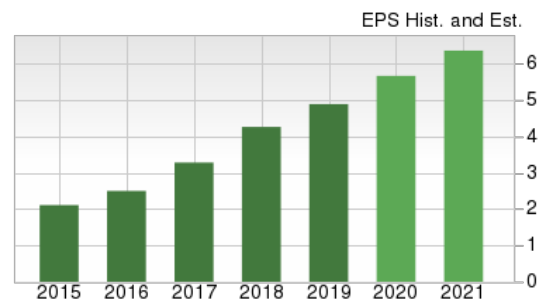
IDEXX operates through four segments:

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 31.2% compared with the 10.6% rise of the industry. IDEXX exited the second quarter with better-than-expected results. Solid organic revenue growth is 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 high single-digit organic gains in both U.S. and International markets in the quarter under review.

Further, the company's human health business, OPTI Medical Systems' OPTI SARS-CoV-2 RNA RT-PCR (which received the CE Mark in June and FDA's Emergency Use Authorization in May) buoys optimism. Margin expansion looks encouraging.

- ▲ **Strong Global Performance:** IDEXX continues to demonstrate solid growth globally. International revenues in the second quarter of 2020 were up 3.8% organically, aided by a 7% rise in CAG Diagnostics recurring revenues. This reflected robust gains across the United States as well as international markets. This growth in CAG Diagnostics recurring revenues resulted from strong gains across the company's major modalities.

Global Reference Lab revenues increased 7%, reflecting 6% organic gains and 2% growth from acquisitions. These results reflected solid expansion of the company's global catalyst installed base. Notably, LPD segment continues to derive benefit from strong demand for diagnostic testing programs for African swine fever and an improvement in core swine testing volumes in China supported by large producer efforts to rebuild swine herds. Continued solid growth for poultry testing has been observed globally.

There was a fall in Rapid Assay revenues in the second quarter. However, the month of June recorded a strong rebound in year-over-year gains, driven by pent-up demand for wellness testing.

- ▲ **Regulatory Approvals:** IDEXX's subsidiary OPTI Medical Systems achieved the CE mark for its OPTI SARS-CoV-2 Reverse Transcription Polymerase Chain Reaction (RT-PCR) laboratory test kit, which is aimed at detecting the SARS-CoV-2, in June. This development came on the heels of the validation of the test by the Institute Pasteur of France as well as Emergency Use Authorization (EUA) by the FDA in the United States. These regulatory validations buoy optimism on the stock.

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

In the second quarter, CAG revenues rose 3.8% organically year over year, reflecting impressive global recovery in the CAG business. Despite adverse impacts of fall in new instrument placement due to continued restrictions on access to some veterinary practices and deferral of purchasing decisions, IDEXX's premium instrument installed base expanded 14% year over year primarily on high customer retention levels. The segment also benefitted from revenue contributions from OPTI Medical Systems COVID-19 human PCR testing.

Further, CAG diagnostic recurring revenue gains resulted from a rebound in clinical visits.

Despite restrictions on CAG instrument placements, the quality of CAG instrument placements remained high. This is reflected in 165 catalyst placements at new and competitive accounts in North America and 536 new and competitive placements in international markets. The company also benefited from 231 second catalyst placements, driven by momentum in North America. These new placements and sustained high customer retention levels led to 16% year-over-year growth and the global catalyst installed base.

Notably, IDEXX achieved 545 premium hematology placements in 275 SediVue placements, expanding the global SediVue install base to more than 9,500 instruments (up 25% year over year).

The company is currently on track to advance its product initiatives introduced at VMX in January. Bile Acids, reflecting the eighth parameter introduced in catalyst over the last eight years, has been received well by customers.

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.

▼ **Dull Segmental Revenues:** IDEXX's segmental performance in the second quarter of 2020 was disappointing with two of its reporting segments witnessing a drop in revenues. Water segment revenues were down 19.1% year over year and LPD revenues fell 2.6%. Water segment revenues were impacted by pandemic-led business disruptions which led to business lockdown, and beach and pool closures. Additionally, 20% of the Water revenues, which are related to non-compliance testing, has seen drop in revenues due to reduced overall business activity and prioritization of laboratory spending.

The LPD segment suffered due to lower herd health screening levels impacted by the rebuilding of bovine herd populations in key Asia-Pacific markets, which is reducing export supply.

▼ **Weak Solvency and Capital Structure:** IDEXX exited the second quarter with cash and cash equivalents of \$105.3 million compared with \$81.4 million at the end of the first quarter. Meanwhile, long-term was \$899.6 million for the period, reflecting a surge from \$697.4 million in the preceding quarter. This figure, however, was much higher than the year-end cash and cash equivalent level.

