

March 31, 2021

Katie Tu, Investment Analyst

Return on Investment

Current Share Price	\$456.38
Target Price	\$563.00
Dividend Yield	0.20%
Holding Period Return	24%
Conviction Rating	2

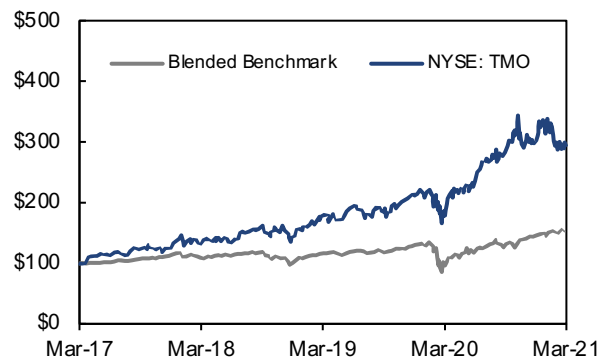
Market Profile

52-Week Range	\$270.41 - \$532.57
Market Capitalization (US\$m)	\$179,719
Net Debt (US\$m)	\$11,410
Enterprise Value (US\$m)	\$191,129
Beta (5-Year Monthly)	0.79

Metrics

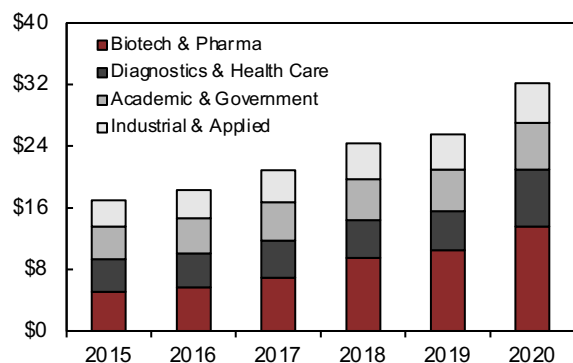
	2021E	2022E	2023E
Revenue (US\$m)	\$35,134	\$35,423	\$37,178
EBITDA (US\$m)	\$11,041	\$11,075	\$11,588
EPS (US\$)	\$20.40	\$20.80	\$22.20
EV/EBITDA	17.3x	17.3x	16.5x

Historical Trading Performance (Indexed to \$100)



Source: S&P Capital IQ

Figure 1: Segmented Revenue by End Market (US\$B)



Source: Company Filings

Investment Thesis Summary

- Diversified and flexible nature of TMO's revenue mix and its industry-leading scope allows the Company to adapt to macroeconomic events faster and better than its peers
- Best-in-class product innovation and strong consolidating capabilities provide the ability to leverage ample organic and inorganic growth opportunities
- Attractive exposure to rapidly growing biopharma and emerging markets positions TMO well to outpace the growth of its peers

Business Description

Thermo Fisher Scientific (NYSE: TMO) is a global, diversified manufacturer and distributor of scientific instruments, consumables, and related services. TMO's product and service portfolio consists of various brands, including Thermo Scientific, Applied Biosystems, Invitrogen, Fisher Scientific, and Unity Lab Services. Its key end markets consist of biotech and pharmaceuticals (biopharma) companies, hospitals and clinical diagnostic labs, universities, research institutions, and government agencies. The Company is based in Waltham, Massachusetts and operates through four segments: (1) Analytical Instruments, (2) Life Science Solutions, (3) Specialty Diagnostics, and (4) Lab Products & Services.

TMO announced its acquisition of Novasep's viral vector manufacturing business for US\$550mm in cash in January 2021, and completed its acquisition of Mesa Biotech, a private point-of-care molecular diagnostics firm, in February 2021.

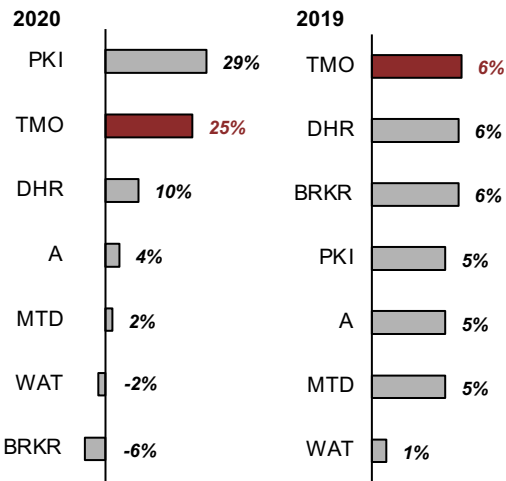
Industry Overview and Competitive Landscape

The U.S. life sciences industry provides researchers and scientists with analytical instruments, research consumables, laboratory software and equipment, and contract services necessary to accelerate scientific exploration. The industry is levered to changes in government spending and has a symbiotic relationship with the biopharma industry, as key drivers include National Institutes of Health (NIH) budgeting and biopharma R&D spending. Key drivers for the life sciences industry have been positive, resulting in a robust average annual revenue growth rate of 13% from 2016-2019. The industry is highly competitive and fragmented. Dominant operators such as TMO, Danaher Corporation (NYSE: DHR), and Agilent Technologies (NYSE:A), make up only a third of the total market. Industry players can gain a competitive advantage through scale, software-integrated instruments, vertical integration, and broad product and service offerings.

