

Life Sciences & Diagnostic Tools

Can China return to being a tailwind for Life Science Tools?

Industry Overview

What is the “new normal” for Tools in China?

China represents roughly 10-20% of total revenues for many of our covered Life Science Tools (LST) companies (**Exhibit 1**). As discussed in our 12/12/23 [Year Ahead 2024 report](#) (see report), China has been an important driver of sales growth for most LSTs in recent years. Thus, a key question overhanging the sector is what is the new ‘normalized’ level of demand from China. In this follow up note, we take a closer look at China. Overall, we believe demand in China will rebound but to a lesser extent than what was previously seen.

We expect China to rebound...

At the start of 2023, as China moved away from a “Zero COVID” policy, there was an expectation for an outsized rebound in spending due to pent up demand. Although some LST companies saw a benefit from China stimulus funding in 1Q23, conditions sharply deteriorated thereafter (**Exhibit 2**). A weaker funding environment and a difficult economy in China were a key reasons many LST companies cut their FY23 outlooks. LSTs that have provided commentary in recent investor conferences have noted continued near-term challenges in the region, but think growth will return in the longer-term. This outlook aligns with the views of BofA’s China analysts who believe that policymakers will continue to step up their easing efforts to keep growth on track in the region. However, the current approach by policymakers may not be able to give a strong boost to the economy immediately (see [Nov 20 China Economics Year Ahead note](#)).

But likely less of a tailwind than it was

We estimate that China contributed about 100-200bps of growth from 2015-2019 (**Exhibit 3**). Looking ahead, we believe that China will continue to invest in healthcare, environmental, and technology programs, all of which benefit LST vendors. That said, we believe that China will likely not be the tailwind it once was given that there may have been some overbuying during the pre-COVID years and the preference for local suppliers over US/EU vendors as geopolitical tensions remain. We think that there is more risk from local vendors in more commoditized products (e.g., centrifuges & pipette tips) vs. more sophisticated analytical instruments (e.g., mass spectrometers & NMRs), but note that China has established competitive technologies for its local markets in genomics and diagnostic industries. Overall, it remains to be seen how much of the work currently done in China will be moved to other regions.

Can instrument vendors rebound without China?

One of the LST “mysteries” during the pandemic was the outsized growth many analytical instrument vendors enjoyed. In 2021-22, many companies reported double digit growth rates in market segments such as atomic & molecular spectroscopy and gas & liquid chromatography that was well above their historical “GDP plus 1-2%” growth rates. BofA’s GDP forecasts for China and other key regions (**Exhibit 4**) suggests that the macro will slow in 2024-25. We see a lackluster outlook for instrument vendors (A, WAT, MTD) in 2024 given their outsized China exposures and macro end-markets.

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12649084

Timestamp: 23 January 2024 05:00AM EST

23 January 2024

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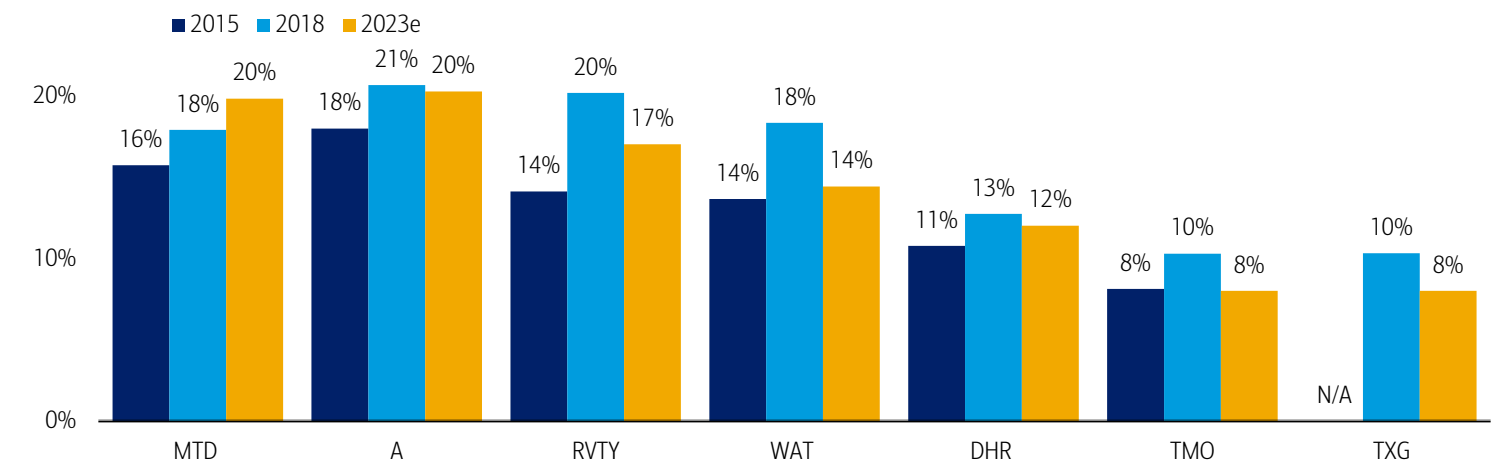
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Exhibit 1: China Sales Exposure for Tools Vendors
China Sales Exposure for Tools Vendors



