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Thermo Fisher Scientific, Inc. (TMO) CEO Marc Casper on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-23-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $2.94 beats by $0.05 | Revenue of $6.27B (5.95% Y/Y) beats by $82.87M

Earning Call Audio

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Thermo Fisher Scientific, Inc. (NYSE:TMO) Q3 2019 Results Conference Call October 23, 2019 8:30 AM ET

Company Participants

Kenneth Apicerno - Vice President of Investor Relations

Marc Casper - President and Chief Executive Officer

Stephen Williamson - Senior Vice President and Chief Financial Officer

Conference Call Participants

Tycho Peterson - JP Morgan

Jack Meehan - Barclays

Vijay Kumar - Evercore ISI

Derik De Bruin - Bank of America Merrill Lynch

Doug Schenkel - Cowen & Company

Steve Beuchaw - Wolfe Research

Brandon Couillard - Jefferies

Operator

Good morning, ladies and gentlemen, and welcome to the Thermo Fisher Scientific 2019 Third Quarter Conference Call. [Operator Instructions]

I would now like to introduce our moderator for the call, Mr. Kenneth Apicerno, Vice President of Investor Relations. Mr. Apicerno, you may begin the call.

Kenneth Apicerno

Good morning, and thank you for joining us. On the call with me today is Marc Casper, our President and Chief Executive Officer; and Stephen Williamson, Senior Vice President and Chief Financial Officer.

Please note this call is being webcast live and will be archived on the Investors Section of our website thermofisher.com under the heading Webcasts and Presentations until November 8, 2019. A copy of the press release of our third quarter 2019 earnings and future expectations is available in the Investors Section of our website under the heading Financial Results.

So, before we begin, let me briefly cover our Safe Harbor statement. Various remarks that we may make about the Company's future expectations, plans and prospects constitute forward-looking statements for purposes of the Safe Harbor provisions under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by these forward-looking statements as a result of various important factors, including those discussed in the Company's quarterly report on Form 10-Q for the quarter ended June 29, 2019 under the caption Risk Factors, which is on file with the Securities and Exchange Commission, and is also available in the Investor section of our website under the heading SEC filings.

While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so even if our estimates change, therefore you should not rely on these forward-looking statements as representing our views as of any date subsequent to today.

Also during this call, we will be referring to certain financial measures not prepared in accordance with Generally Accepted Accounting Principles or GAAP. A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures is available in the press release of our third quarter 2019 earnings and future expectations and also in the Investors section of our website under the heading Financial Information.

So with that, I will now turn the call over to Marc.

Marc Casper

Thank you, Ken. Hello and good morning everyone. Thanks for joining us today for our Q3 call. We delivered another great quarter, achieving strong financial performance, while continuing to effectively execute our growth strategy to make Thermo Fisher Scientific an even stronger partner for our customers.

As you saw in our press release, we delivered excellent revenue and earnings growth. It was another active quarter for new product innovation and we expanded our global capabilities to enhance our unique customer value proposition.

We also continue to execute our capital deployment strategy, completing strategic M&A to further strengthening our offering and returning capital to shareholders through stock buybacks and dividends. We carried our strong growth momentum into Q3 by capitalizing on the continued strength of our end markets and the opportunities we had to gain share with our customers. We have a lot of highlights to cover this morning, so let me begin with an overview of our Q3 financial performance.

First, we delivered excellent growth in adjusted EPS achieving a 12% increase to $2.94 per share. Our revenue in Q3 increased to $6.27 billion, growing 6% year-over-year. Our adjusted operating income increased 9% to $1.42 billion and we expanded our adjusted operating margin by 60 basis points to 22.7% in the third quarter. So by all measures, it was another excellent quarter for us.

Now, I will give you more color on the quarter, starting with an overview of our performance in our end markets. In Q3 market conditions continued to be strong and we delivered excellent growth. In pharma and biotech, we had very strong performance in Q3, we delivered another quarter of double-digit growth with strength across all of our businesses serving this end market.

We continued our excellent momentum here by leveraging our unique value proposition to help our customers accelerate their innovation pipelines and increase productivity. In academic and government, we delivered mid single-digit growth in Q3, and so good growth in this end market across all of our major geographies.

Turning to industrial and applied, as we expected, growth here was flat in the quarter due to the very strong growth we delivered in Q3 last year in our industrially focused businesses. It was good to see continued strong demand in our chromatography and mass spectrometry business from this customer set.

Finally, in diagnostics and healthcare, we grew in the high single-digits in Q3. We saw broad-based growth in our businesses serving this end market led by transplant diagnostics and immunodiagnostics. So in summary, our teams continue to successfully execute our growth strategy, we are clearly gaining market share and that is reflected in our strong results.

That is a good segue to a more detailed discussion of our growth strategy, which as you know, consists of three elements. Continuously developing high impact innovative new products, leveraging our scale in the high growth and emerging markets and delivering a unique value proposition to our customers. We continue to make great progress in each of these areas in Q3 and then I will cover some of the highlights.

First, in terms of new product innovation, we are focused on creating significant value from our leading R&D investments. We are committed to helping our customers advance their work by continuously raising the bar on speed, accuracy and ease of use.

Q3 was another productive quarter for innovation and we kicked it off with a strong showing a two major industry conferences in early August. First, at the American Association for Clinical Chemistry, we launched new analytical instruments for the diagnostic laboratory that ultimately help clinicians make better decisions for their patients.

Our Thermo Scientific portfolio of USFDA-Class 1 medical devices now includes three new systems. The TSQ Altis and Quantis MD mass spectrometers and the Vanquish MD HPLC. These instruments help customers and clinical labs meet their goals for sensitivity and throughput in a regulated environment.

