

Thermo Fisher Scientific

Takeaways from Mgmt meetings: LT strength, China, FY24 guide, PPD in focus

Maintain Rating: BUY | PO: 600.00 USD | Price: 570.18 USD

On the road with Thermo Fisher Scientific

We hosted TMO's Stephen Williamson (CFO) & Rafael Tejada (IR) for investor meetings in London on 2/28. Discussions focused on TMO's long-term outlook, views on China, FY24 guidance, and Biopharma services. We maintain our Buy rating given TMO's strong competitive positions in attractive end markets and track record for capital deployment.

Long-term 7%-9% organic sales growth target is intact

Like many Tools vendors, TMO raised its long-term (LT) core sales growth outlook during the pandemic. As such, investors want to know if the 7-9% growth target is still achievable given the extraordinary headwinds buffeting the Tools sector in recent quarters. TMO reminded investors that its updated outlook was a result of meaningful changes to the company's business mix, vs simply due to elevated market conditions during the pandemic. As end markets normalize back to 4-6% growth, Mgmt is confident that it can continue to outgrow the market by ~300bps as the fundamentals have not significantly changed and TMO continues to take share.

China: down, but not out

China was another key topic given its importance as an end market for Tools. China is only ~8% of TMO total sales (lower than most peers), and also has slightly different end-market exposure. While visibility is limited and it is unclear when and to what degree it will rebound, TMO doesn't believe the market is permanently impaired as healthcare remains a long-term focus area. TMO's growth outlook for China remains HSD-LDD in the long-run, and already assumes growing local competition. TMO sees little incremental risk from the Biosecure Act as US Govt labs already minimize direct work with Chinese vendors, and TMO also has offsets from its own CDMO business.

FY24 guide range reasonable based on market conditions

TMO's FY24 guide for +/-1% core sales growth was below the framework provided on the 3Q call, but was not meant to signal additional weakness. Markets are stable but visibility is limited, and the guide reflects TMO return to giving a range vs a point est. Sentiment in Emerging Biopharma has improved, as M&A and capital markets activity are up, and interest rates stabilize. Mgmt sees biotech activity as a key swing factor as the year progresses, with sentiment already significantly improved vs where the market was in early 2023. China is the other significant variable to the guide, but mgmt expectations here are more subdued (at least until later in 2024).

Biopharma services expansion have been wins

Despite driving overall organic sales growth higher, expansion into lower margin Biopharma services (i.e., PPD (CRO) & PTHN (CDMO)) has been controversial. As COVID-related business wanes, PPD will normalize to at least HSD core growth. If the recent NOVO/CTLT deal creates uncertainty with customers, this could be a positive for PTHN. On M&A, there are still many opportunities for deals of various sizes; TMO is not running out of options. On OLK, TMO is agnostic as to what mass spec technology customers use in the lab. In general, transactions are taking longer to close, but it varies by deal.

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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

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

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

Stock Data

Price	570.18 USD
Price Objective	600.00 USD
Date Established	29-Jan-2024
Investment Opinion	B-1-7
52-Week Range	415.60 USD - 593.17 USD
Mkt Val (mn) / Shares Out (mn)	221,509 USD / 388.5
Free Float	99.4%
Average Daily Value (mn)	896.71 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™	High

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Glossary

CDMO: Contract development manufacturing organization
CRO: Contract research organization
HSD: High-single digits
LSD: Low-single digits
PTHN: Patheon

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.

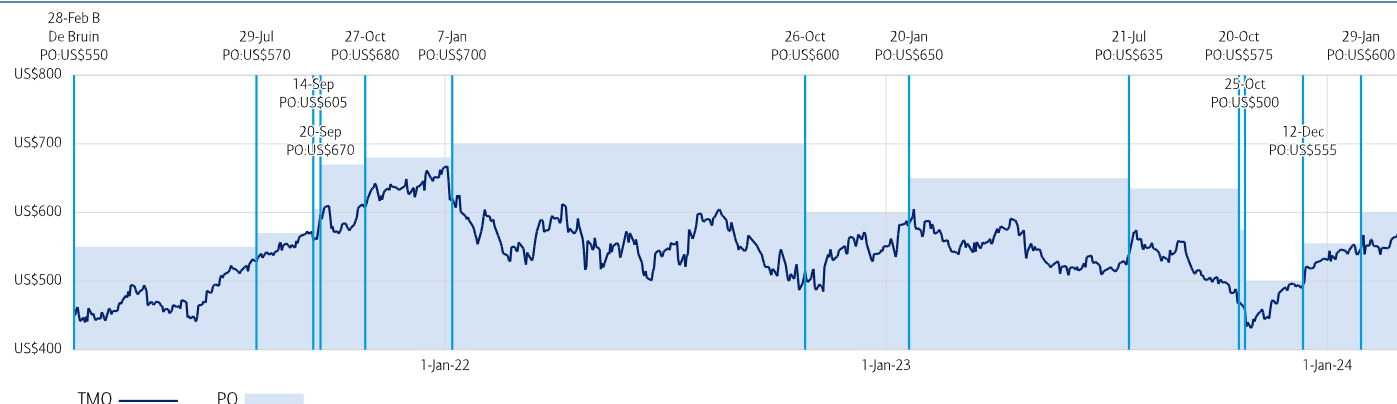
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Thermo Fisher (TMO) Price Chart



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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%

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