

## Life Sciences & Diagnostic Tools

# Sartorius 1Q'23 results point to more prolonged softness in LST space

Industry Overview

### Another weak bioprocessing print: quick takes

Earlier today, Sartorius (SRT GY, not covered), a leading vendor of bioproduction inputs to the biopharmaceutical end-market, announced 1Q23 results. SRT reported constant currency (CC) revenue declines of -16.1% yoy in Bioprocess Solutions (with -36% order intake decline), and -2% CC revenue declines (and -16% order intake declines) in Lab Products & Services. Particularly in Bioprocess Solutions, this was a significant sequential deceleration from 4Q22, and while SRT mgmt indicated the result was in line with expectations (and reiterated the FY23 guide), shares for the entire peer group are selling off sharply this morning.

### Some deceleration & weakness in 1H is already expected

The bioproduction space has been an area of acute investor focus in recent quarters as customer inventory levels have undergone a somewhat choppy normalization driven by waning COVID vaccine and therapeutic manufacturing demand. To that end, SRT mgmt had previously indicated that they expect sales growth in 1H'23 to be depressed as customers re-deploy or burn through COVID-related inventory already in the channel, with growth beginning to positively inflect mid-year. Danaher's commentary regarding the bioprocessing inventory has been more explicit, with mgmt calling for a trough of low-single-digit non-COVID bioprocess growth in 1Q, improving to finish at high-single-digits for FY23.

### But we anticipate Tools names (especially DHR, TMO, AVTR, MTD) to remain under pressure

In our coverage universe, the most direct peers to SRT are DHR, TMO, and AVTR in Bioprocess Solutions, and MTD in Lab Products & Services. We were largely anticipating a soft 1Q to begin with (given recent mgmt commentary, and pacing of guides and comps), but today's results from Sartorius confirm our fears that the Tools universe (and particularly bioprocessing) will be off to a slow start to FY23. We think these shares are likely to remain under pressure until investors have more confidence that order trends (and inventory factors) have truly bottomed out, and the reacceleration in 2H is more tangible.

We reiterate our Buy ratings on TMO, DHR, and AVTR, and Neutral rating on MTD, as we see current valuations for these names as appropriately reflecting the near-term concerns, while we continue to see favorable market fundamentals later this year and longer-term.

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Equity  
United States  
Life Sciences & Diagnostic Tools

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#### Glossary

LST: Life Sciences & Diagnostic Tools

#### Tickers

AVTR: Avantor, Inc.  
DHR: Danaher  
MTD: Mettler-Toledo  
TMO: Thermo Fisher

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Refer to important disclosures on page 4 to 8. Analyst Certification on page 3. Price Objective Basis/Risk on page 2.

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Timestamp: 20 April 2023 12:39PM EDT

**Exhibit 1: Stocks mentioned**

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AVTR	AVTR US	Avantor, Inc.	US\$ 20.67	B-1-9
DHR	DHR US	Danaher	US\$ 254.76	B-1-7
MTD	MTD US	Mettler-Toledo	US\$ 1598.99	B-2-9
TMO	TMO US	Thermo Fisher	US\$ 579.92	B-1-7

Source: BofA Global Research

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**Price objective basis & risk****Avantor, Inc. (AVTR)**

Our \$30 PO is based on 15x our 2024 adj. EBITDA estimate. This multiple is at a slight discount to the LST peer average of 18.5x due to the company's lower EBITDA margin profile due to the higher mix of distributed products.

Risks to our PO are headwinds from the global COVID-19 pandemic, variability in customer R&D funding, increasing competition, supplier concentration, M&A integration, slower than expected geographic expansion, slower than expected deleveraging, and unfavorable currency swings.

**Danaher Corporation (DHR)**

Our \$310 PO is based on a DCF analysis (assumes 7.6% WACC, 3% terminal growth rate). We believe this discount rate is appropriate as several key acquisitions (e.g., GE Life Sciences, Aldevron, Cepheid) have significantly accelerated Danaher's organic revenue growth, enhanced margins, lowered the company's cyclical exposure, and increased the percentage of sales from recurring revenues.

Downside risks to our PO are F/X risks, economic & macro risks, cyclical exposure, geopolitical risks, reductions in R&D funding, customer consolidation, a slowdown in bioprocess demand, competitive risks, deal integration risks, and headwinds from the COVID-19 pandemic.

**Mettler-Toledo (MTD)**

Our \$1,650 PO is based on about 28x our 2023 EV/EBITDA estimate, which is in line with the company's historical premium to the LST peer group over the last three years. We think that this premium multiple is justified given the company's strong brand, growth profile, operational excellence, and strong track record of execution.

Downside risks to our PO are a weaker global economy (especially in Asia), trade disputes, slower than expected expansion into new markets, competition, a protracted global slowdown from the Coronavirus outbreak, and unfavorable currency swings.