Source: BofA Global Research, Company Reports

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Exhibit 2: Tools companies cited deterioration in the region as the year progressed

Summary of Company commentary on China during earnings calls

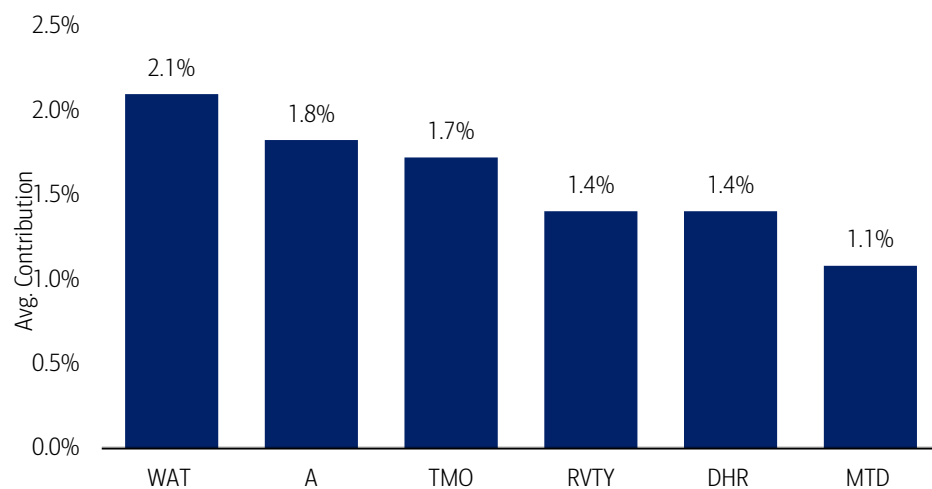
	4Q22	1Q23	2Q23	3Q23	Jan 2024	Future expectations
A	<ul style="list-style-type: none"> continues to be very, very strong 	<ul style="list-style-type: none"> See impacts focused [in Pharma] in the US and China. 	<ul style="list-style-type: none"> July saw further deterioration 	<ul style="list-style-type: none"> Down sequentially, in line with expectations 	<ul style="list-style-type: none"> Early signs of stabilization ... confident will return to growth more 2025 scenario 	<ul style="list-style-type: none"> Expect recovery during the year...initial view is it will still decline for the full year. Continue to play an important role in life sciences...
BRKR	<ul style="list-style-type: none"> Most of our product lines, there isn't a Chinese substitute. 	<ul style="list-style-type: none"> Got good orders from China, very good orders from China in 1Q. 	<ul style="list-style-type: none"> geographically... the strongest 'still quite good' 	<ul style="list-style-type: none"> There was some weakness in bookings 	<ul style="list-style-type: none"> 4Q not spectacular, but good. 	<ul style="list-style-type: none"> Order bolus in the early part of the year added on to the backlog...still going to take a while to convert backlog in China to revenues
DHR	<ul style="list-style-type: none"> a bit of an unknown on how that bounces back pent-up demand in the Chinese economy, 	<ul style="list-style-type: none"> Quicker-than-anticipated recovery in Dx & research funding environment. EBP in China impacted by capital constraints 	<ul style="list-style-type: none"> [biopharma in China] deterioration in late 2Q... 	<ul style="list-style-type: none"> Weak funding environment and lower underlying activity levels. 	<ul style="list-style-type: none"> We see stabilization...we're seeing reduced orders at roughly the same levels now for two quarters in a row 	<ul style="list-style-type: none"> Continue to see China as a opportunity in the mid and long term because the fundamentals are in the right place we are going through, a reset here with different funding sources in the short term.
MTD	<ul style="list-style-type: none"> China for 2023, feel very good....but we're coming off two very strong years Some short-term uncertainty.. 	<ul style="list-style-type: none"> Business in China remains strong during 1Q A more volatile market and things can change quickly in the shorter term. 	<ul style="list-style-type: none"> Market demand in China deteriorated, softer demand from Pharma & Biopharma 	<ul style="list-style-type: none"> Market conditions weaker than expected Pharma/biopharma demand has declined significantly Economy abruptly slowed 	<ul style="list-style-type: none"> China came in in-line with expectations [4Q] China Sales are.. to decline in the 1H24 as economic trends...remain weak 	<ul style="list-style-type: none"> Continue to see China as a opportunity in the mid and long term because the fundamentals are in the right place we are going through, a reset here with different funding sources in the short term.