Second, during Microscopy & Microanalysis conference we unveiled a new generation Krios instrument in our Cryo-EM platform for structural biology applications. The Krios G4 makes it possible to obtain high resolution images of increasingly smaller protein structures and with greater throughput and reliability.

This instrument expands the market and structural biology by adding new performance features that makes it easier to operate for both new and experienced users. In addition, with its more compact size, the Krios G4 fits into a standardized lab. These benefits will make the cutting-edge technology accessible to a broader customer base.

We also had exciting new product launches in our Life Science Solutions segment, let me highlight a couple. We have been leveraging our deep expertise in genetic sciences to expand our offering for molecular diagnostics. A good example from the quarter was our real-time PCR pathogen detection system, it improves the diagnosis of respiratory infections and leads to better decisions about antibiotic treatment.

And finally, to meet increasing demand for greater efficiency and bioproduction, we launched a scalable bioreactor workflow called Thermo Scientific TruBio Discovery Automation System. This solution connects bioreactors, controllers, and software to help customers more easily transfer data and accelerate scale up as they move from research to clinical trials and into commercialization.

Turning to the second element of our growth strategy, leveraging our scale in the high growth and emerging markets, we continue to capitalize on our industry-leading presence to drive growth. We reported strong performance in these regions in Q3, led by 30%

growth in China. Our industry is perfectly aligned with the government priorities in China's five-year plan and that continues to create many opportunities for us.

Our outlook there remains very positive and we continue to invest to best serve our customers and distance ourselves from the competition. For example, in Q3, we enhanced our pharma services from biosciences capabilities to serve the growing biopharmaceutical industry in China. In Suzhou, we expanded our clinical trials capabilities to support the growing number of studies being conducted in China.

This new facility further strengthens our pharma services offering in the region where we have been successfully serving the growing pharma and biotech industry for quite some time. It will provide high quality primary and secondary packaging solutions for these customers and ultimately patients who are undergoing clinical trials. As China encourages the formation of an innovation driven by our pharma industry locally, we see exciting prospects for continued growth.

With this investment, Suzhou will become Thermo Fisher's largest clinical trials logistics facility in the region. It's part of our strategy to create an integrated clinical supply chain network in China, with a focus on quality, cold chain logistics and advanced packaging and distribution.

In Shanghai, we opened a Biosciences Customer Exploration Center to help scientists accelerate disease and translational research. It consists of two showcase Thermo Fisher laboratories that demonstrate our complete workflow solutions for diagnostics development, immuno-oncology and disease modeling.

This center will serve as a hub for customers to gain hands-on product experience, customized application development and technical training. Life sciences and healthcare continue to be key focus areas for the Chinese Government and these new capabilities enhance our already strong position in serving the needs of our customers there.

The third element of our growth strategy is our unique customer value proposition. Our leading scale and depth of capabilities puts us in an excellent position to gain share and it's clear that our value proposition is resonating well with our customers.

To position our Company for future growth, we continue to increase our capabilities both organically and inorganically. I will cover the quarter acquisition of my capital deployment update. But in terms of organic developments, I mentioned three highlights from the quarter that I participated in.

In our pharma services business, you may recall, that we announced a major expansion of our biologics facility in St Louis, Missouri, last spring. I recently visited the site and I had the chance to recognize the team for completing the first GMP batch since the expansion was completed.

Going from breaking ground to shipping product in 18 months is an impressive accomplishment for a biologics facility. The St. Louis expansion has greatly increased our production capacity to support our global biologics network. This site is now the largest CDMO in North America based on single-use bioproduction platform, which is a showcase of Thermo Fisher bioreactors single-use technologies and automated workflows.

I also had the opportunity to go to Greenville, North Carolina's pharma services facility for the opening of our new training center in Q3. This innovative center is equipped with virtual and augmented reality technologies. The goal is to more effectively onboard and train colleagues who work on sterile injectable production lines, which are complex and require extensive training.

These cutting-edge tools not only give operators the required level of proficiency in a much less time, but also benefit customers by increasing quality and efficiency. This is a great example of how we invest organically, to differentiate ourselves from other CDMOs and our customer's own internal capabilities.

Last, I attended the grand opening of our new transplant diagnostics center of excellence in West Hills, California. We brought our research, manufacturing and distribution capabilities together at this site to more effectively meet the needs of our customers and the patients they serve. It was great to hear firsthand from transplant patients and their families about the impact we are having by providing diagnostic tools that effectively match transplant donors and recipients.

I'm now going to give you an update on our capital deployment activities. We continue to successfully execute our disciplined strategy, which as you know is a combination of strategic M&A and returning capital to our shareholders.

In terms of M&A, let me start with an update on our acquisition of Brammer Bio. This is a viral vector CDMO that we acquired in Q2. The integration is going very well and the business is off to a good start as part of Thermo Fisher.

Our product businesses serving the gene therapy market are already benefiting from the deep expertise that Brammer Bio brings to our Company. We also completed our acquisition of the GlaxoSmithKline site in Cork, Ireland, right after quarter-end.

This site produces active pharmaceutical ingredients or APIs that are used to treat diseases including childhood cancers, depression and Parkinson's. The court site is capacity to our API network to support customer demand and we are very pleased to welcome 400 new colleagues to Thermo Fisher. We are excited about the prospects for the site and look forward to leveraging this world-class facility to capitalize on growing demand for API development and production.

