

ThermoFisher

SCIENTIFIC

NYSE: TMO
Buy Pitch 10/10/2023

Investment Thesis

Recommendation: **BUY**

Current Price: \$496.13 Target: **\$589.70** Upside: **18.28%**

- Diversified product portfolio through brands such as Thermo Scientific, Applied Biosystems, Invitrogen, Fisher Scientific, Unity Lab Services, Patheon and PPD
- Proven M&A strategy while still targeting high single digit organic growth
- Exposes the healthcare portfolio to the Life Sciences industry without taking on significant FDA/regulatory risk

Macroeconomic Healthcare Trends

- Healthcare Sector was valued at USD **10.30 Trillion** in 2021
- Projected to reach USD **21.06 Trillion** by 2030
- CAGR of **8.27%** from 2023 to 2030
- Movement away from blockbuster drugs and toward precision medicine tailored to genomics
 - Structure, function, evolution, mapping, and editing of genomes
- Increased integration of AI and predictive analytics into drug discovery
 - Enables biopharma's to bring new therapeutics to market faster with higher safety and efficacy rates

Life Sciences Industry Overview

Specialty Diagnostics

- Includes products and services related to clinical diagnostics, pathology, and precision medicine

Analytical Instruments

- Development and manufacturing of instruments and equipment used for scientific research, quality control, and analysis across various sectors.

Life Science Solutions

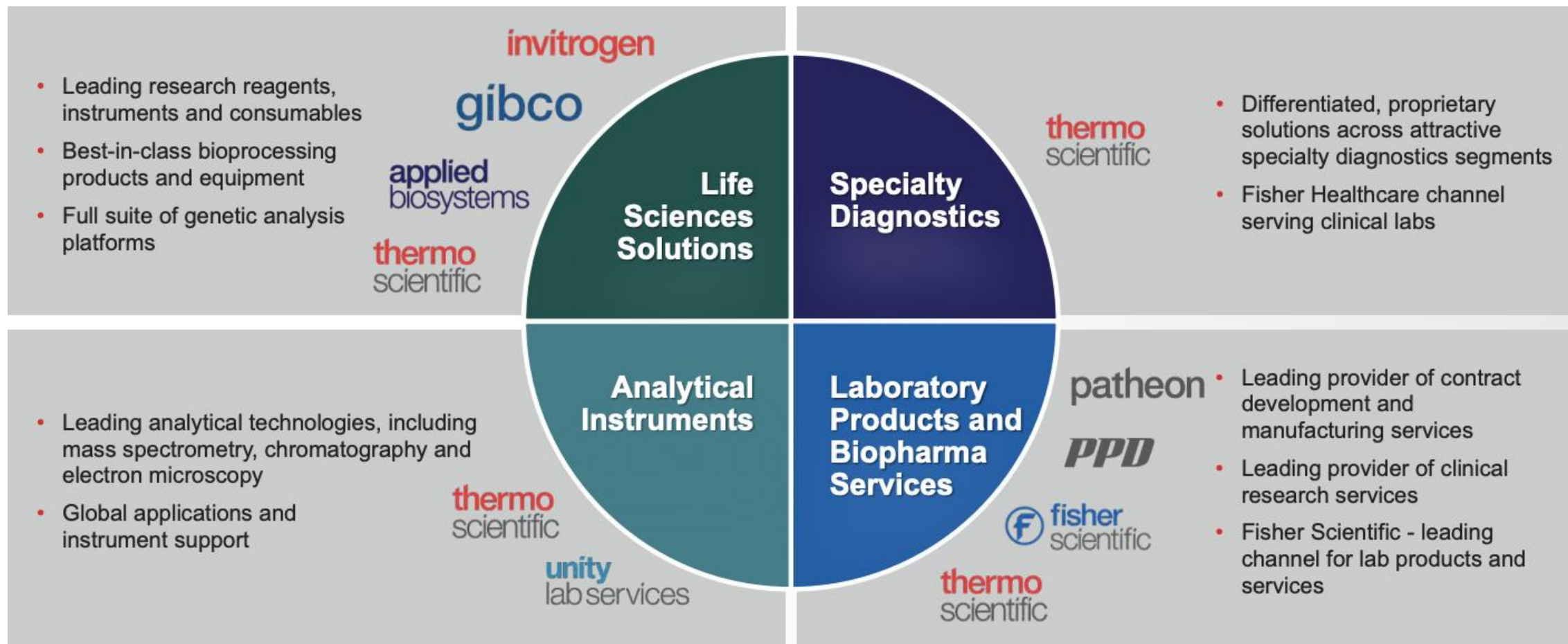
- Products and services related to biological and chemical research, drug discovery, and development, as well as tools and technologies for life sciences research

Laboratory Products & Biopharma Services

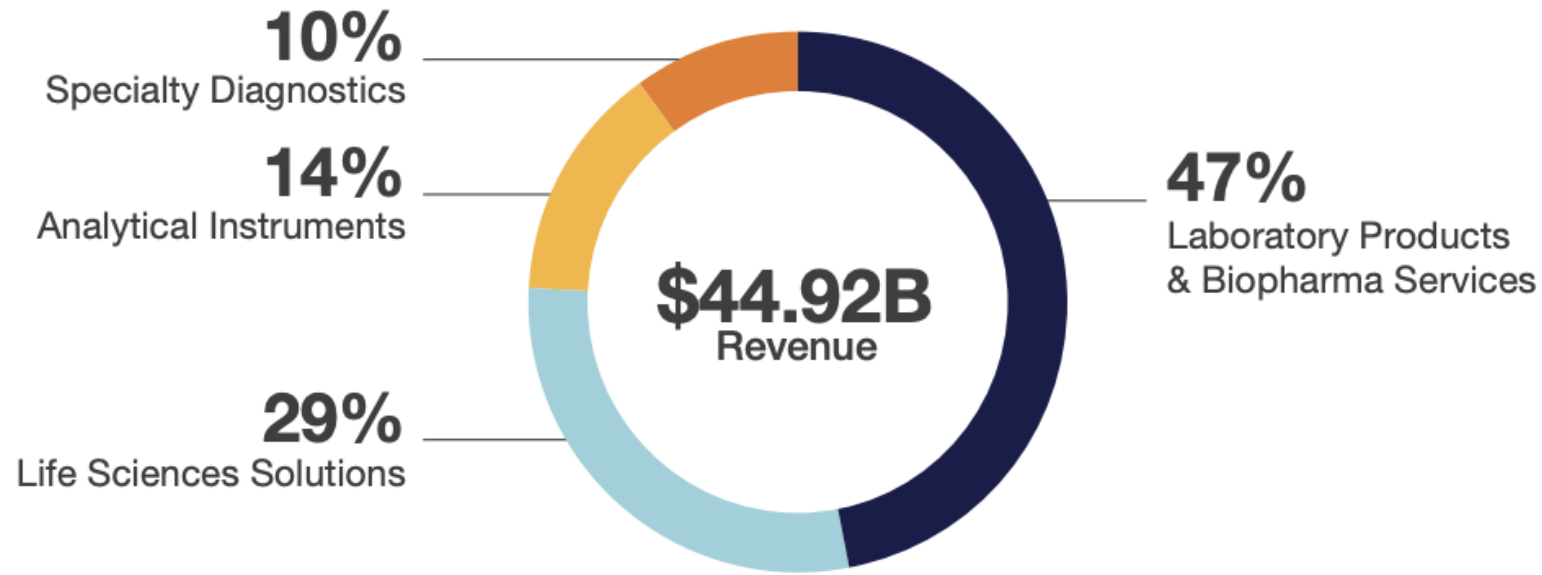
- Laboratory equipment, consumables, and services for pharmaceutical and biotechnology companies, as well as academic and government research institutions.