RVTY	<ul style="list-style-type: none"> Continued to see an impact from the change in COVID policy will not see Immunodiagnostics business return to normal till 2H 	<ul style="list-style-type: none"> Growth in Life Sciences... offset by larger than anticipated Diagnostics decline 	<ul style="list-style-type: none"> [Life Sciences] softness 	<ul style="list-style-type: none"> CRO side in China, that continued to see more pressure 	<ul style="list-style-type: none"> [China Slowing] will taper off and come back 2H24 Don't think anything has changed since end of 3Q 	<ul style="list-style-type: none"> 4Q continue to expect our Immunodiagnostics business to grow well in China
TMO	<ul style="list-style-type: none"> Very significant disruptions from the end of the COVID China will grow. 	<ul style="list-style-type: none"> As the year progresses it [China] would continue to strengthen from there China should be a good market for us this year and has been historically. 	<ul style="list-style-type: none"> Extraordinarily cautious slowed meaningfully, across the portfolio no 'bounce' in June 	<ul style="list-style-type: none"> Cautious customer spending and low economic activity in China increased in impact Economy is definitely challenged, and the conditions are worsening, saw that worsening during the quarter. 	<ul style="list-style-type: none"> Govt is actively working to make the environment easier for multinationals ...Long-term there is reasonable 	<ul style="list-style-type: none"> It [China] won't be as fast as it used to be...probably going to be one of the faster growing long-term end markets
WAT	<ul style="list-style-type: none"> 4Q in China, has been especially tough ...50% to 75% of our colleagues at any point in time being infected due to the reopening. China will open up...expect better growth in 2H vs 1H 	<ul style="list-style-type: none"> Weaker than anticipated as pharma customers scaled back purchases. Customers recalibrate their spending plans Current market dynamics to persist in China 	<ul style="list-style-type: none"> Stronger-than-expected slowdown in China Weakness broadened beyond CDMOs China remains a dynamic market. 	<ul style="list-style-type: none"> Market challenges have now broadened beyond pharma and impacted both our industrial and A&G end market 	<ul style="list-style-type: none"> Within pharma, we think biotech has bottomed out. We think from a CDMO perspective, activity has returned.little bit to go in branded generics. 	<ul style="list-style-type: none"> Remain super optimistic about what we expect in China in the future

Source: Company Earnings Calls and Transcripts

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Exhibit 3: Average China Contribution to Tools companies

China contributed about 100-200bps of growth from 2015-2019



Source: BofA Global Research

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Exhibit 4: Global Economic Forecast

Global GDP growth expectations

	GDP growth, %			
	2022F	2023F	2024F	2025F
Global and regional aggregates				
Global	3.5	3.0	2.8	3.1
Global ex US	3.9	3.2	3.1	3.4
Global ex China	3.7	2.4	2.3	2.7
European Union	3.0	0.6	0.8	1.6
US	1.9	2.4	1.7	1.8
China	3.0	5.3	4.8	4.6
UK	4.3	0.3	0.1	0.6
Japan	0.9	1.7	0.8	1.0
Germany	1.9	-0.1	-0.1	0.9
Canada	3.8	1.1	0.9	2.0
Emerging EMEA	4.6	2.1	3.3	3.8
Latin America	4.0	2.2	1.7	2.3
Brazil	2.9	3.0	2.2	2.5

Source: BofA Global Research

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R1} 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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