The quarter's total debt-to-capital of 0.32 stands at a high level indicating a highly leveraged balance sheet. It also represents a sequential increase from 0.27 at the end of the first quarter. The overall data shows a difficult solvency position for IDEXX.

The times interest earned for the company stands at 18.7%, representing a sequential increase from 18.6% at the end of first-quarter 2020.

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

Last Earnings Report

IDEXX Earnings Beat Estimates in Q2, Margins Rise

IDEXX posted second-quarter 2020 earnings per share of \$1.72, reflecting a 20.3% year-over-year rise. The figure surpassed the Zacks Consensus Estimate by 43.3%. Comparable-constant-currency EPS growth was 23%, which excludes the impact of changes in foreign exchange rates and tax benefits of share-based compensation activity.

Revenues in Detail

Second-quarter revenues grew 2.8% year over year to \$637.6 million. Organically, growth was 3.6%. The metric exceeded the Zacks Consensus Estimate by 9.9%.

The year-over-year upside was primarily driven by strong global gains in CAG Diagnostics' recurring revenue growth of 7% on both reported and organic basis. High single-digit organic gains in the United States and international markets also drove the top line. OPTI Medical Systems COVID-19 human PCR testing contributed about 1% to the second-quarter top line. However, second-quarter results were impacted by a fall in new CAG instrument placement levels and Water business revenues, including pressure in non-compliance water testing, impacted by factors related to the COVID-19 pandemic.

Segmental Analysis

IDEXX derives revenues from four operating segments — CAG; Water; LPD; and Other.

In the second quarter, CAG revenues rose 3.4% (up 3.8% organically) year over year to \$566.1 million. The Water segment's revenues were down 19.1% (down 16.2% organically) year over year to \$28.1 million. LPD revenues fell 2.6% (up 1.7% organically) to \$32.2 million. Revenues at the 'Other' segment grew 127.8% both on reported and organic basis to \$11.1 million.

Margins

Gross profit in the second quarter rose 6% to \$379.3 million. Gross margin expanded 179 basis points (bps) to 59.5% despite a 1.5% fall in cost of revenues to \$258.3 million.

Sales and marketing expenses fell 7.1% to \$94.2 million, while general and administrative expenses moved up 0.5% to \$60.3 million. Additionally, research and development expenses declined 1.9% to \$31.6 million. Operating profit in the reported quarter was \$193.2 million compared with \$164.3 million in the year-ago period. Operating margin in the quarter expanded 382 bps to 30.3%.

Financial Position

IDEXX exited the second quarter with cash and cash equivalents of \$105.3 million compared with \$81.4 million at the end of the first quarter. Long-term debt for the company at the end of the second quarter was \$899.6 million compared with \$697.4 million at the end of the first quarter.

Cumulative net cash provided by operating activities at the end of the second quarter was \$260.9 million compared with \$228.4 million in the year-ago period.

2020 Outlook

Uncertainties regarding the duration and impact of the coronavirus pandemic on veterinary service providers have compelled IDEXX Laboratories to refrain from providing any guidance for the year. It did not even provide any guidance for the third quarter as well.

Quarter Ending	06/2020
Report Date	Jul 31, 2020
Sales Surprise	9.93%
EPS Surprise	43.33%
Quarterly EPS	1.72
Annual EPS (TTM)	5.29

Recent News

IDEXX Launches Simplified Hematology Analyzer: Aug 12, 2020

IDEXX launched the ProCyt One Hematology Analyzer, whose advanced technology will deliver simplified and consistent workflow with accurate results at the point of care.

IDEXX Expands ImageVue Digital Imaging Portfolio: Aug 12, 2020

IDEXX announced the expansion of its imaging portfolio to include the ImageVue DR30 Digital Imaging System, the third ImageVue digital imaging system from the company in four years.

IDEXX's Laboratory Test Kit Receives CE Mark: Jun 5, 2020

IDEXX's subsidiary OPTI Medical Systems, Inc. announced the receipt of the CE mark in the European Union for its OPTI SARS-CoV-2 RT-PCR laboratory test kit for detecting the COVID-19 causing virus, SARS-CoV-2.

Valuation

IDEXX shares are up 43.2% in the year-to-date period and up 33.2% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 15.1% while the Zacks Medical sector fell 0.3% in the year-to-date period. Over the past year, the Zacks sub-industry is up 19.7% and sector is up 6.4%.

The S&P 500 index is up 4.2% in the year-to-date period and rose 14.9% in the past year.

The stock is currently trading at 61.4X Forward 12-months earnings, which compares to 38.2X for the Zacks sub-industry, 21.9X for the Zacks sector and 22.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 68.9X and as low as 29.9X, with a 5-year median 45.5X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$393 price target reflects 64.5X forward 12-months earnings.

The table below shows summary valuation data for IDXX.