Company Segments Highlights



Thermo Fisher Overview



Specialty Diagnostics

\$4.4B in Revenue

- Clinical Diagnostics
- Immuno Diagnostics
- Transplant Diagnostics
 - Microbiology

Analytical Instruments

\$6.8B in Revenue

- Chromatography & Mass Spectrometry
- Electron Microscopy
- Chemical Analysis

Life Science Solutions

\$11.9B in Revenue

- Biosciences
- Genetic Sciences
- Bioproduction







Laboratory Products & Biopharma Services

\$22.8B in Revenue

- Clinical Research
- Pharma Services
- Laboratory Products
 - Research and Safety Market Channel

Product Overview

- 2.5 million products ranging from next-generation sequencers, cell culture media to standard lab equipment
 - Size of TMO's offerings is a wide competitive moat
- Products across various scientific disciplines, including molecular biology, genomics, proteomics, analytical chemistry, and clinical diagnostics
- Focus on democratization of more advanced products making offerings like Crispr gene editing assays, NGS's, and a wide variety of modern analytical equipment available for clinical and research use

Enabling the golden age of biology		
<p>Advancing protein research</p>  <p>Thermo Scientific Orbitrap Ascend Tribrid Mass Spectrometer</p>	<p>Enhancing biopharma drug analysis</p>  <p>Thermo Scientific Vanquish Analytical Purification Liquid Chromatography System</p>	<p>Providing sustainable life sciences reagents</p>  <p>Invitrogen DynaGreen Magnetic Beads</p>
Advancing precision medicine		Enabling advanced materials
<p>Accelerating precision oncology testing</p>  <p>Oncomine Dx Express Test and Reporter Dx Software</p>	<p>Providing companion diagnostics for immuno-oncology</p>  <p>SeCore CDx HLA Sequencing System</p>	<p>Accelerating semiconductor product development</p>  <p>Thermo Scientific Helios 5 PXL PFIB Wafer DualBeam</p> <p>Thermo Scientific Centrios HX Circuit Edit System</p>

Product Overview Cont.

- Introduced the Gibco OncoPro Tumoroid Culture Medium Kit
 - Kits support the culture of tumor cells derived from individual patients, providing a better disease model for research and drug development that could potentially improve clinical trial success and help bring drug candidates to market faster and more cost-effectively
- Launched the first and only immunoassay to help doctors stratify a mother's risk of developing pre-eclampsia, a serious complication that can develop in pregnancy and the post-partum period, endangering both mother and baby

Gibco OncoPro Tumoroid Culture Medium Kit



Product Overview Cont.

- Launched Thermo Scientific Orbitrap Astral Mass Spectrometer, the most significant advancement in mass spectrometry in 15 years
 - Combines speed, high sensitivity, and deep proteome coverage to enable researchers to uncover proteins that previously evaded detection
- Launched the Thermo Scientific Metrios 6 Scanning Transmission Electron Microscope, the latest innovation in the leading line of instruments designed for the semiconductor industry
 - Enables customers to obtain large-volume, high-quality data from increasingly complex semiconductors to accelerate development

Metrios 6 Electron Microscope



Orbitrap Astral Mass Spectrometer



CRO and CDMO

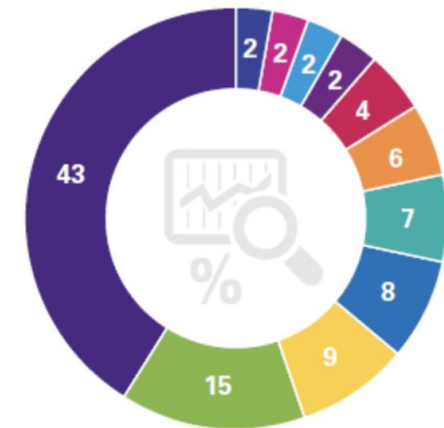
- Service Fees: Charge clients for specific research and development services, tailored to project scope and complexity
- Project-Based Contracts: Earn revenue through project contracts, completing research initiatives within defined timelines and budgets
- Strategic Partnerships: Form partnerships with clients, sharing costs and potential revenue from successful products or therapies
- Comprehensive Services: Covers the entire R&D journey, from preclinical research to regulatory support
- Clinical Trial Support: Assists in planning, managing, and ensuring regulatory compliance for clinical trials
- Acquired CRO PPD in 2021 for \$17.4 million in 2021
- Acquired Patheon in 2017 expanding CDMO capabilities

PPD[®]

Part of **Thermo Fisher Scientific**

patheon

by **Thermo Fisher Scientific**



■ Inventiv ■ PRA Health
■ WuXi Pharma ■ PAREXEL
■ INC Research ■ Covance
■ Charles River ■ Quintiles
■ ICON ■ Others
■ PPD

Risks

Reliance on Limited Supply Sources	Some segments require materials from sole or limited source suppliers for reasons of quality assurance, regulatory requirements, cost effectiveness, availability or uniqueness of design
Prolonged High Interest Rate Environment	Sales in the Life Sciences segment are dependent on broad investment into R&D from life sciences companies, which is stunted by high interest rates/higher cost of capital
Intellectual Property Challenges	TMO depends on highly specialized equipment that depends on a large IP portfolio. Any challenges or infringements could lead to costly legal battles and potential loss of proprietary technology
Geopolitical Issues	TMO is a multinational corporation with 45% of revenues coming from outside North America. Any local government disruption in these countries, especially relating to government funded healthcare programs, represents a risk

