

Thermo Fisher Scientific

Formal '24 guide a bit below expectations, but high end not out of reach

Reiterate Rating: BUY | PO: 600.00 USD | Price: 567.12 USD

4Q23 largely in-line; '24 EPS midpoint -1% below Street

TMO reported a solid 4Q (see our [First Look](#) for details), with core organic +1% & EPS +5c ahead despite F/X headwinds. However, formal '24 guidance for sales of \$42.7bn, flat core growth, & Adj EPS of \$21.47 at the midpoints was below TMO's 3Q 'framework'.

Messy update, but now looks poised to beat

The 4Q call was messy. We attribute some of the confusion to a return to the pre-pandemic guidance philosophy, which we think sets TMO up to beat and raise. Mgmt. stressed that the change in the FY24 core growth outlook to +/-1% from about +1% prior does not reflect weaker market conditions, but instead is due to minor operational shifts, tougher comps, and a return to a range-based guidance methodology. COVID roll-offs are a ~3% headwind to total organic growth in '24, implying LSD organic growth for the underlying business. Of note, TMO had expected to recognize ~\$100mn/20c from moving vaccine capacity to GLP-1s in 1Q, but this has shifted to FY25 when manufacturing begins; we lower our FY24E EPS by 20c (to \$21.50). TMO's OpM guide for 22.6% (-30bps y/y at the midpt) was 50bps below our est., due to a combination of the broader sales guide, F/X (-20bps vs 3Q), GLP push out, and higher incentive comp.

Markets subdued but stable, instruments stay strong

On Bioprocess (~10% of sales), conditions have stabilized, but Mgmt. did not call for an inflection despite seeing a pickup in orders, as underlying activity remains muted. On China, visibility is still limited, and the timing of a rebound remains to be seen. That said, TMO still delivered +8% organic growth in Analytical Instruments in 2H23 despite China, underscoring their differentiated portfolio. On PPD, after a strong '23 for the core business, growth will moderate, but TMO is not seeing headwinds from either pricing or lower spending on clinical trials, and sees high-single digit growth returning in '25.

Small changes to 2024-26 ests, but fundamentals sound

We update our model, with our 2024-26 revenue ests a bit higher and EPS ests a bit lower. Overall, TMO could have been more conservative on 3Q as the changes today were more optical than fundamental. That said, we think TMO has reset the bar and remains among the best-positioned Tools companies, and we reiterate our Buy rating.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	23.25	21.55	21.50	24.00	26.70
GAAP EPS	17.63	15.44	15.57	18.77	21.40
EPS Change (YoY)	-7.5%	-7.3%	-0.2%	11.6%	11.3%
Consensus EPS (Bloomberg)			21.76	24.24	27.48
DPS	1.20	1.40	1.40	1.40	1.40
Valuation (Dec)					
P/E	24.4x	26.3x	26.4x	23.6x	21.2x
GAAP P/E	32.2x	36.7x	36.4x	30.2x	26.5x
Dividend Yield	0.2%	0.2%	0.2%	0.2%	0.2%
EV / EBITDA*	20.5x	22.8x	23.1x	21.4x	19.6x
Free Cash Flow Yield*	3.1%	3.1%	3.2%	3.8%	4.3%

* For full definitions of *IQmethod*SM measures, see page 4.

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31 January 2024

Equity

Key Changes (US\$)

	Previous	Current
2024E Rev (m)	42,650.0	42,700.0
2025E Rev (m)	45,200.0	45,300.0
2026E Rev (m)	48,500.0	48,599.6
2024E EPS	21.70	21.50
2025E EPS	24.75	24.00
2026E EPS	27.90	26.70

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Stock Data

Price	567.12 USD
Price Objective	600.00 USD
Date Established	29-Jan-2024
Investment Opinion	B-1-7
52-Week Range	415.60 USD - 597.54 USD
Mrkt Val (mn) / Shares Out (mn)	220,320 USD / 388.5
Free Float	99.4%
Average Daily Value (mn)	1066.41 USD
BofA Ticker / Exchange	TMO / NYS
Bloomberg / Reuters	TMO US / TMO.N
ROE (2024E)	17.4%
Net Dbt to Eqty (Dec-2023A)	57.3%
ESGMeter TM	High