Looking forward, our M&A pipeline continues to be very active and we remain disciplined stewards of capital. From a return on capital perspective, in addition to our dividend in Q3, we repurchased $750 million of our stock just after quarter-end.

One final comment on capital deployment. After quarter -end, we refinanced $5.6 billion of debt. Our unique scale and financial track record allowed us to complete a very attractive refinancing of our debt portfolio to further strengthen our Company and create shareholder value.

With that I would like to review our 2018 guidance at a high level. As you saw our press release, we are raising both our revenue and earnings guidance for the full-year. The increase is based primarily on our strong Q3 operational performance and also the benefits of our refinancing activities.

We are raising our revenue to a new range of $25.34 billion to $25.50 billion, which would result in 4% to 5% revenue growth over 2018. In terms of our adjusted EPS, we are raising our guidance to a new range of $12.28 to $12.34, which represents 10% to 11% growth year-over-year.

So to summarize our key takeaways from Q3, we executed very well to continue our growth momentum and delivered excellent revenue and earnings performance. We launched new products and expanded our capabilities to enhance our customer value proposition and we also continue to execute our disciplined capital deployment strategy to create value for our customers and our shareholders.

With that, I will turn the call over to our CFO, Stephen Williamson.

Stephen?

Stephen Williamson

Thanks, Mark, and good morning everyone. I will begin by taking you through an overview of our third quarter results for the total Company, then provide color on our four business segments and conclude by reviewing our updated 2019 full-year guidance.

Before I get into the details of our financial performance, let me provide a high level view of how the third quarter played out versus our expectations at the time of our last earnings call in July. As you saw in our press release, we delivered a very strong quarter in Q3 with 7% organic growth and 12% increase in adjusted earnings per share. The 7% organic growth was approximately $90 million more than we would assumed in our prior guidance.

Adjusted EPS was $0.09 higher than we had assumed at the midpoint of our previous guidance. This was driven by $0.06 from strong operational performance and $0.03 from a less adverse FX environment. So another excellent quarter for the Company.

Now let me provide more detail on the quarter. Starting with our total Company financial performance. In Q3, we grew adjusted EPS by 12% to $2.94. GAAP EPS in the quarter was $1.88 up 7% from Q3 last year. On the top-line, our reported revenue grew 6% year-over-year.

The components of our Q3 reported revenue increase included 7% organic growth, 1% contribution from acquisitions, 1% headwind from foreign exchange, and a decrease of 1% due to the divestiture of our Anatomical Pathology business.

Turning to our growth by geography, North America grew in the mid-single digits, Europe grew in the high single-digits, Asia-Pacific also grew in the high single-digits, with China growing at 13%, and rest of the world grew in the low single-digits.

Looking at our operational performance, Q3 adjusted operating income increased 9% and adjusted operating margin was 27%, up 60 basis points from Q3 2018. We delivered strong productivity and volume pull through offset in part by strategic investments and unfavorable business mix.

The headwind from foreign exchange in Q3 was just over 1% on revenue and adjusted operating income, but there was no material impact from FX on adjusted operating margin expansion or adjusted EPS in the quarter.

As a reminder, the sale of the Anatomical Pathology business was completed last quarter. The impact of the divestiture on Q3 with a $55 million reduction in revenue, $20 million of adjusted operating income and just over 10 basis points of adjusted operating margin and $0.04 of adjusted EPS.

Moving on to the details of the P&L, total Company adjusted gross margin in Q3 was 46.1%, down 10 basis points from the prior year. In the quarter, strong productivity was up offset by strategic investments and unfavorable business mix.

Adjusted SG&A in the quarter was 19.5% of revenue, an improvement of 60 basis points versus Q3 2018. Total R&D expense came in at 3.9% of revenue, R&D as a percent of our manufacturing revenue in Q3 was 6.6%.

Looking at our results below the line for the quarter, our net interest expense was $111 million, down approximately $10 million from Q3 last year, driven primarily by debt reduction. Adjusted other income and expense was a net income in the quarter of $26 million, which is higher than Q3 2018, primarily due to changes in non-operating foreign exchange.

Our Q3 adjusted tax rate was 11.2% which is 30 basis points lower in Q3 2018. Q3 average diluted shares were $404 million, which was $2 million lower year-over-year mainly as a result of the share buybacks, partially offset by option dilution.

Turning to cash flow and the balance sheet, cash flow from continuing operations for the first nine-months of the year with $3.1 billion and free cash flow was $2.4 billion after deducting net capital expenditures of $619 million. We ended the quarter with $1.3 billion in cash and investments.

Early in Q4, we repurchased 750 million of our shares, and trade $750 million of our shares bringing our total repurchases for 2019 to $1.5 billion. In Q3, we returned $76 million to shareholders through dividends.

Now turning to our debt portfolio. During Q3, our total debt reduced $2 billion to $17.1 billion driven by a strong year-to-date cash flow generation. Our leverage ratio at the end of the quarter was 2.6 times total debt to adjusted EBITDA, down from three times at the end of last quarter.

In addition, as Mark mentioned earlier, we recently completed refinancing $5.6 billion of our debt. The new debt has an average maturity of 15 years and an all in average interest cost of 1.48%, which is half the current adjusted P&L cost of the debt that it replaced.

This represents an interest saving of approximately $20 million per quarter for our adjusted P&L. And wrapping up my comments on our total Company performance, adjusted ROIC increased to 11.6%, up 120 basis points from Q3 of last year. We continue to drive excellent returns on investment.

Now I will provide you with some color on the third quarter performance of our four business segments, starting with the Life Science Solutions Segment. In Q3 both reported an organic revenue growth of 13%. We saw very good growth across the segments led by our bioproduction and biosciences businesses.