Catalysts

Robust R&D Spending	Continued investment in R&D leading to new product innovations. Capacity to deploy \$75B+ of capital over the next five years
Strategic Acquisitions	Strong history of acquiring companies that complement its existing product lines or allow TMO to enter new markets
Increased Demand for Genetic Analysis Tools	With the cost of genetic sequencing decreasing, more researchers and institutions are using these tools to accelerate their R&D. TMO's portfolio in this domain should see a major increase in demand
Resilience During Economic Downturns	TMO's diversified portfolio and essential nature of its products and services has proven resilient during economic downturns
Response to Global Health Challenges	TMO was instrumental in supplying research, diagnostic, and testing solutions for COVID-19. The company's ability to rapidly respond to global health challenges can be a growth driver.
Outstanding financial performance	Strong business momentum with acceleration in organic growth (4%-6%) - Acquiring synergy targets ahead of schedule; further raising total synergy target today to over \$200M in adj. operating income in 2024

Financial Metrics

Financial Position

Interest Coverage Ratio currently **6.64x** bolstered by an EBIT of **\$7.2 Billion**

Current Ratio - **1.42**

Debt/Equity Ratio - **0.79**

Debt/EBITDA Ratio - **3.24**

Credit Rating – **A-**

Financial Efficiency

Return on Equity (ROE) - **13.2%**

Return on Capital (ROIC) - **14.6%**

Return on Assets (ROA) - **6.10%**

Margins

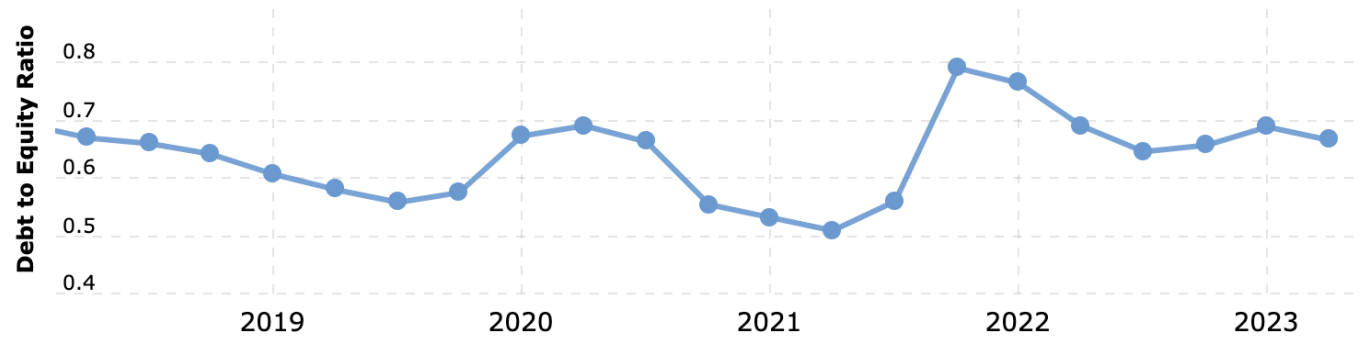
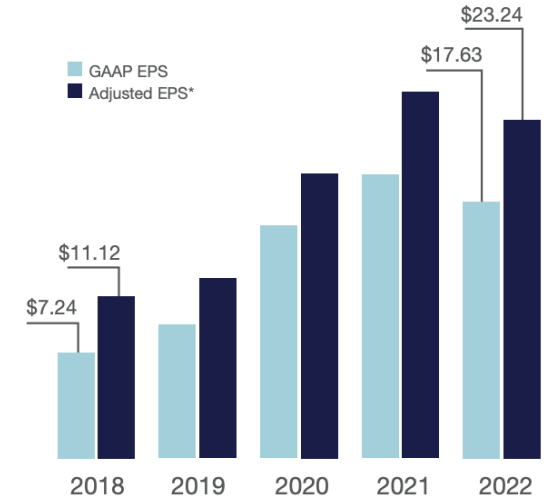
Gross Margin - **39.75%**

EBITDA Margin - **24.10%**

Operating Margin - **15.42%**

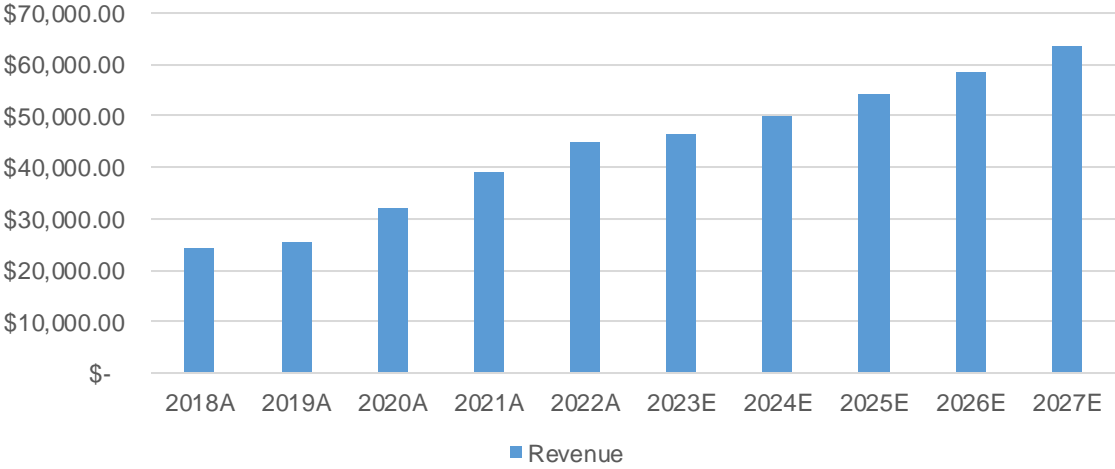
FCF Margin - **13.5%**

Earnings per share (In dollars)

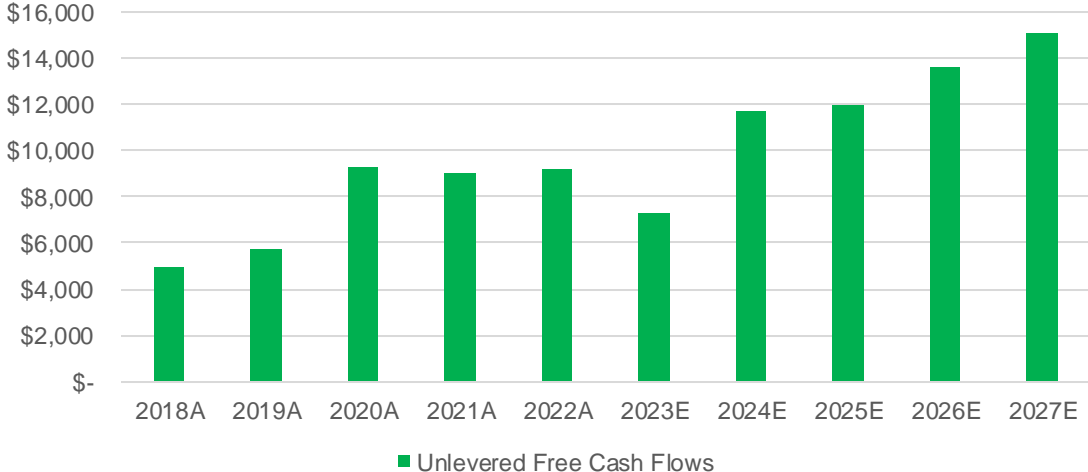


Proven Growth Across Metrics







Revenue (in millions)









