

IDEXX Laboratories (IDXX)

\$230.38 (As of 03/26/20)

Price Target (6-12 Months): **\$242.00**

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:C

Value: D

Growth: A

Momentum: F

Summary

IDEXX's solid organic revenue growth during the quarter, driven by strong sales at the CAG business, is encouraging. It witnessed sturdy gains from CAG Diagnostics in the quarter. It also saw strong performances by IDEXX VetLab consumables, reference laboratory diagnostic and consulting as well as moderately robust growth in rapid assay product revenues globally. This strong show can also be attributed to robust growth in the LPD and water segments. Global adoption of its latest products and services is another contributing factor. It put up a robust show in the fourth quarter with better-than-expected numbers. Over the past three months, it has been outperforming its industry. However, the contraction of operating margin during the quarter, foreign exchange fluctuations and economic stagnation due to coronavirus outbreak are concerning.

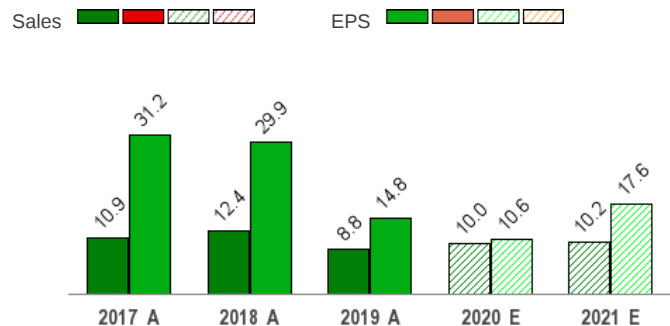
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$296.25 - \$168.65
20 Day Average Volume (sh)	1,068,269
Market Cap	\$19.7 B
YTD Price Change	-11.8%
Beta	0.82
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Top 17% (43 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	14.3%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	-1.5%
Expected Report Date	05/06/2020
Earnings ESP	-2.7%
P/E TTM	47.2
P/E F1	42.6
PEG F1	NA
P/S TTM	8.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	702 E	751 E	735 E	734 E	2,916 E
2020	636 E	681 E	665 E	664 E	2,647 E
2019	576 A	620 A	605 A	605 A	2,407 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.48 E	\$1.81 E	\$1.63 E	\$1.54 E	\$6.36 E
2020	\$1.22 E	\$1.55 E	\$1.40 E	\$1.32 E	\$5.41 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 03/26/2020. The reports text is as of 03/27/2020.

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.

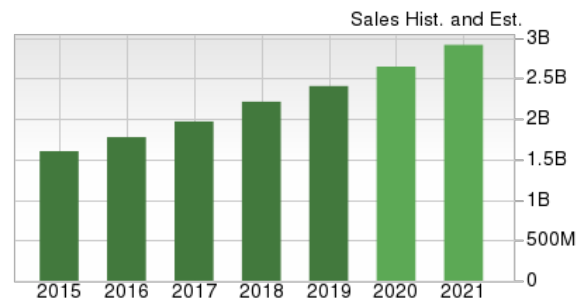
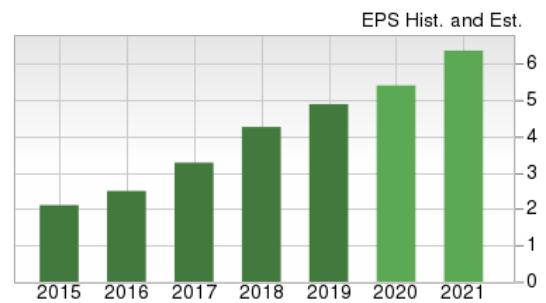
IDEXX operates through three primary segments:

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 three months, IDEXX has been outperforming its industry with respect to share price movement. The stock has declined 11.9% in comparison to the 18.2% fall of the industry. In the fourth quarter, IDEXX achieved 10.2% revenue growth, driven by strong sales at the CAG business. The company also witnessed sturdy gains from global premium instrument installed base. We note that the Companion Animal market fundamentals are 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 the 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 fourth quarter of 2019 were up 11.7% organically, aided by 10.6% organic gains in CAG Diagnostics recurring revenues.

International CAG Diagnostic recurring revenues increased 12% organically in the fourth quarter, led by international Reference Lab organic revenue growth as well as mid-teens 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.

Global premium placements grew 13% year over year in the fourth quarter, driven by a 23% year-on-year increase in Catalyst placements, supporting 19% year-over-year growth in the company's global Catalyst installed base. Overall, IDEXX placed 2,517 Catalysts in the fourth quarter, with 456 at new and competitive accounts in North America, up 8% year over year; and 1,119 new and competitive placements in international markets, a 24% year-over-year increase. The company also witnessed 1,248 premium hematology placements, up 7%. The company's SediVue global installed base is now more than 8,900 instruments, up 35% year over year.