Q3 adjusted operating income in Life Time Solutions increased 19% and adjusted operating margin was 34.5%, up 160 basis points year-over-year. In the quarter, we drove very strong volume pull through which is partially offset by strategic investments. In the

Analytical Instruments segment, reported revenue increased 2% in Q3 and organic revenue growth was 3%. Growth in the segment was led by the chroma and mass spec business.

Q3 adjusted operating income in Analytical Instruments increased 6% and adjusted operating margin was 23%, up 100 basis points year-over-year. In the quarter, we saw a very strong productivity. This was partially offset by unfavorable business mix and strategic investments.

Turning to the Specialty Diagnostics Segment, as a reminder, this is the segment that used to include the Anatomical Pathology business that we divested last quarter. In Q3, total revenue declined 2%, organic revenue growth in this segment was 7%. We had good growth across the segment led by the transplant diagnostics and immunodiagnostics.

Adjusted operating income was flat the prior-year due to an 8% impact from the divestiture. Adjusted operating margin was 25.3%, up 30 basis points year-over-year. In the quarter, we saw a strong volume pull through in productivity, which was partially offset by strategic investments, unfavorable business mix and a 50 basis points impact from the sale of the Anatomical Pathology business.

Finally, in the Laboratory Products and Services segment, both reported and organic revenue growth was 6%. We saw strong growth this quarter across the segment led by our pharma services business. Adjusted operating income in this segment increased 1% and adjusted operating margin was 11.6%, which is 50 basis points lower than prior-year. In the quarter, we saw strong productivity and volume leverage, which is offset by strategic investments and unfavorable business mix.

Now I would like to move on to our updated full-year 2019 guidance. As you saw in our press release, and as Marc mentioned earlier, we are raising both our revenue and adjusted EPS guidance. Let me walk you through the details. I will begin with revenue, we are raising the midpoint of our revenue guidance by $20 million and tightening the range by $40 million. The $20 million increase in the midpoint consists of three elements.

First, a $19 million increase in our organic growth outlook for the year, which reflects the strong Q3 performance and no change in our assumptions for Q4. This increases our organic growth outlook for the full-year to 6%. The second element is $90 million, a more adverse FX versus our previous guidance, and the third element is an addition of $20 million of revenue to reflect the acquisition of the Cork, Ireland API facility.

Turning to adjusted earnings per share. We are increasing the midpoint of our adjusted EPS guidance by $0.10 and tightening the range by $0.04. The $0.10 increase to the midpoint consists of four elements, a $0.06 increase from the strong Q3 operational performance; $0.04 increase to reflect lower interest expense.

As a result of our recent debt refinancing; a $0.02 increase to reflect the benefit of the share repurchases we undertook in early Q4, and a $0.02 reduction to account for a more adverse FX environment versus our previous guidance.

Let me give you a bit more detail on this change, the $0.02 reduction is comprised of a $0.03 benefit in Q3, a $0.05 reduction in Q4 relative to our prior guidance to foreign exchange. To sum it up, our 2019 revenue guidance is now a range of $25.34 billion to $25.50 billion, which would represent 4% to 5% reported growth versus 2018 and 6% organic growth.

And our adjusted EPS guidance for 2019 is now a range of $12.28 and $12.34 which represent growth of 10% to 11% versus 2018. Adjusted operating margin is now expected to be about 23.5% which will result in margin expansion of 40 basis points to 50 basis points.

A few of the details behind the revised 2019 guidance. Starting with FX, the mix of FX rate changes since our last guidance had an adverse $90 million net impact on full-year revenue, a $30 million adverse impact from adjusted operating income and a $20 million positive impact below the line. So for the full-year we now assume that FX will have a negative impact of approximately $500 million in revenue or about 2%, 10 basis points of margin and $0.25 or 2.2% on our adjusted EPS.

Next, we continue to expect the year-over-year gross tariffs impact to be approximately $30 million, which is just over 10 basis points of margin impact and approximately $0.07 of adjusted EPS, no change from our previous guidance.

Moving below the line, we are now assuming year-end debt will be approximately $17.5 billion. Our net interest expense will be about $450 million, down $20 million from the prior guidance reflecting the benefit of our recent debt refinancing. And we are assuming other net income will be about $60 million, which is approximately $20 million higher than our July guidance reflecting additional benefit of non-operating FX realized in Q3.

We continue to expect the 2019 adjusted tax rate to be 11%, unchanged from our previous guidance. We are continuing to assume net capital expenditures will be between $925 million and $975 million for the year. Free cash flow is expected to be approximately $4.1 billion, no change from previous guidance.

We assume a return about $300 million of capital to shareholders this year through dividends, no change from our previous guidance and we now estimate our full-year average diluted shares will be approximately $403 million, approximately $1 million lower than our previous guidance reflecting the recently completed share buybacks. My guidance does not assume any additional share buybacks this year and does not include any future acquisitions or divestitures.

In summary, we continue the strong performance we delivered in the first half of the year and achieved an excellent third quarter. We are very well positioned to achieve our goals for the year.

With that, I will turn the call back over to Ken.

Kenneth Apicerno

Thanks, Stephen. Operator, we are ready to open it up for Q&A.

Question-and-Answer Session

Operator

[Operator Instructions] And our first question comes from the line of Tycho Peterson with JP Morgan. Go ahead please. Your line is open.

Tycho Peterson

Hi, thanks, and congrats on the quarter. I want to start with the fourth quarter guide, the comp is slightly easier sequentially. I'm just wondering, with the 5% guidance, is there any kind of macro deterioration that you are factoring in there or is it just maybe some prudent conservatism.

