

Thermo Fisher Scientific

First Look: 4Q in-line, FY24 guide initiated (EPS slightly below prior ‘framework’)

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

Total sales ahead; Margins and Adj. EPS in-line

TMO reported 4Q23 financial results this morning. Highlights include total sales of \$10,886mn (-5% reported, -7% organic) vs BofAe/Street \$10,729mn/\$10,734mn ests). COVID-19 testing revenue was \$50mn, in-line with estimates and flat vs 3Q. Margins were essentially in-line, as Adj GM came in at 41.5% (vs BofAe 41.3%) and Adj OpM was 23.4% (vs BofAe 23.3%). Adj EPS were \$5.67 vs BofAe/Street \$5.63/\$5.65.

Exhibit 1: Overview of Thermo Fisher Scientific 4Q23 operating segment results

Organic revenue growth for AI, LSS came in ahead of our estimates

Business Segment		Sales (mn)	Reported	Organic	F/X	M&A
Life Sciences Solutions (LSS)	Actual	\$2,469	-19%	-20%	1%	0%
	BofA est	\$2,269	-26%	-27%	2%	0%
Analytical Instruments (AI)	Actual	\$2,037	8%	+8%	1%	0%
	BofA est	\$1,718	-9%	-10%	2%	0%
Specialty Diagnostics (SD)	Actual	\$1,105	-1%	-7%	1%	6%
	BofA est	\$1,108	-1%	-8%	2%	6%
Lab Products & Biopharma Services	Actual	\$5,719	-4%	-5%	1%	0%
	BofA est	\$6,064	2%	-1%	2%	1%
Overall TMO	Actual	\$10,886	-5%	-7%	1%	1%
	BofA est	\$10,729	-6%	-9%	2%	1%

Source: Company reports, BofA Global Research estimates

Segment details: LSS/AI beat, LPBS below

By segment, Life Sciences Solutions (LSS) and Analytical Instruments (AI) both came in well-ahead of expectations, beating BofAe by ~\$200mn and ~\$300mn respectively. AI was particularly notable, as TMO has not seen any weakening in instrument results – unlike most other Tools peers in 2023 (TMO’s portfolio here is more high-end and differentiated vs most peers). On the other hand, Lab Products & Biopharma Service (LPBS) came in ~\$300mn below our expectations – whether this softness is in the channel business, the CRO (PPD), or CDMO (PTHN) will be determined on the call.

Formal FY24 EPS guide modestly below initial framework

As a reminder, TMO initiated a FY24 ‘framework’ on the 3Q call, with ~1% core sales growth (~4% when excluding all COVID-related contributions), based on an assumption of -1% to -2% declines for the broader Tools market, and ~\$21.75 in Adj Eps. Today, TMO formally initiated a FY24 guide of \$42.1bn-\$43.3bn in sales (roughly flat at midpt.) and Adj. EPS of \$20.95-\$22.00 (\$21.47 mdpt). While the revenue guide is essentially in-line, Adj EPS does come in ~1.3% below the framework. We also note that since 3Q, FX has swung in TMO’s favor. We look for more color on the moving pieces of the guide vs framework on the 8:30am earnings call (public dial in number: 833-470-1428; conf. ID: 718426) – but contributing factors could be continued softness in LPBS and possibly a higher FY24 tax rate. We expect a mixed reaction for TMO shares on the formalized outlook, although mgmt. commentary on the call will be critical. We maintain our Buy rating on TMO shares given its strong competitive positioning and portfolio breadth.

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Equity

Derik de Bruin
Research Analyst
BofAS
+1 646 855 3100
derik.de_bruin@bofa.com

Michael Ryskin
Research Analyst
BofAS
+1 646 855 4373
michael.ryskin@bofa.com

Avantika Dhabaria
Research Analyst
BofAS
+1 646 743 0170
avantika.dhabaria@bofa.com

Wolf Chanoff
Research Analyst
BofAS
+1 646 954 8482
wolf.chanoff@bofa.com

John Kim
Research Analyst
BofAS
+1 646 855 3874
john.kim4@bofa.com

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
Mkt Val (mn) / Shares Out (mn)	220,320 USD / 388.5
Free Float	99.4%
Average Daily Value (mn)	1075.16 USD
BofA Ticker / Exchange	TMO / NYS
Bloomberg / Reuters	TMO US / TMO.N
ROE (2023E)	18.9%
Net Dbt to Eqty (Dec-2022A)	59.2%
ESGMeter™	High

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CRO: contract research organization

CDMO: contract drug manufacturing organization

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.

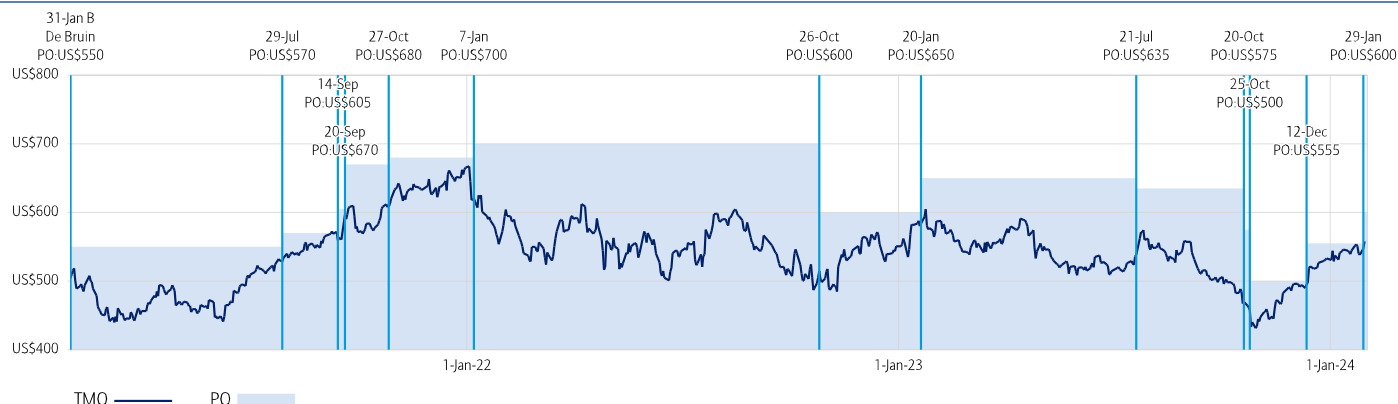
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Thermo Fisher (TMO) Price Chart



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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%

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Sell	807	22.84%	Sell	383	47.46%

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