In 2019, there were an additional 10,000 SNAP Pro placements globally in 2019, reaching the company's entire global installed base to more than 37,000. Rapid assay revenues grew 4% organically in the fourth quarter, mirroring solid gains in the United States and international markets.

▲ **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 fourth-quarter revenue growth within CAG.

For the fourth quarter, global CAG revenues were up 11% organically, driven by 11% organic gains in CAG Diagnostics recurring revenues. Within the United States, CAG Diagnostics recurring revenues increased 10.5% organically. Consistently solid U.S. gains were backed by low- to mid-teens organic growth in reference lab sales, double-digit gains in VetLab consumables and solid gains in rapid assay revenues.

International CAG Diagnostic recurring revenues increased 12% organically in the fourth quarter, led by international Reference Lab organic revenue growth as well as mid-teens growth in international consumable revenues.

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. Apart from this, it registered strong placements of its recently-launched Cornerstone, Neo, Animana and Smart Flow systems in the fourth 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.

In 2019, global CAG revenues grew nearly 11% and management is optimistic about targeting continued double-digit organic gains in the CAG business in 2020.

▲ **Attractive Returns to Shareholders:** IDEXX exited fiscal 2019 with cash and cash equivalents of \$90.3 million compared with \$123.8 million at the end of 2018. Net cash provided by operating activities at the end of fiscal 2019 was \$459.2 million compared with \$400.1 million at the end of 2018.

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 2019. 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 Operating Margin:** During the fourth quarter, sales and marketing expenses rose 10.2% to \$105.7 million, while general and administrative expenses moved up 26.6% to \$74.7 million. Additionally, research and development expenses rose 16.7% to \$35.2 million. Accordingly, operating margin in the quarter contracted 190 bps to 19.1%.

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

Last Earnings Report

IDEXX Q4 Earnings Top Estimates , Revenues Grow Y/Y

IDEXX Laboratories posted fourth-quarter 2019 earnings per share of \$1.04, reflecting a 6.1% year-over-year rise. The figure surpassed the Zacks Consensus Estimate by 14.3%. Comparable-constant-currency earnings growth was 17%, which excludes the impact of CEO transition charges of 14 cents per share.

For 2019, earnings came in at \$4.89, up 14.8% (up 21% at comparable constant currency basis) from the year-ago tally. The figure surpassed the Zacks Consensus Estimate by 2.7%.

Quarter Ending **12/2019**

Report Date	Jan 31, 2020
Sales Surprise	0.92%
EPS Surprise	14.29%
Quarterly EPS	1.04
Annual EPS (TTM)	4.88

Revenues in Detail

Fourth-quarter revenues grew 10.2% year over year to \$605.4 million. The metric also beat 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.

For 2019, revenues totaled \$2.41 billion, up 9% on a reported basis and 10% on an organic basis. The figure surpassed the Zacks Consensus Estimate by 0.4%.

Segmental Analysis

IDEXX derives revenues from four operating segments — CAG; Water; Livestock, Poultry and Dairy (LPD); and Other. In the fourth quarter, CAG revenues rose 11% (up 11% organically) year over year to \$529.8 million. The Water segment's revenues were up 9% (up 10% organically) year over year to \$32.87 million. LPD revenues rose 8% (up 10% organically) to \$36.7 million. Revenues at the Other segment grew to \$6.1 million.

Margins

Gross profit in the fourth quarter rose 10.3% to \$331.1 million despite a 10.1% rise in cost of revenues to \$274.3 million. Accordingly, gross margin expanded 2 basis points (bps) to 54.7%.

Sales and marketing expenses rose 10.2% to \$105.7 million, while general and administrative expenses moved up 26.6% to \$74.7 million. Additionally, research and development expenses rose 16.7% to \$35.2 million. Operating margin in the quarter contracted 190 bps to 19.1%.

Financial Position

IDEXX exited fiscal 2019 with cash and cash equivalents of \$90.3 million compared with \$123.8 million at the end of 2018. Net cash provided by operating activities at the end of fiscal 2019 was \$459.2 million compared with \$400.1 million at the end of 2018.

2020 Outlook

IDEXX has raised its revenue guidance for 2020 to a band of \$2.62-2.65 billion, indicating organic and reported revenue growth of 9-10.5%. The Zacks Consensus Estimate for revenues of \$2.64 billion falls within the company's guided range.

Meanwhile, the earnings projection has been raised by 12 cents to the band of \$5.42 - \$5.58, suggesting annualized growth of 13-16% at CER. The Zacks Consensus Estimate for earnings stands at \$5.42, within the company's projected range.

Recent News

On Jan 17, 2020, IDEXX launched rapid digital cytology service to further accelerate delivery of veterinary healthcare services.