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NT: Near-term

iQprofileSM Thermo Fisher Scientific

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	11.5%	11.1%	10.8%	10.7%	10.6%
Return on Equity	21.6%	18.4%	17.4%	17.3%	16.1%
Operating Margin	24.5%	22.9%	22.6%	23.1%	23.6%
Free Cash Flow	6,911	6,927	7,039	8,476	9,450

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.0x	1.0x	1.1x	1.1x
Asset Replacement Ratio	2.5x	1.6x	1.5x	1.6x	1.7x
Tax Rate	13.0%	10.0%	10.5%	11.0%	11.4%
Net Debt-to-Equity Ratio	59.2%	57.3%	50.4%	34.2%	20.9%
Interest Cover	15.1x	7.1x	6.0x	8.3x	11.1x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	44,915	42,857	42,700	45,300	48,600
% Change	14.5%	-4.6%	-0.4%	6.1%	7.3%
Gross Profit	19,546	17,657	17,544	18,685	20,143
% Change	-3.4%	-9.7%	-0.6%	6.5%	7.8%
EBITDA	11,898	10,730	10,573	11,413	12,465
% Change	-7.3%	-9.8%	-1.5%	7.9%	9.2%
Net Interest & Other Income	(441)	(517)	(430)	(272)	(228)
Net Income (Adjusted)	9,169	8,364	8,234	9,055	9,940
% Change	-8.1%	-8.8%	-1.6%	10.0%	9.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	9,169	8,364	8,254	9,055	9,940
Depreciation & Amortization	913	920	920	967	1,015
Change in Working Capital	(1,049)	(537)	(500)	(500)	(500)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	121	(341)	(226)	540	672
Capital Expenditure	(2,243)	(1,479)	(1,409)	(1,586)	(1,677)
Free Cash Flow	6,911	6,927	7,039	8,476	9,450
% Change	1.8%	0.2%	1.6%	20.4%	11.5%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(455)	(523)	(534)	(526)	(519)
Change in Debt	654	(155)	0	(2,000)	(3,000)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	8,524	8,077	10,820	13,418	15,964
Trade Receivables	8,115	8,221	7,604	8,067	8,655
Other Current Assets	8,590	8,291	8,270	9,365	10,025
Property, Plant & Equipment	9,280	9,448	9,665	9,998	10,359
Other Non-Current Assets	62,645	64,689	67,870	71,670	75,820
Total Assets	97,154	98,726	104,230	112,518	120,822
Short-Term Debt	5,579	3,609	3,609	3,609	3,609
Other Current Liabilities	11,431	10,403	13,002	13,574	14,300
Long-Term Debt	29,025	31,308	31,308	29,308	26,308
Other Non-Current Liabilities	7,087	6,564	8,540	9,060	9,720
Total Liabilities	53,122	51,884	56,459	55,551	53,937
Total Equity	44,032	46,842	47,771	56,967	66,885
Total Equity & Liabilities	97,154	98,726	104,230	112,518	120,822

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Life Sciences & Diagnostic Tools

Company Description

Thermo Fisher Scientific is the largest and most diversified life sciences company. The company offers a comprehensive product portfolio consisting of analytical instrumentation, lab equipment, consumables, software and services used for throughout research, drug manufacturing, diagnostics, food and consumer product safety, and environmental testing.

Investment Rationale

Thermo Fisher Scientific is the largest life science tools company. We think recent acquisitions of complementary technologies in higher growth areas, ongoing process improvement initiatives, and an expanding footprint in emerging and applied markets will help TMO to grow revenues steadily and either in-line or ahead of the overall tools market, and deliver a low teens EPS CAGR over the next several years.