Marc Casper

Tycho, thanks for the question. When you look at the assumption for the fourth quarter, it remains identical to what we started with the original part of the year back in January and to all the subsequent guidance which is assuming the normal year end pattern budget spending.

So, as a reminder, the last couple of years 2017 and 2018, we had above average or strong year-end spend, and you don't get visibility to that, and so very late in the quarter. So, our convention has been normal year-end, is what we are assumed in our guidance and that positions that is the way the year plays out, that we will have delivered a fantastic year.

If you get another very strong finish from budget flush, then it will be an even better year in terms of performance. So that is how we are thinking about it and we are not seeing anything in the macro environment that is giving us a change to Q4 from like a negative or conservative viewpoint.

Tycho Peterson

Okay. And then for the follow-up on biomanufacturing, obviously you are putting up great numbers there. We did hear from one of your peers yesterday about some potential concerns over capacity in particular around biosimilars. So I'm curious, if you could comment on your thoughts there on capacity for the industry right now. And then as we think about cell and gene therapy separately, obviously there have been some mixed data points around the Sarepta denial and that [indiscernible] Spark. But I'm just curious if the pipeline there is still very robust around Brammer. If you could comment on that? Thanks.

Marc Casper

Yes, so Tycho thanks for the question. So our bioproduction business is doing great. Right. And it really is performing at a very high level. Our customers appreciate the strong positions we have in cell culture media and single use technologies where we are the industry leader. We had a great quarter. So that is continuing.

In terms of how we see the market, we have all the companies so we have the best insight, because we have our bioproduction business, which gives you one lines. We obviously have a biologic CDMO which gives you other lines, and then we have these very deep relationships across the biotech and pharmaceutical industry. And what we are seeing is a very robust pipeline of activity. So we feel good about what the future holds.

In terms of cell and gene therapy, these are young industry, and you are going to see individual Company volatility, but the promise around cell therapy and gene therapy continues to be very strong and we are very excited about our competitive position, both in our pharma services business as well as our product businesses serving that market. So we feel good about the outlook there. Thanks Tycho for the questions.

Tycho Peterson

Okay. Thank you.

Operator

Your next question comes from the line of Jack Meehan with Barclays. Go ahead please. Your line is open.

Jack Meehan

Thank you. Good morning. I wanted to start with the China region, so 13% growth was right around what we are looking for, but obviously been a little bit more noise, which has come out. So I was just wondering as you looked across the businesses. Are there any areas where you have any concerns or what are some of the areas that are doing better, are there any areas that are doing weaker, if you just walk us through it, that would be great?

Marc Casper

Jack, good morning and thanks for the question. In terms of China, another excellent quarter, right. When I look at how we have been performing very strong. Our customers value the capabilities that we bring to the Chinese market and our industry continues to be so incredibly well aligned with the government priorities around their five-year plan, which is we enable environmental protection, the expansion of the healthcare system, building an innovative pharma industry.

Those are all things that our technologies across our industry benefit front Thermo Fisher, as the industry leader, and a very unique competitive position that we have in China positioned us even better in terms of our performance and you see that in our results. In terms of the details of what is going on in China, really conditions continue to be very, very similar to what we have seen in the last couple of years.

And as a reminder, the comparisons in our industrial business also play true in China, meaning that we had a very, very strong year end finish, the second half of last year in the industrial businesses globally. So we have a difficult comparison there and you see that in the results across industrial end markets. But you see that in China a little bit as well. So the 30%, very strong growth we are on track to deliver mid-teens growth for the year. So where we will see it.

Jack Meehan

Great. And then just as a follow-up on the Analytical Instruments business , the underlying growth even if you adjust for some of the timing dynamics seem to moderate a little bit, could you walk us through what are you seeing in terms of the market, in terms of the macro versus share gain in terms of certain products and then finally I didn't hear electron microscopy get called out, just how are you threading the needle between Semi versus Cryo there would be helpful. Thanks.

Marc Casper

Yes. So it's a good question. Jack, in terms of Analytical Instruments. That is the segment where we have our most industrial exposure in terms of our business with most industrial exposure and we had a very strong second half last year in electron microscopy and chemical analysis.

So we expected and we have been articulating since the begin the year that we expected the second half in our industrial businesses to have more muted growth because of the challenging performance -- the challenging comps against the amazing performance we have last year. So that is kind of the context. When I think about the more detail below that, the chrome and mass spec business continues to perform at a good level.

Obviously, others have not reported in our industry yet, we are first of the major companies. So it's hard to know exactly what our results are versus others, but based on the customer feedback we have, we feel very good that Q3 was another excellent quarter of share gains there. So, that will be validated in the next week or so. In terms of electron microscopy, the long-term outlook for our business is outstanding.

We have great interest both in our materials science applications ranging from battery development, semiconductor, advanced materials through the Life Sciences applications. So when I think about where that business is long-term prospects are continues to be mid to high single-digit growth business over the long term. So we feel good about our position in Analytical Instruments and how we are performing.

Operator

Your next question comes from the line of Vijay Kumar from Evercore ISI. Go ahead please. Your line is open.

Vijay Kumar

Thanks for taking my question and congrats on a really nice spring here. Marc maybe going back to that Life Science question biopharma, bioproduction really strong, but we are seeing both the stack, double-stack acceleration here in a quarter-on-quarter accelerating, maybe can you parse out what - is this an end market growth versus how much of this Thermo just because of scale may be outperforming the markets, and I think you also mentioned in LPS, your services business is up strong, but what about the non-services business, maybe just commentary on those end markets, I think would be helpful starting point.