Unlevered Free Cash Flows (in millions)



Comparables

Company	Market Cap	Total Enterprise Value	Public Comps				EBITDA	EBIT	Net Income
			Total Revenue	Debt	EBITDA	EBIT			
 THERMO FISHER SCIENTIFIC INC. (XNYS:TMO)	191,481	223,453	43,524	34,023	10,653	7,253	6,950		
 AGILENT TECHNOLOGIES, INC. (XNYS:A)	32,559	34,010	6,994	2,967	2,091	1,809	1,133		
 IQVIA HOLDINGS INC (XNYS:IQV)	36,540	48,902	14,681	14,019	3,219	2,102	1,096		
 WATERS CORPORATION (XNYS:WAT)	15,780	18,196	2,992	2,729	1,010	876	696		
 DANAHER CORPORATION (XNYS:DHR)	161,234	172,700	30,356	20,975	9,944	7,720	6,524		
 METTLER-TOLEDO INTERNATIONAL INC. (XNYS:MTD)	23,795	25,721	3,954	2,153	1,287	1,171	902		

Comparables	Multiples			
	EV / Rev	EV / EBITDA	EV / EBIT	Equity Value / Net Income
 THERMO FISHER SCIENTIFIC INC. (XNYS:TMO)	5.1x	21.0x	30.8x	27.6x
 AGILENT TECHNOLOGIES, INC. (XNYS:A)	4.9x	16.3x	18.8x	28.7x
 IQVIA HOLDINGS INC (XNYS:IQV)	3.3x	15.2x	23.3x	33.3x
 WATERS CORPORATION (XNYS:WAT)	6.1x	18.0x	20.8x	22.7x
 DANAHER CORPORATION (XNYS:DHR)	5.7x	17.4x	22.4x	24.7x
 METTLER-TOLEDO INTERNATIONAL INC. (XNYS:MTD)	6.5x	20.0x	22.0x	26.4x
Median	5.7x	17.4x	22.0x	26.4x
25th Percentile	4.9x	16.3x	20.8x	24.7x
75th Percentile	6.1x	18.0x	22.4x	28.7x

DCF Assumptions

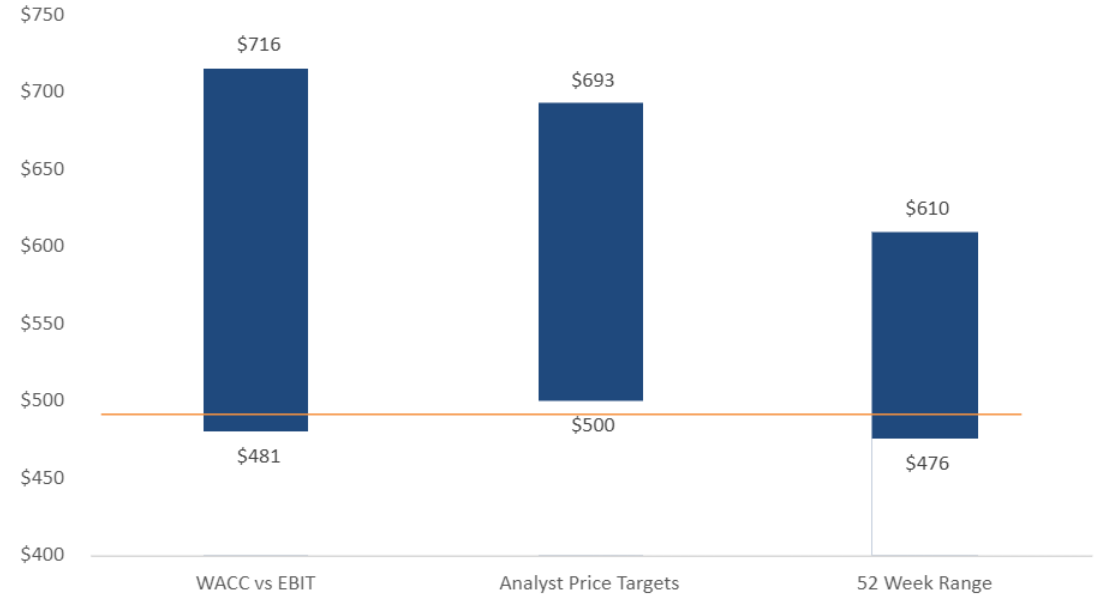
WACC	9.66%
% Net Debt	15.1%
% Equity	84.9%
Interest on Debt	2.27%
Risk Free Rate	4.80%
Equity Risk Premium	5.94%
Adjusted Beta	1.05
Tax Rate	8.00%
TMO CAPM	11.00%
Weighted Cost of Equity	9.34%
Weighted Cost of Debt	0.31%

TOTAL REVENUE	24358	25542	32218	39211	44915	46259	50097	54120	58411	63475
YoY Growth	16.4%	4.9%	26.1%	21.7%	14.5%	3.0%	8.3%	8.0%	7.9%	8.7%

DCF Valuation

Enterprise Value (Multiples)	\$ 255,071
Less: Debt	34,023
Preferred Shares	-
Non-Controlling Interest	163
Add: Cash	8,524
Equity Value	\$ 229,409
Diluted Shares Outstanding	389
Implied Share Price	\$ 589.74
Market Share Price	\$ 496.13
Upside/Downside	18.87%