Upside risks to our PO are stronger-than-expected global growth, more aggressive share repurchases, and operational efforts to support EPS growth.

**Thermo Fisher Scientific (TMO)**

Our \$650 PO is based on a discounted cash flow (DCF) model that assumes an 7.7% 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. 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**

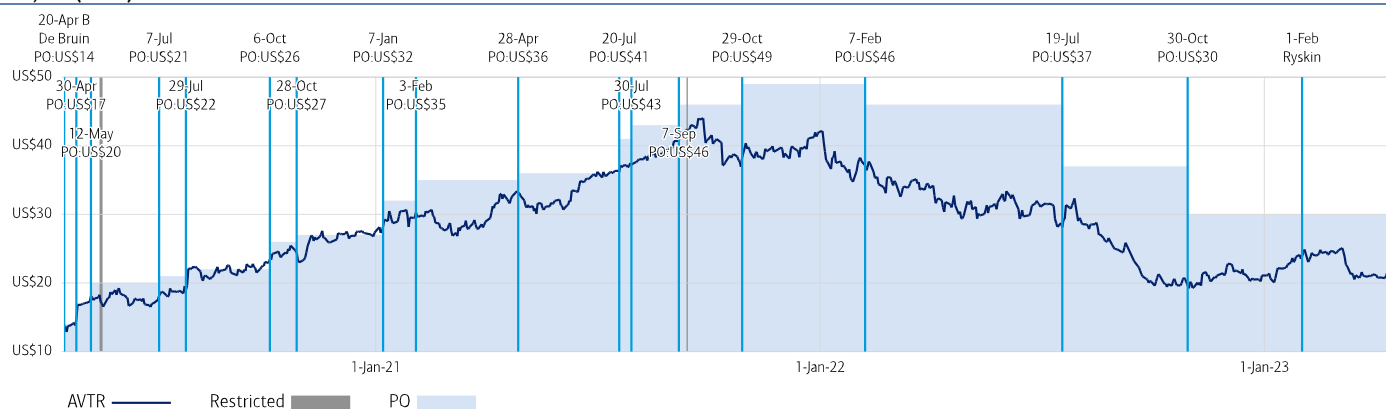
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## US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Adaptive Biotechnologies Corp.	ADPT	ADPT US	Derik de Bruin
	Agilent Technologies	A	A US	Derik de Bruin
	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
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Exscientia	EXAI	EXAI US	Michael Ryskin
	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
	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
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
<b>NEUTRAL</b>				
	Abcam	ABCM	ABCM US	Michael Ryskin
	Catalent, Inc.	CTLT	CTLT US	Derik de Bruin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Maravai	MRVI	MRVI US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	PerkinElmer	PKI	PKI US	Derik de Bruin
	Recursion Pharmaceuticals, Inc.	RXR	RXR US	Alec W. Stranahan
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
<b>UNDERPERFORM</b>				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Absci Corporation	ABSI	ABSI US	Michael Ryskin
	Align Technology	ALGN	ALGN US	Michael Ryskin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin
	Seer, Inc.	SEER	SEER US	Derik de Bruin
	Singular Genomics	OMIC	OMIC US	Michael Ryskin
	SmileDirectClub, Inc.	SDC	SDC US	Michael Ryskin

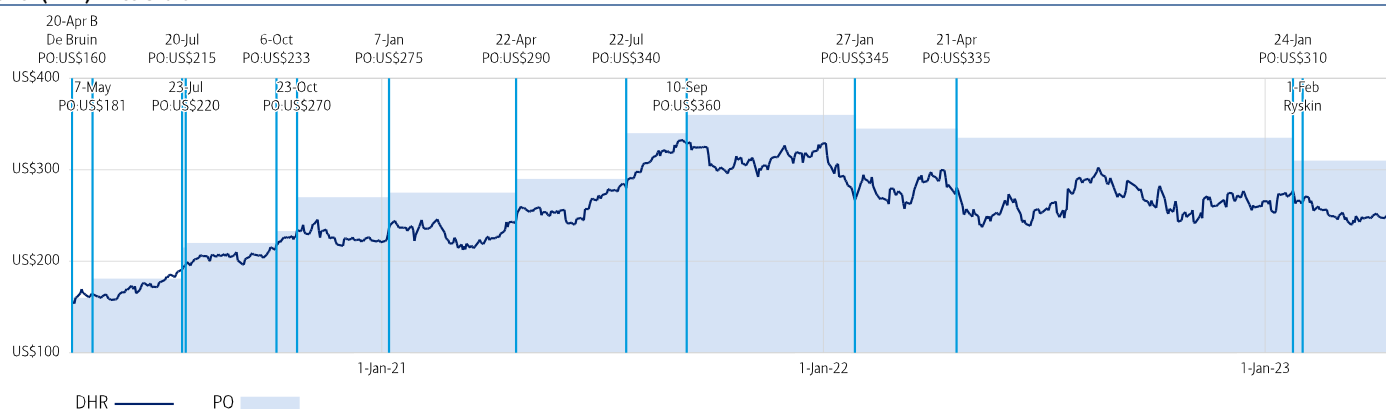
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### Important Disclosures