Marc Casper

Sure. So Vijay thanks for the question. First of all, pharma, biotech is a setback from on how we are doing another quarter of double-digit growth consistent what we have seen now for a number of quarters.

The markets are good, but our competitive position is truly unique and we are clearly growing faster than the industry and gaining market share, and that is because our customers understand that we really do have a unique value proposition that helps them to accelerate their innovation and at the same point help them drive their productivity and all of our businesses did well, serving that customer set.

So we feel good about that and as I highlighted earlier bioproduction continues to perform at a very, very high level also, so pharma biotech continues to be very good. When I think about some of the other segments Lab Products and Services.

And when I think about that across all of the businesses there, which includes our lab products businesses, our pharma services business and our channel business. They all had very solid quarters with good growth. So nothing particularly differentiated between those businesses, they all had strong quarters on the top-line.

Vijay Kumar

Thanks. And then maybe one big picture question, you guys have been phenomenal. When it comes to capital deployment over the years. Just given where the rate environment is when you look at valuations across the sector. Maybe, a talk about how the funnel is looking and appetite for M&A.

Marc Casper

So, thanks. No, in terms of capital deployment. we have a very active funnel, right and it continues to be very active. And the way we think about it is we have a very disciplined process and where we have been really successful is doing the right transactions that is very much valued by our customers, strengthening the Company's long-term strategic position, and ultimately creates meaningful shareholder value.

And when I look at the pipeline, I feel very good about what the prospects are there. And the key for us is that, we have always been disciplined and we always will be disciplined, right. So, we will do the right things.

And when I think about this year, what a great year in terms of strengthening the balance sheet for the long term, right. With getting an average duration of 15 years on our new debt. And doing that, have the interest costs that positions us well. It gives us tremendous financial flexibility.

And at the same point, we have done one mid-sized bolt-on in Brammer, we have done the Cork acquisition, a few small deals as well, and cleaned up one aspect of our portfolio, which was selling off the Anatomical Pathology business. So, so a very solid year there, we have returned capital as well and I feel great about what the M&A pipeline looks like.

Operator

Your next question comes from the line of Derik De Bruin from Bank of America, Merrill Lynch. Go ahead please, your line is open.

Derik De Bruin

Stephen, I have a question for you. So, ever since you guys bought Patheon, you the street seems to be mis-modeling your gross margin number. I mean, every quarter I get a call that, "Your Thermo BDPS" and I have to have a conversation about how other gross margin numbers came in lower and like that.

And so I think there just seems to be some mis-modeling that goes on with this. Can you just sort of walk people through the dynamics on the gross margin line and sort of how the mix and plax everything like this. And it's ultimately it's a question on how should we think about on any one quarter, sort of like year-over-year gross margin expansion or how to look at it like that. Because there is consistently this, this debate we have every quarter on what the right margin number is, and sort of like how to model it.

Stephen Williamson

Yes, Derik. Thanks for the question. So we will take a long look back. So, yes, so Patheon is a scale business with significantly lower gross margins on the average for the Company. So to the year the anniversary is back into our numbers that you saw that for a 12-months, over four quarters of some pressure on reported gross margins, still a good business performance on the line that in the Pharma Services business.

And then the mix of our revenues been such that the lower gross margin businesses in the Company, but lower cost to serve below that, there is still decent profit margin businesses have been growing the fastest. So bio-production and then the channel business and then pharma services is also growing very well, as well. So that is a continued pressure on reported margins, but still very good in terms of generation of adjusted operating income dollars.

So seeing that dynamic play out. And recently we are investing fairly significantly into our Pharma Services business for future revenue growth. So that is the one other elements. And then this quarter, and you will see it over the next couple is, we are selling the Anatomical Pathology Business, that also plus a little bit of pressure on the Company’s gross margins on a reported basis.

So when I think about modeling going forward. Well, I expect the Company to get some benefit in terms of margin expansion coming out of gross margins, but not significant, and that it's really SG&A leverage. With the strong revenue growth on the top-line that is really going to be driving the overall operating margin expansion for the Company in terms of the long-term outlook for the next three years.

Derik De Bruin

Great, thanks for clarifying that. And you mentioned the Anatomical Pathology sale. Can you remind us how - a little bit hit on the margin. What was that sort of like that the drag on the gross margin? drag on the track and organic revenue growth on that business. And where I'm getting out, 7% growth in diagnostics in the quarter, very strong. How much of that was Anatomical coming out, plus how much of that was sort of like gains from some of the delays you had in the second quarter, just on incremental volume?

Stephen Williamson

So, Derik, in terms of the strong performance in healthcare and diagnostics and the strong performance in our Specialty Diagnostics business, we have really broad-based momentum, right in terms of really excellent growth in transplant, in immuno-diagnostics, and very strong performance in our healthcare market channel. So the divestiture of Anatomical Pathology, which was a slower growing business, actually had a minimal impact on the organic growth performance.

Marc Casper

And offset the tailwinds from Q2 in terms of the revenue that was delayed in terms of shipments there. But not a significant impact overall when you look on a net basis.

Derik De Bruin

Great. And if I can continue. Since you mentioned transplant diagnostics, which is haven't really talked about that for a while. As I think back, there was a time a couple of years ago when people were worried that One Lambda was going to get waked from next-gen sequencing coming into the market. And obviously you are now opening new facilities. Can you talk about how sort of that has expanded. I'm just very curious to see that, because I remember that was a debate we had several years ago with people.