TMO Valuation Summary



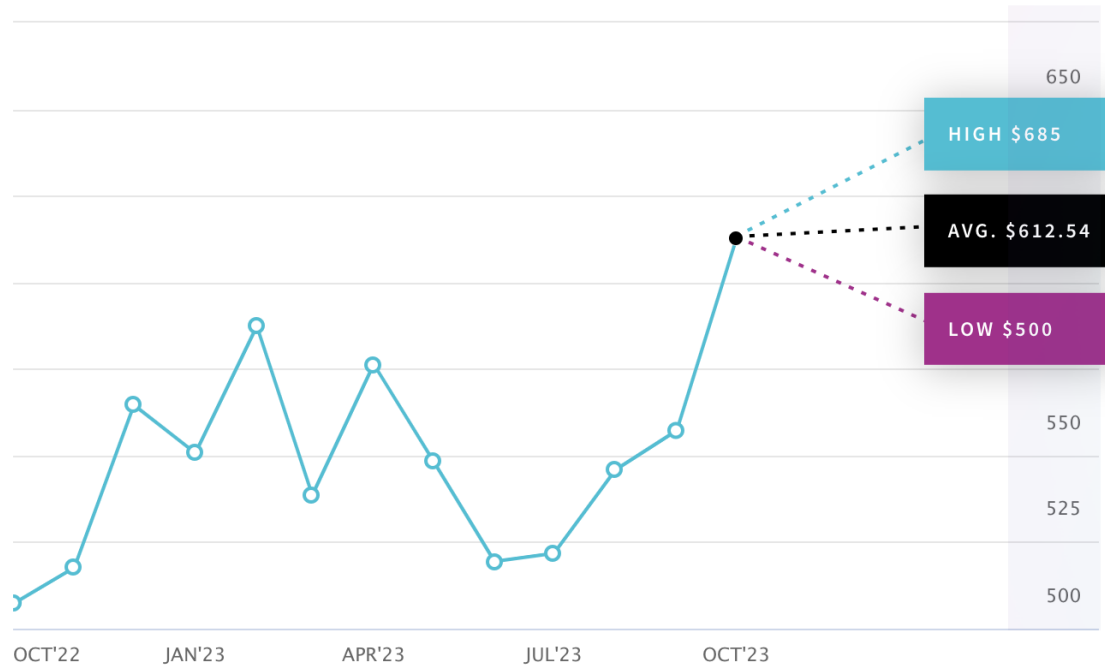
WACC x Terminal Growth Rate						
\$439.32	7.66%	8.66%	9.66%	10.66%	11.66%	
3.20%	676.01	535.94	439.34	368.74	314.90	
4.20%	863.17	650.24	515.42	422.43	354.45	
5.20%	1202.50	830.60	625.60	495.79	406.25	
6.20%	2006.66	1157.61	799.48	602.05	477.02	
7.20%	6307.14	1932.57	1114.72	769.72	579.52	

WACC x EBITDA Multiple						
\$589.70	7.66%	8.66%	9.66%	10.66%	11.66%	
15.7x	581.78	554.52	528.68	504.19	480.95	
16.7x	615.32	586.54	559.27	533.42	508.89	
17.7x	648.85	618.56	589.86	562.65	536.84	
18.7x	682.39	650.58	620.44	591.88	564.78	
19.7x	715.92	682.60	651.03	621.11	592.72	

Analyst Reports

\$612.54

Based on **analysts** offering 12 month price targets for **TMO** in the last 3 months. The average price target is **\$612.54** with a high estimate of **\$685** and a low estimate of **\$500**. [Sign in to your SmartPortfolio to see more analyst recommendations.](#)



TMO Analyst Ratings

CONSENSUS

Strong Buy

Based on **20 analysts** offering recommendations for 'TMO'.

Analyst Firms Making Recommendations

- B OF A GLBL RES
- BAIRD R W
- BARCLAYS CAPITA
- BENCHMARK COMPA
- CITIGROUP
- CO FORECST
- DEUTSCHE BK SEC
- EDWARD JONES
- EVERCORE ISI
- JEFFERIES & CO.
- JP MORGAN SECUR
- KEYBANC CAP MKT
- LEERINK PARTNRS
- MORGAN STANLEY
- RAYMOND JAMES
- RBC CAPITAL
- STIFEL NICOLAUS
- TD COWEN
- WELLS FARGO SEC
- ZACKS RESEARCH

Recent Stock Performance

+264.72 (114.39%) ↑ past 5 years

Closed: Oct 9, 4:24 PM EDT • Disclaimer

After hours 497.00 +0.87 (0.18%)

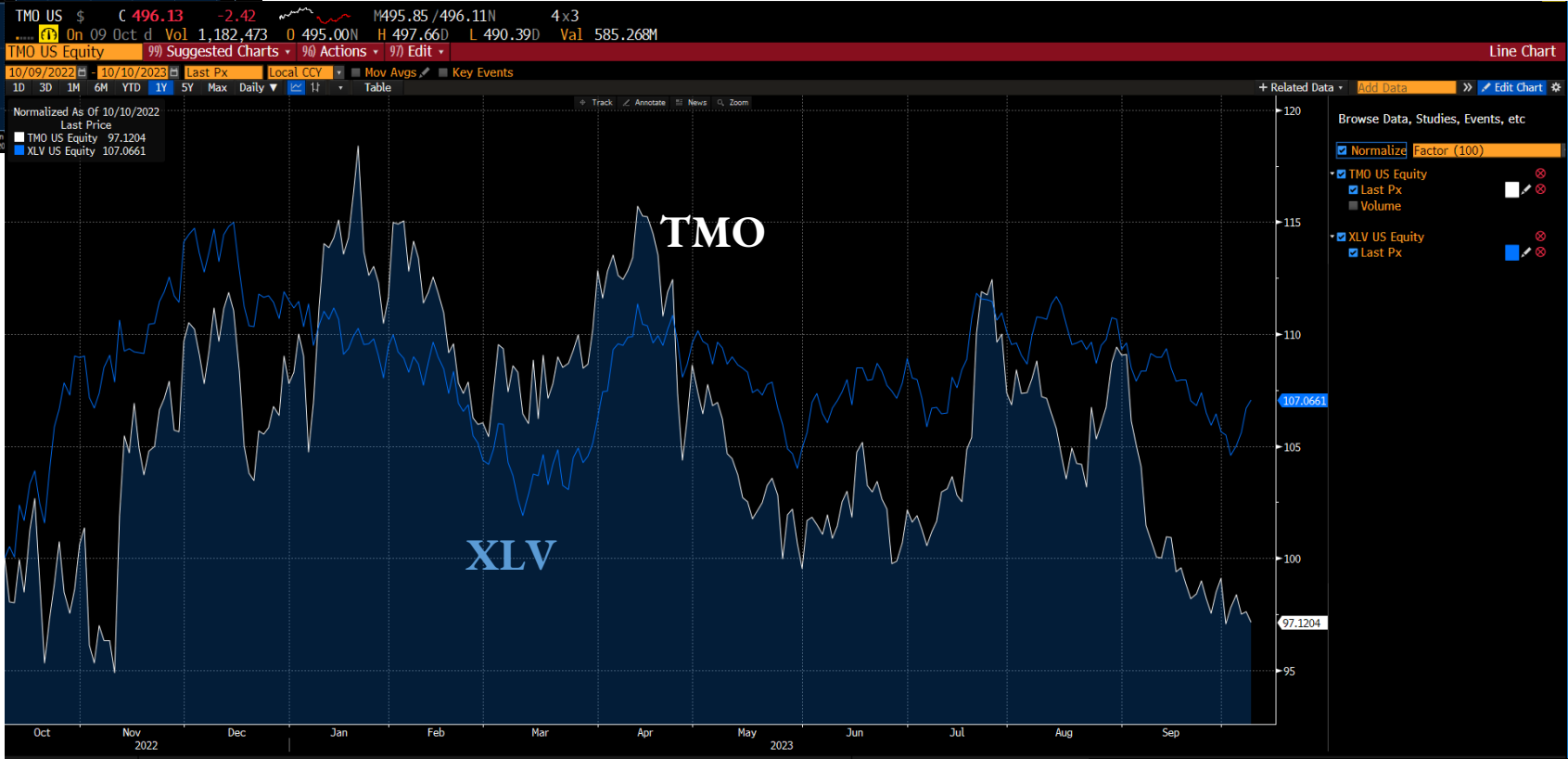
1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Recent Stock Performance