**Avantor, Inc. (AVTR) Price Chart**

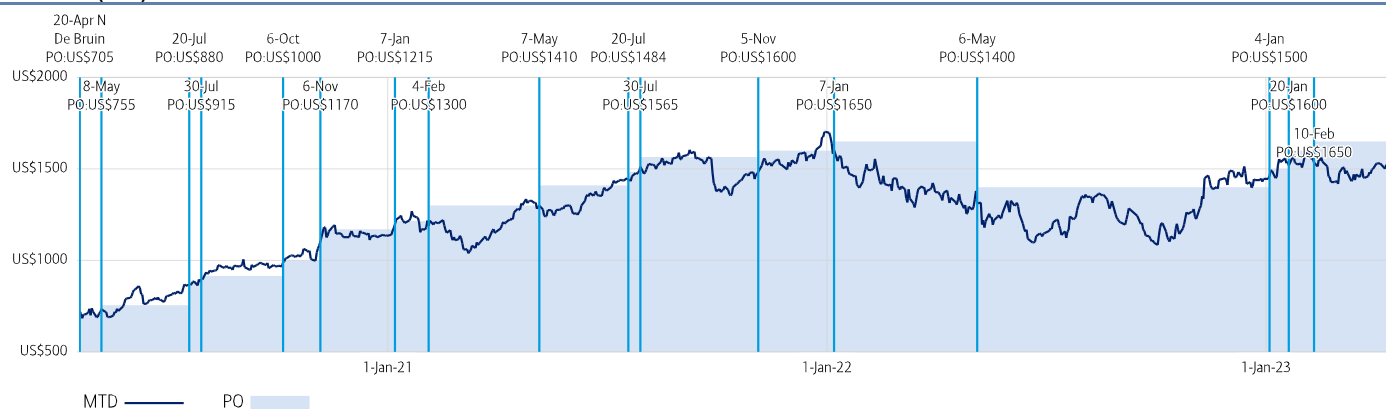
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Danaher (DHR) Price Chart**

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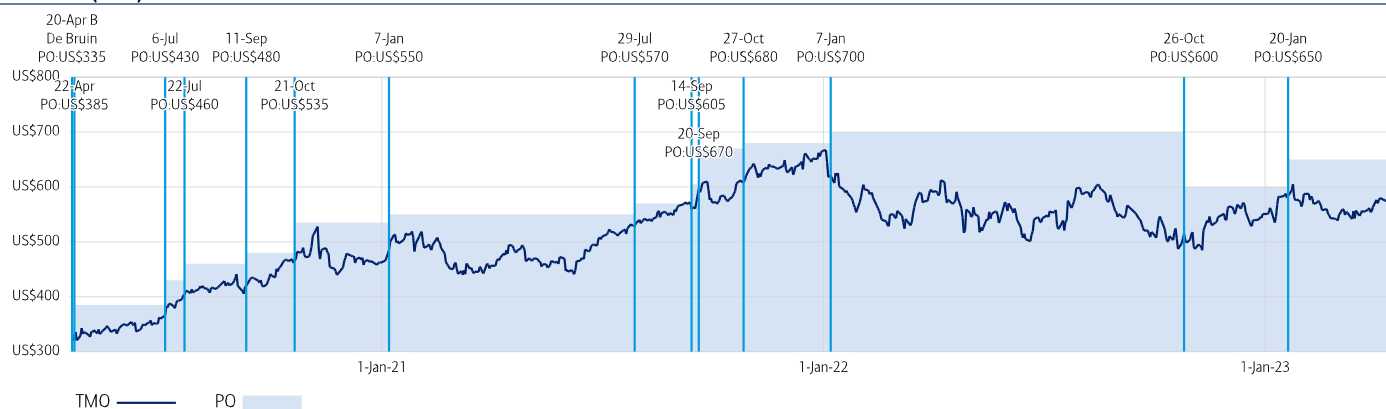
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**Mettler-Toledo (MTD) Price Chart**

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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## Thermo Fisher (TMO) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	232	56.86%	Buy	104	44.83%
Hold	86	21.08%	Hold	44	51.16%
Sell	90	22.06%	Sell	23	25.56%

## Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	45	51.14%	Buy	24	53.33%
Hold	25	28.41%	Hold	19	76.00%
Sell	18	20.45%	Sell	9	50.00%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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