Marc Casper

Yes, so in terms of transplant diagnostics incredibly important capabilities that we serve the healthcare community globally, which is we help match recipients with donors and we help clinicians monitor transplant health, right in terms of organ acceptance or rejection, right.

So critical part of the medical decision on process there. But business has performed well. It's highly profitable, it's been good growth. And truly an inspirational opportunity. I love what I do, but the opportunity to talk to patients that recognize the role we play, the doctors that make those decisions, the laboratorians that do the work to match the recipients with the donors.

I had that opportunity in August when we opened up our new facility in West Hills, which is an amazing set of capabilities. We have hundreds of people attending, it was really an awesome experience. And highlights the competitive advantage we have.

Right, there wasn't a customer but didn't leave there saying, okay, this is the industry leader investing for a bright future. We have our next-gen sequencing workflows by the way in transplant diagnostics. So we have made that transition as well and we continue to be very strong performance there.

Derik De Bruin

And then, I just one follow-up. Since I will to take advantage of being on the call here. You know one of your competitors has been making a big push into the third-party services market. Can you sort of talk about your Unity Lab Services business and sort of like the dynamics and industry, and what is going on with it. It's one of those areas we are just, we really have a lot of visibility. And so I'm just sort of trying to reconcile that with, with some of the, some of the trends and commentary from some of the other competitors.

Marc Casper

It's performing well, it's growing, probably grew around the Company average. Probably a lot higher somewhere in that range, so performing at a good level . [indiscernible] our customers, we wind up with a large number of our colleagues working at our customer site to ensure effectiveness of how they operate their laboratories and making sure they're getting great experiences with our products. And it's a good business in terms of building customer regions and continues to perform at a good level.

Operator

Your next question comes from the line of Doug Schenkel with Cowen & Company. Go ahead please, your line is open.

Doug Schenkel

Good morning and thank you. I want to talk about Europe run through a few Q3 clean-ups. And then just talk through a couple of year-end and to 2020 dynamics. So starting on Europe, in a quarter where you had strength in a lot of different areas. I would argue, one of the most surprising things was your robust revenue growth performance in Europe. Based on what we have read and heard from others, high single-digit growth is pretty impressive and surprising, especially given your high single-digit comp. Can you provide a bit more detail on Europe performance by segment and also share if there is anything interesting in terms of monthly cadence?

Marc Casper

Yes. So Doug, thanks for the question. You know, it's been interesting, right. If you read the sort of popular press about Europe, you have this for quite some time. You have this very bleak view, right sort of everything is slow and so forth. If you then look at our performance over the last number of years. Our performance in Europe is very strong.

So, that is because our value proposition resonates, right, there is a big pharmaceutical industry presence there that we are very well positioned to serve. We have strong presence serving the diagnostics market, our high-end instrumentation is valued by customers, and the business is performing well. The high-single digit growth reflects very good performance of the team, and we have been delivering strong growth in Europe.

So when we did our reviews with our European leadership and myself and members of our Company leadership team spent time with the commercial team at the end of the quarter in Europe and market conditions where we serve continue to be good, and our share gain momentum is excellent. So nothing really jumped out to me as being particularly surprising. I was just pleased with the job well done by the team.

Doug Schenkel

Okay, that is great. Now for the clean-ups, On the data storage outage. I just want to confirm was the impact of recapturing revenue lost in the second quarter about $50 million, and if so, would you break that down by segment and comment on whether or not there is anything more to recapture related to that between now and year-end.

Stephen Williamson

Yes, Doug. Thanks. So, as we outlined on the last call approximately $50 million of revenue shifted from Q2 to Q3. These orders that are ready to shift to customers right at the end of the quarter were delayed by the system average and then were shipped in early Q3. So that is basically across the line.

Doug Schenkel

Okay. And then the other clean up was on Bioprocessing. Just wondering if you could comment on whether or not our math is right, which leads us to conclude that you might have grown 20% to 25% in the quarter, are we in the right neighborhood?

Marc Casper

Yes, you are in the right neighborhood,

Doug Schenkel

Okay and then just - okay, it's a good neighborhood. Alright. And then just a couple of looking ahead questions . There has been, I guess the first one is, there is been lots of focus on the outlook for year-end budget flush. How important has a budget flush been to you the last few years and how important is it in the context of this year's guidance. So that is the first one on budget flush.

The second is in terms of your visibility heading into 2020, do you think your customers are likely to complete 2020 planning and budgeting later than usual given the macro backdrop and just all the uncertainty out there, and if so, how does that impact your planning and then the third is kind of a higher level question for you, Marc.

10 to 15 years ago, if we were heading into an election year where there were heightened concerns about the environment for biotech and pharmaceutical companies regardless of size and then also by extension concerns about the availability of capital for relatively smaller but higher-growth emerging companies. I think it's fair to say a decade a decade and a half ago that we would be concerned about the possibility of a moderation and spending for that end market.

We may be facing some of those dynamics looking ahead to 2020, is it fair to say that the complexion of your biopharma end market exposure or really just the overall nature of that end market has changed enough over the last decade, where you can say at these dynamics materialize that they'd be less problematic today for Thermo than they were 10 to 15 years ago. Thank you .

Marc Casper

Sure, great question. Let me take a shot at that and the first one is , customers do planning later macro environment. something I had a of a lot of doubt actually in preparation for this earnings call. And when I think back over the last two decades here, it actually doesn't feel that there is any more uncertainty or challenges then really the normal level of noise, right.

I remember discussing terrorism risk and discussing dramatic changes in FX and sequestration, all of these things and when I sit there and say, yes, there is a lot - we have an administration that is very publicity oriented, but when I think about the big picture issues Science is great.