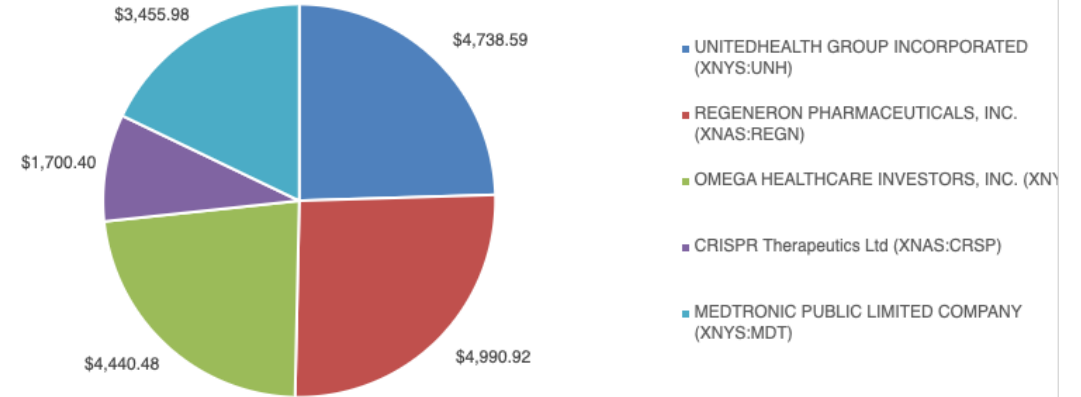
Role in Portfolio

		Correlation Matrix - Current				
		REGN	UNH	MDT	OHI	CRSP
Office Online Frame	$\sigma_n * w_n$	0.06	0.06	0.04	0.05	0.02
REGN	0.06	1.0000	0.0489	0.3977	-0.0008	0.0114
UNH	0.06	0.0489	1.0000	-0.1099	0.0913	-0.0982
MDT	0.04	0.3977	-0.1099	1.0000	0.2512	0.3090
OHI	0.05	-0.0008	0.0913	0.2512	1.0000	0.3092
CRSP	0.02	0.0114	-0.0982	0.3090	0.3092	1.0000
		Total Sector Variance			0.015296	
		Total Sector Risk			12.37%	

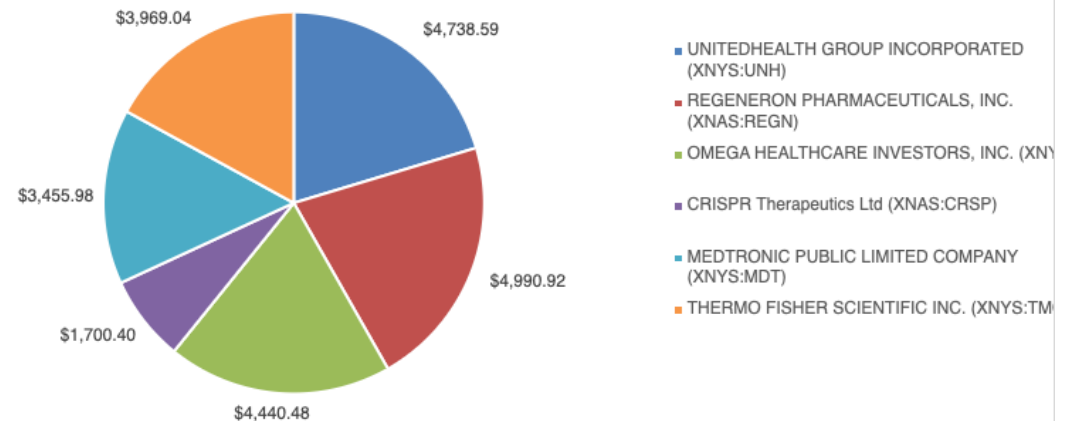


		Correlation Matrix - With TMO						
		REGN	UNH	MDT	OHI	CRSP	TMO	
	$\sigma_n * w_n$	0.05	0.05	0.05	0.03	0.04	0.04	
REGN	0.05	1.0000	0.0489	0.3977	-0.0008	0.0114	0.2619	
UNH	0.05	0.0489	1.0000	-0.1099	0.0913	-0.0982	0.0309	
MDT	0.03	0.3977	-0.1099	1.0000	0.2512	0.3090	0.2330	
OHI	0.04	-0.0008	0.0913	0.2512	1.0000	0.3092	0.1041	
CRSP	0.04	0.0114	-0.0982	0.3090	0.3092	1.0000	0.3197	
TMO	0.04	0.2619	0.0309	0.2330	0.1041	0.3197	1.0000	
		Total Sector Variance			0.01659			
		Total Sector Risk			12.88%			