Valuation

IDEXX shares are down 11.8% in the year-to date period and up 4.5% in the trailing 12-month periods. Stocks in the Zacks sub-industry are down 14.7% while the Zacks Medical sector fell 14.9% in the year-to-date period. Over the past year, the Zacks sub-industry is down 14.6% and sector is down 14.9%.

The S&P 500 index is down 23.1% in the year-to-date period and fell 12.9% in the past year.

The stock is currently trading at 40.3X Forward 12-months earnings, which compares to 27.7X for the Zacks sub-industry, 17.7X for the Zacks sector and 14.9X 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 44.5X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$242 price target reflects 42.3X 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	40.29	27.70	17.68	14.92
	5-Year High	55.66	33.84	21.09	19.34
	5-Year Low	14.71	23.20	15.81	14.92
	5-Year Median	44.46	27.58	18.74	17.42
P/S F12M	Current	7.25	3.06	2.38	2.68
	5-Year High	9.78	3.62	3.84	3.43
	5-Year Low	3.40	2.16	2.38	2.54
	5-Year Median	6.83	2.55	2.96	3.00
EV/EBITDA TTM	Current	31.90	14.60	9.35	9.74
	5-Year High	41.69	17.82	14.19	12.88
	5-Year Low	16.34	11.78	8.28	8.27
	5-Year Median	30.32	14.88	10.26	10.78

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 17% (43 out of 253)



Top Peers

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

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	IDXX Neutral	X Industry	S&P 500	ABT Neutral	CVET Underperform	ZTS Neutral
VGM Score	C	-	-	B	A	C
Market Cap	19.66 B	85.06 M	18.50 B	133.69 B	882.49 M	56.00 B
# of Analysts	4	2	13	10	4	11
Dividend Yield	0.00%	0.00%	2.35%	1.90%	0.00%	0.68%
Value Score	D	-	-	C	A	D
Cash/Price	0.01	0.13	0.07	0.03	0.19	0.04
EV/EBITDA	31.71	-0.46	11.16	18.84	12.86	24.70
PEG Ratio	NA	2.26	1.74	1.99	0.49	2.72
Price/Book (P/B)	111.14	3.01	2.44	4.28	0.71	20.74
Price/Cash Flow (P/CF)	38.32	19.00	9.87	15.19	0.74	25.92
P/E (F1)	42.37	27.10	15.29	21.07	12.85	29.92
Price/Sales (P/S)	8.17	2.82	1.93	4.19	0.22	8.95
Earnings Yield	2.35%	-1.48%	6.47%	4.75%	7.85%	3.34%
Debt/Equity	4.31	0.09	0.70	0.53	0.90	2.26
Cash Flow (\$/share)	6.01	-0.10	7.01	4.99	10.71	4.55
Growth Score	A	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	23.57%	13.45%	10.85%	8.90%	NA	20.29%
Proj. EPS Growth (F1/F0)	10.53%	17.45%	2.89%	11.05%	-22.15%	8.27%
Curr. Cash Flow Growth	12.06%	6.99%	5.93%	4.54%	602.34%	18.22%
Hist. Cash Flow Growth (3-5 yrs)	14.54%	10.65%	8.55%	11.80%	NA	16.87%
Current Ratio	0.94	2.51	1.23	1.44	1.62	2.63
Debt/Capital	81.17%	15.55%	42.57%	34.74%	47.47%	69.29%
Net Margin	17.77%	-15.10%	11.64%	11.56%	-24.30%	23.96%
Return on Equity	283.27%	-23.03%	16.74%	18.39%	3.70%	69.41%
Sales/Assets	1.38	0.57	0.54	0.47	1.05	0.56
Proj. Sales Growth (F1/F0)	9.98%	7.32%	2.37%	6.89%	2.35%	7.79%
Momentum Score	F	-	-	A	D	C
Daily Price Chg	7.54%	3.75%	6.21%	7.15%	6.04%	8.96%
1 Week Price Chg	-27.89%	-12.79%	-16.96%	-16.72%	-24.05%	-19.56%
4 Week Price Chg	-7.90%	-20.22%	-15.70%	-4.27%	-26.24%	-11.98%
12 Week Price Chg	-13.07%	-25.48%	-23.67%	-12.81%	-40.51%	-12.10%
52 Week Price Chg	4.45%	-41.45%	-13.99%	-4.57%	-74.94%	18.63%
20 Day Average Volume	1,068,269	182,852	4,286,768	12,417,734	2,450,037	4,162,645
(F1) EPS Est 1 week change	-1.82%	0.00%	-0.15%	0.00%	0.00%	-0.23%
(F1) EPS Est 4 week change	-1.55%	0.00%	-2.28%	0.00%	-8.55%	-0.23%
(F1) EPS Est 12 week change	-0.23%	-0.40%	-3.22%	-0.36%	-11.19%	-1.01%
(Q1) EPS Est Mthly Chg	-1.22%	0.00%	-1.60%	0.00%	-42.00%	-0.22%

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	F
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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