The economy is pretty good around the world and our industry is doing very well. So when I think about planning, I think it's going to be pretty normal in terms of the process across the industry. In terms of, you know, biotech and funding and all of those things, the end market continues to be strong, the science is excellent, if you have a view and it might change [indiscernible], our Company mix has changed, right.

If you think about a decade ago, our exposure in biotech and pharma would have been more purely on the research side of the equation, and today you have more of a balance with clinical trials, capabilities, development and production. So, the mix is different in that latter stage is typically stickier in terms of the movement.

And then in terms of budget spending and so forth, something that it's hard to have a scientific view of it, our best view of the difference between a normal year and a strong year in terms of organic growth in the quarter, probably two points, meaning that, if you go from normal to strong about two points of growth, additional in that represents roughly half a point of growth for the full-year and that could be off a little bit, but it gives you at least the magnitude of the difference between normal and strong.

Stephen Williamson

Yes [indiscernible] about kind of planning and these environment. It's about being flexible and it's about iterative planning and making sure that you are up to date in terms of how you thinking about operating through an environment with things that change pretty rapidly. So, companies are becoming more and more used to that environment and operate accordingly.

Marc Casper

We are ready for the next question.

Operator

And your next question comes from the line of Steve Beuchaw with Wolfe Research. Go ahead please, your line is open.

Steve Beuchaw

Hi, good morning, thanks for the time here. I have one actually for Stephen, and then I will follow up with a broader question for Marc. Stephen, in obviously good reasons you guys have stepped up investments in CapEx for CDMO capacity and then broadly capital deployment for CDMO capacity. How should we think about modeling that over the next few years, are we stable at this new level or do we see growth over time in those investments?

Stephen Williamson

Steve, great question. If you want to think about the pharma services business. We have got great opportunities to capture long-term organic growth with the customers set that we have both large pharma and biotech and more biotech customers. So we recognize that and we are adding the right capacity and capabilities to help continue to fuel that growth for the long-term.

So that gets us and we think about our business being kind of mid to high single-digit business and I'm putting investments to maintain at the high end of that level of growth. And if there are future opportunities that unfold themselves, to be able to get great returns and will add appropriately income to CapEx, you will see this year and next year slightly heightened level of CapEx in that business that links to these great, great customer prospects and we will see how that pans out from that going forward. But really, to maintain the great organic growth method .

Marc Casper

One thing I would add just kind of at one level off, which is - we did refinancing and it really a huge savings in our earnings. Right. And we took the $20 million of Q4 benefit to the bottom line. as I think about next year, we will have another $60 million benefit from the lower interest costs.

We will likely reinvest a little more than half of that to continue to accelerate our growth momentum in not per se just in pharma services, but we have amazing prospects given our share momentum. So I think you will see us likely reinvest some of those savings into fueling continued amazing future for the Company.

Steve Beuchaw

Got it. Very, very helpful. And then, Marc, I wonder if you could talk about proteomics for a minute. I know there is again for good reason a lot of optimism about the growth trajectory there. But over the last, let's say nine-months or so there has been more competitive noise in this space and historically you've been not just a good grower, but a share gainer in proteomics. Can you talk about that trend and how, if at all, your view on those trends evolve downstream of the 2019 where some others have entered the space. Thanks a bunch.

Marc Casper

Yes, the business, our Orbitrap franchise is performing very well. And when I look at the product launches, we had it ASI American Society of Mass Spectrometry in Q2, very strong customer interest. We have had good order shipments, performing very well and there is always competition, but we are very well positioned to continue to drive growth.

Funding in proteomics is very good. Right. It is, if you think about, you have the genomics revolution, proteomics is really where a huge level of funding is right now and looks to continue to have and we are the industry leader and well positioned to drive good growth in that part of our business.

Steve Beuchaw

Okay, I really appreciate all the color here.

Marc Casper

Thanks Steve. Yes. Operator, we have time for just one more.

Operator

And your last question comes from the line of Brandon Couillard with Jefferies. Go ahead please, your line is open.

Brandon Couillard

Thanks, good morning. Marc, just curious if you could speak about Patheon to core growth in the third quarter and perhaps share an update on where you stand in terms of the revenue synergy pull through from that asset?

Marc Casper

Yes, so the integration is complete. The business is performing at an excellent level, we exceeded the cost synergies, really driven by excellent impact from our PPI Business System revenue synergies right on track.

And interestingly enough, the funnel of wins, which is future revenue. You can see it in the number of expansions that we are announcing across our network that really is driven by revenue synergies, right. We basically have sold out our API network and we acquired the Cork facility.

You saw us announce expansion of sterile [indiscernible] and biologics and networks and that really is just a reflection of how strong our customer interest is because of Thermo Fisher's reputation and the excellent performance from pharma services,. The business grew about the Company average in terms of our performance in the quarter.

Brandon Couillard

And last one for Stephen, can you just share net pricing in the quarter, and what you've baked in for the full year? Thanks.

Stephen Williamson

It's a net pricing continue to be good. So just under 1.5% across the Company and that is in line with how we would be performing for this year. So expect that to continue, however, we are doing a good job of offsetting some of the tariff impact of pricing and being disciplined as well.

Brandon Couillard

Okay, Thanks.

Stephen Williamson

Thanks Brandon.

Marc Casper

So let me wrap up here, with a strong nine-months behind us, we are really in a great position to achieve another excellent year. As always thank you for your support of Thermo Fisher Scientific. We look forward to updating you early in 2020. Thanks everyone.

Operator

This concludes today’s conference. We do thank you for your participation. You may now disconnect.