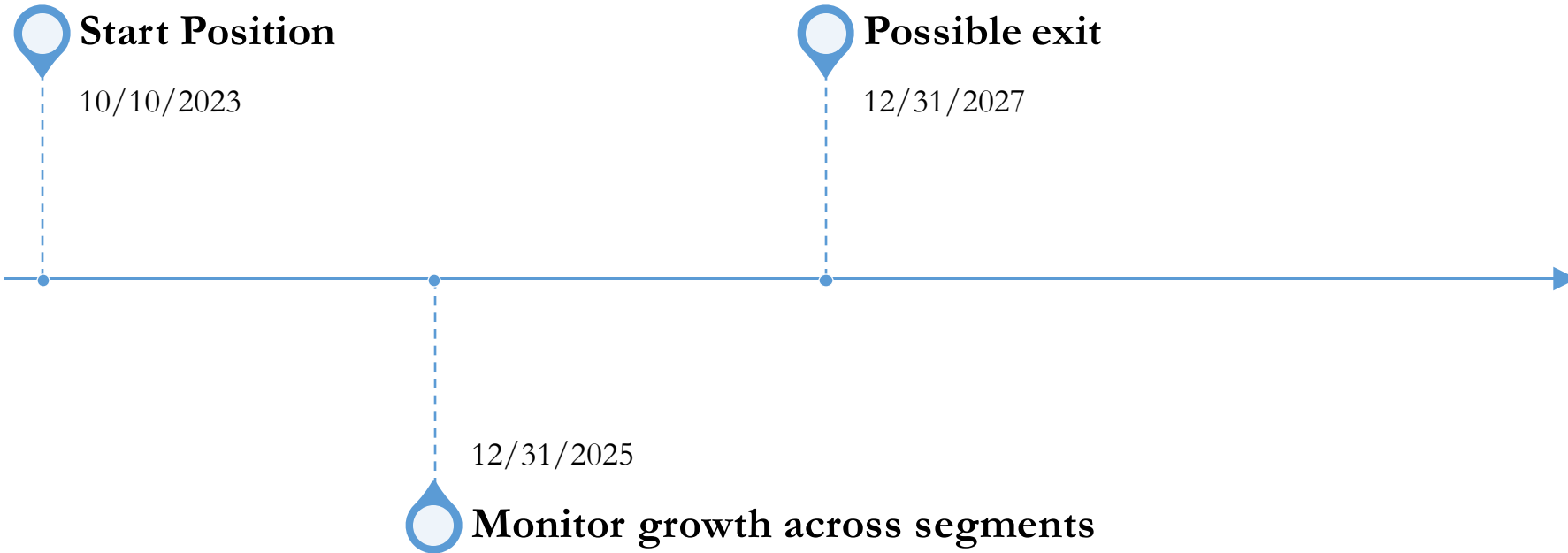
Current Healthcare Portfolio (Market Prices)



Potential Healthcare Portfolio (Market Prices)



Holding Timeline



Investment Thesis - Recapitulation

Recommendation: **BUY**

Current Price: \$496.13 Target: **\$589.70** Upside: **18.28%**

- Diversified product portfolio protects against cyclical cycles in healthcare
- Stable, mature company with high growth prospects
- Brings life sciences exposure to the portfolio and complements our other holdings

ThermoFisher

SCIENTIFIC

Appendix

Management



Mark N. Casper

Chairman, President & CEO

- President & CEO since 2009
- Senior VP of Thermo Electron Corporation 2003
- Previously served as President, CEO and Director of Kendro Laboratory Products



Konrad Bauer

Senior Vice President, Global Business Services

- Global Head of Supply Chain Operations at Bayer
- Managing Consultant & Partner at McKinsey & Company



Michael A. Boxer

Senior Vice President & General Counsel

- 20+ years at Luxottica and held multiple senior business and legal roles
- Worked as an attorney with the international law firm Winston and Strawn, specializing in M&A, corporate finance and capital market transactions



Daniella Cramp

Senior Vice President & President, BioProduction

- Global President for Johnson & Johnson's neurovascular medical device business
- U.S. President for Biosense Webster
- Global President of cardiometabolic business at Alere



Michel Lagarde

Executive Vice President & COO

- President & COO of Patheon 2016-2017
- Managing Director at JLL Partners
- CEO & CFO of the Domestic Appliances and Personal Care division of Phillips Electronics North America

Porter's Five Forces Analysis



Threat of New Entrants:

Low

- **Barriers to Entry:** The industry in which Thermo Fisher operates requires significant investment in R&D, regulatory compliance, and specialized manufacturing facilities. This creates a high barrier to entry for new players.
- **Brand Reputation:** Thermo Fisher has a strong brand and is known for quality and reliability, making it harder for newcomers to gain traction.
- **Economies of Scale:** Vast operational size makes it difficult for new entrants to compete on price.



Bargaining Power of Suppliers:

Medium

- **Supplier Concentration:** Since there are relatively few suppliers for specific specialty materials and components, the suppliers may exert power over Thermo Fisher.
- **Importance of Volume to Supplier:** Given Thermo Fisher's scale, they might be a significant client for many suppliers, giving the company some negotiating leverage.
- **Switching Costs:** If switching costs are high, Thermo Fisher may not have significant leverage over its suppliers.



Bargaining Power of Buyers:

Medium

- **Buyer Concentration:** In some product segments, a few large buyers dominate purchases, potentially exerting price pressures, however Thermo Fisher remains an industry leader.
- **Product Differentiation:** Buyers often see Thermo Fisher's products as differentiated and of the high-value, reducing their bargaining power.
- **Switching Costs:** Often costly & time-consuming for customers to switch to another product, device or service, therefore they're less likely to exert pressure on prices or switch to another firm.



Threat of Substitutes:

Low

- **Availability of Alternative Solutions:** As an industry leader in all domains, adequate alternatives to Thermo Fisher's products/services are extremely low.
- **Performance of Alternatives:** If substitutes perform at a comparable or superior level, they can pose a significant threat, yet Thermo Fisher often strategically acquires these firms.
- **Cost of Alternatives:** If alternative solutions are more cost-effective, customers may opt for them over Thermo Fisher's offerings.



Rivalry Among Existing Competitors:

Medium

- **Number and Strength of Competitors:** The industry has several key players, like Agilent and Merck KGaA, which can intensify competition.
- **Industry Growth:** Growth in the industry could lead to increased competition as companies fight for market share.
- **Product Differentiation:** Products in the industry are occasionally undifferentiated, leading to price wars.
- **Exit Barriers:** High costs associated with exiting the market can lead to companies staying and competing even when it might not be profitable.