Valuation Multiples - IDXX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	61.40	38.17	21.86	22.80
	5-Year High	68.93	41.71	23.17	22.80
	5-Year Low	29.98	23.21	15.89	15.25
	5-Year Median	45.49	28.06	18.97	17.58
P/S F12M	Current	11.50	4.34	2.78	3.67
	5-Year High	12.50	4.47	3.41	3.67
	5-Year Low	3.40	2.52	2.22	2.53
	5-Year Median	7.15	3.09	2.89	3.05
EV/EBITDA TTM	Current	47.72	19.74	10.47	12.66
	5-Year High	50.67	20.33	13.67	12.84
	5-Year Low	16.34	13.15	8.29	8.24
	5-Year Median	31.44	16.63	10.17	10.90

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Top 49% (124 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Fresenius Medical Care AGCo. KGaA (FMS)	Outperform	2
Hologic, Inc. (HOLX)	Outperform	1
Semler Scientific Inc. (SMLR)	Outperform	1
Integra LifeSciences Holdings Corporation (IART)	Neutral	3
SONOVA HOLDING (SONVY)	Neutral	NA
Teleflex Incorporated (TFX)	Neutral	3
Varian Medical Systems, Inc. (VAR)	Neutral	3
STERIS plc (STE)	Underperform	3

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	IDXX	X Industry	S&P 500	HOLX	SONVY	TFX
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1		3
VGM Score	A	-	-	D	-	D
Market Cap	31.81 B	134.23 M	23.61 B	17.04 B	14.80 B	17.46 B
# of Analysts	4	2	14	9	0	8
Dividend Yield	0.00%	0.00%	1.69%	0.00%	0.72%	0.36%
Value Score	D	-	-	D	-	C
Cash/Price	0.00	0.10	0.07	0.04	0.03	0.03
EV/EBITDA	50.95	-1.45	13.32	55.01	20.88	30.26
PEG Ratio	4.47	4.02	2.95	1.43	NA	2.81
Price/Book (P/B)	116.36	3.50	3.22	7.54	7.19	5.64
Price/Cash Flow (P/CF)	62.21	23.37	12.79	15.67	21.60	23.37
P/E (F1)	68.44	45.79	22.02	22.09	37.09	36.50
Price/Sales (P/S)	12.86	4.51	2.57	5.17	NA	6.91
Earnings Yield	1.51%	-2.97%	4.29%	4.53%	2.69%	2.74%
Debt/Equity	3.54	0.09	0.77	1.22	0.39	0.78
Cash Flow (\$/share)	6.01	-0.13	6.94	4.20	2.11	16.06
Growth Score	A	-	-	F	NA	C
Hist. EPS Growth (3-5 yrs)	24.33%	10.12%	10.41%	8.58%	NA	14.75%
Proj. EPS Growth (F1/F0)	15.85%	7.33%	-6.51%	22.54%	-17.34%	-7.79%
Curr. Cash Flow Growth	12.06%	5.04%	5.22%	2.17%	14.96%	9.60%
Hist. Cash Flow Growth (3-5 yrs)	14.54%	11.09%	8.55%	3.55%	NA	14.47%
Current Ratio	1.44	2.63	1.34	1.47	1.11	3.38
Debt/Capital	77.98%	16.53%	44.59%	54.90%	28.26%	43.87%
Net Margin	18.59%	-25.57%	10.13%	20.03%	NA	18.99%
Return on Equity	241.52%	-19.20%	14.59%	31.40%	NA	17.15%
Sales/Assets	1.33	0.53	0.51	0.50	NA	0.39
Proj. Sales Growth (F1/F0)	8.02%	0.00%	-1.45%	1.70%	-11.70%	-1.63%
Momentum Score	A	-	-	C	-	F
Daily Price Chg	-0.84%	-0.17%	-0.17%	-0.17%	1.08%	-0.30%
1 Week Price Chg	-4.02%	0.95%	2.30%	-1.76%	2.91%	0.11%
4 Week Price Chg	10.51%	5.71%	6.41%	10.70%	7.91%	3.56%
12 Week Price Chg	26.86%	9.49%	15.42%	24.39%	10.17%	8.57%
52 Week Price Chg	33.15%	-1.71%	2.88%	30.72%	-0.57%	1.25%
20 Day Average Volume	450,577	248,163	2,007,486	2,308,231	14,019	180,901
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	15.44%	1.22%	1.84%	30.35%	0.00%	1.93%
(F1) EPS Est 12 week change	15.44%	1.22%	2.40%	30.29%	0.00%	-0.86%
(Q1) EPS Est Mthly Chg	8.97%	0.00%	0.72%	42.52%	NA	-12.00%

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	A
Momentum Score	A
VGM Score	A

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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