Stock Data

Average Daily Volume 1,880,401

Quarterly Earnings Estimates

	2023	2024
Q1	5.03A	4.71E
Q2	5.15A	5.24E
Q3	5.69A	5.62E
Q4	5.67A	5.93E

Price objective basis & risk

Thermo Fisher Scientific (TMO)

Our \$600 PO is based on a discounted cash flow (DCF) model that assumes an 8% weighted-average cost of capital (WACC) and a 3% terminal growth rate. We believe this discount rate is appropriate due to TMO's leading position in the global life sciences market, given the size, market leadership, maturity, and stability of the company's consumables focused business. Our \$600 PO implies EV/EBITDA multiple of about 22x our FY25 ests, both of which are in-line with TMO's median over the last 10 years.

Risks to our price objective are headwinds and business disruption due to the COVID-19 pandemic, deal integration risks, lower-than-expected deal synergies, slower growth in emerging markets, pricing erosion, lower healthcare utilization trends, soft uptake of new products, competition, and weak R&D funding.

Analyst Certification

I, Derik de Bruin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Bruker Corporation	BRKR	BRKR US	Derik de Bruin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Derik de Bruin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Guardant Health	GH	GH US	Derik de Bruin
	ICON plc	ICLR	ICLR US	Derik de Bruin
	IQVIA Holdings Inc	IQV	IQV US	Derik de Bruin
	LabCorp	LH	LH US	Derik de Bruin
	Maravai	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Derik de Bruin
	Qiagen N.V.	XQGNF	QIA GY	Derik de Bruin
	Quest Diagnostics	DGX	DGX US	Derik de Bruin
	Stevanato Group S.p.A.	STVN	STVN US	Derik de Bruin
	Thermo Fisher Scientific	TMO	TMO US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
NEUTRAL				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	Revvity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin
UNDERPERFORM				
	Align Technology	ALGN	ALGN US	Michael Ryskin



US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Catalent, Inc.	CTLT	CTLT US	Derik de Bruin
	Fortrea	FTRE	FTRE US	Derik de Bruin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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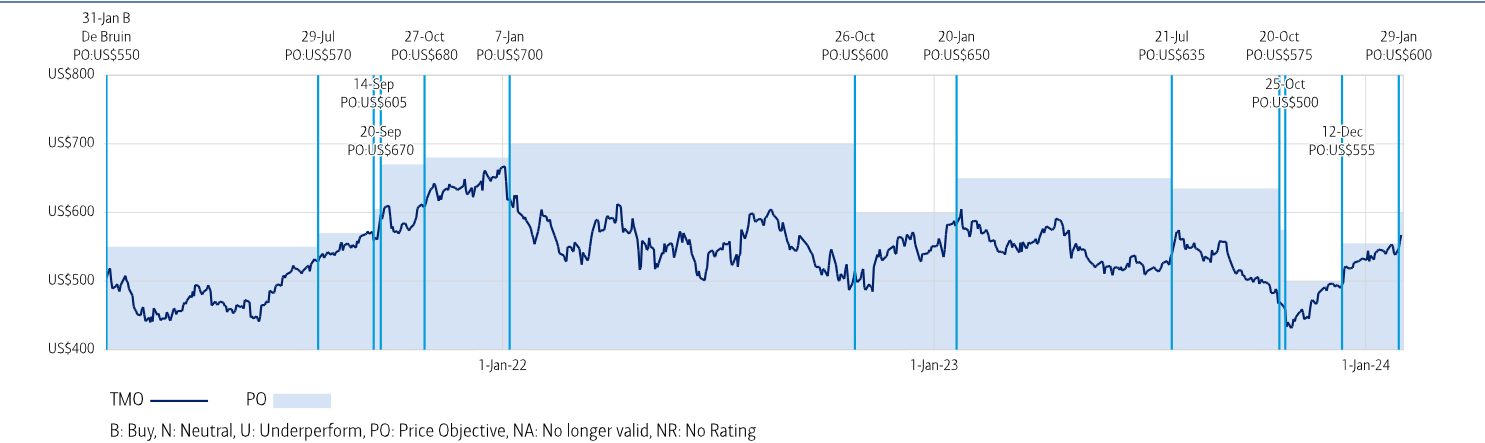
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Thermo Fisher (TMO) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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