Dividend History

Ex/EFF DATE	TYPE	CASH AMOUNT	DECLARATION DATE	RECORD DATE	PAYMENT DATE	12/14/2017	CASH	\$0.15	11/09/2017	12/15/2017	01/15/2018	EX-DIVIDEND DATE	DIVIDEND YIELD
09/14/2023	CASH	\$0.35	07/13/2023	09/15/2023	10/13/2023	09/14/2017	CASH	\$0.15	07/12/2017	09/15/2017	10/16/2017	09/14/2023	0.28%
06/14/2023	CASH	\$0.35	05/24/2023	06/15/2023	07/14/2023	06/13/2017	CASH	\$0.15	05/18/2017	06/15/2017	07/17/2017		
03/14/2023	CASH	\$0.35	02/22/2023	03/15/2023	04/14/2023	03/13/2017	CASH	\$0.15	02/28/2017	03/15/2017	04/17/2017		
12/14/2022	CASH	\$0.30	11/10/2022	12/15/2022	01/16/2023	12/13/2016	CASH	\$0.15	11/10/2016	12/15/2016	01/16/2017	\$1.40	34.08
09/14/2022	CASH	\$0.30	07/07/2022	09/15/2022	10/14/2022	09/13/2016	CASH	\$0.15	07/07/2016	09/15/2016	10/17/2016		
06/14/2022	CASH	\$0.30	05/18/2022	06/15/2022	07/15/2022	06/13/2016	CASH	\$0.15	05/18/2016	06/15/2016	07/15/2016		
03/15/2022	CASH	\$0.30	02/23/2022	03/16/2022	04/14/2022	03/11/2016	CASH	\$0.15	02/25/2016	03/15/2016	04/15/2016		
12/14/2021	CASH	\$0.26	11/04/2021	12/15/2021	01/14/2022	12/11/2015	CASH	\$0.15	11/12/2015	12/15/2015	01/15/2016		
09/14/2021	CASH	\$0.26	07/08/2021	09/15/2021	10/15/2021	09/11/2015	CASH	\$0.15	07/10/2015	09/15/2015	10/15/2015		
06/14/2021	CASH	\$0.26	05/19/2021	06/15/2021	07/15/2021	06/11/2015	CASH	\$0.15	05/21/2015	06/15/2015	07/15/2015		
03/15/2021	CASH	\$0.26	02/23/2021	03/16/2021	04/16/2021	03/12/2015	CASH	\$0.15	02/26/2015	03/16/2015	04/15/2015		
12/14/2020	CASH	\$0.22	11/05/2020	12/15/2020	01/15/2021	12/11/2014	CASH	\$0.15	11/07/2014	12/15/2014	01/15/2015		
09/14/2020	CASH	\$0.22	07/09/2020	09/15/2020	10/15/2020	09/11/2014	CASH	\$0.15	07/10/2014	09/15/2014	10/15/2014		
06/12/2020	CASH	\$0.22	05/20/2020	06/15/2020	07/15/2020	06/12/2014	CASH	\$0.15	05/21/2014	06/16/2014	07/15/2014		
03/13/2020	CASH	\$0.22	02/25/2020	03/16/2020	04/16/2020	03/13/2014	CASH	\$0.15	02/27/2014	03/17/2014	04/15/2014		
12/16/2019	CASH	\$0.19	11/08/2019	12/17/2019	01/15/2020	12/12/2013	CASH	\$0.15	11/07/2013	12/16/2013	01/15/2014		
09/16/2019	CASH	\$0.19	07/12/2019	09/17/2019	10/15/2019	09/12/2013	CASH	\$0.15	07/12/2013	09/16/2013	10/15/2013		
06/13/2019	CASH	\$0.19	05/24/2019	06/14/2019	07/16/2019	06/13/2013	CASH	\$0.15	05/23/2013	06/17/2013	07/15/2013		
03/14/2019	CASH	\$0.19	02/27/2019	03/15/2019	04/16/2019	03/13/2013	CASH	\$0.15	02/27/2013	03/15/2013	04/15/2013		
12/14/2018	CASH	\$0.17	11/09/2018	12/17/2018	01/15/2019	12/13/2012	CASH	\$0.15	11/08/2012	12/17/2012	01/15/2013		
09/14/2018	CASH	\$0.17	07/13/2018	09/17/2018	10/15/2018	09/13/2012	CASH	\$0.13	07/12/2012	09/17/2012	10/15/2012		
06/14/2018	CASH	\$0.17	05/24/2018	06/15/2018	07/16/2018	06/13/2012	CASH	\$0.13	05/24/2012	06/15/2012	07/16/2012		
03/14/2018	CASH	\$0.17	01/31/2018	03/15/2018	04/16/2018	03/13/2012	CASH	\$0.13	02/29/2012	03/15/2012	04/16/2012		

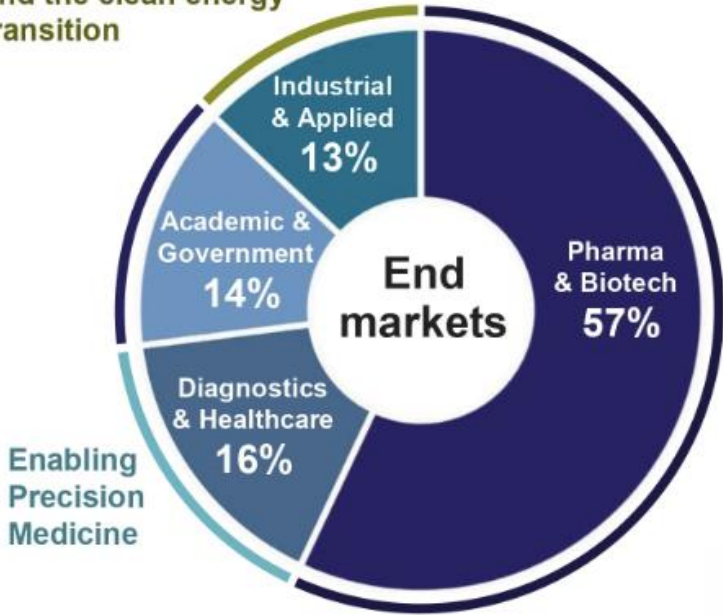
Revenue Profile

Leadership in fast-growing end markets

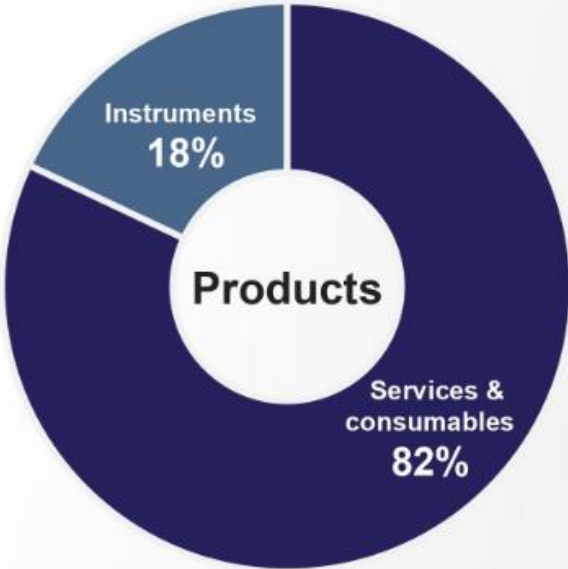
Very strong recurring revenue mix

Unparalleled commercial engine

Enabling advanced materials to power the digital economy and the clean energy transition



Powering the Golden Age of Biology



Revenue: \$43.5B