COVID-19 Response

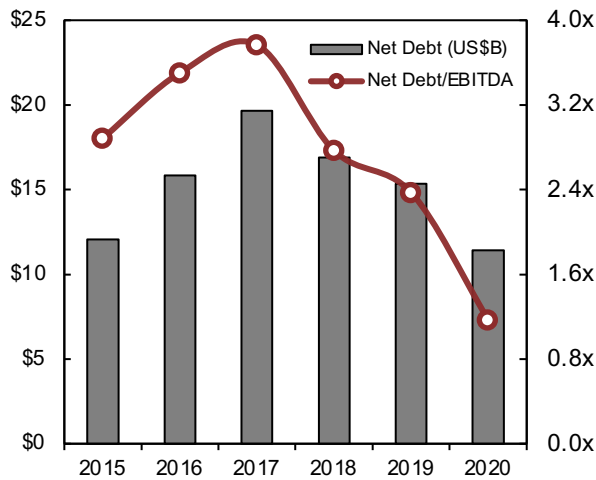
TMO's flexibility and scale allow it to respond to unforeseen events faster and better than its peers. In March 2020, TMO leveraged its industry-leading polymerase chain reaction (PCR) testing platform to develop and launch a test kit for the virus. Following regulatory approval, TMO ramped up capacity to produce >10mm PCR tests per week by May, achieved a ~4x increase in PCR instrument production in July, and increased capacity to 20mm tests per week by October. Notably, TMO was able to secure PPE supply during an industry shortage to maintain its customer's operations.

Figure 2: Organic Growth vs Peers



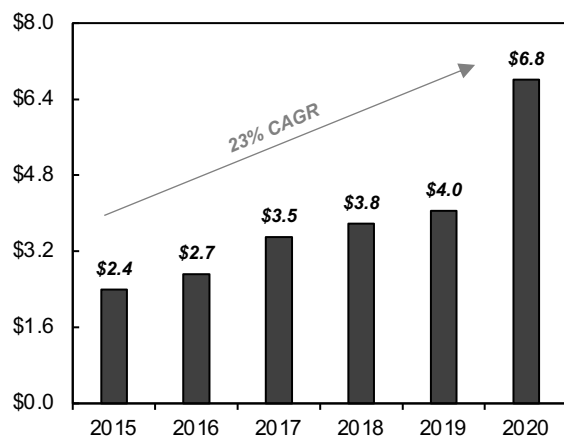
Source: Company Filings

Figure 3: Net Debt (US\$B) & Net Debt/EBITDA



Source: Company Filings, S&P Capital IQ

Figure 4: Free Cash Flow (US\$B)



Source: Company Filings, S&P Capital IQ

Following a U.S. government contract win to address an acute shortfall of sample collection materials, TMO responded quickly by building a new facility in Kansas in ~6 weeks to manufacture Viral Transport Media (VTM), and this process is being replicated in Scotland. The Company is currently involved in the majority of COVID-19 vaccine and therapy programs, working on 250+ related projects globally, with an expected US\$1B+ impact over time.

Mandate Fit

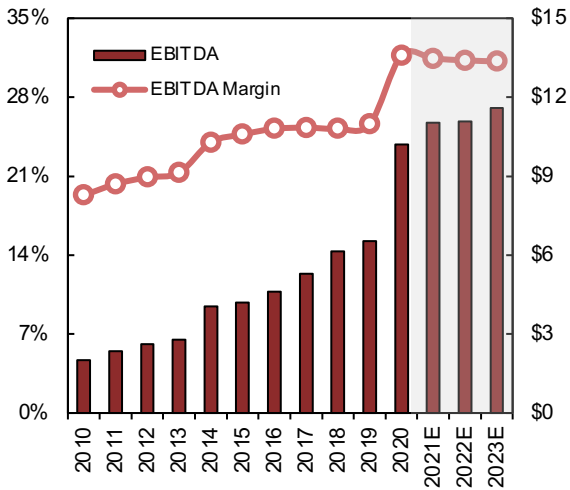
Quality Management: TMO’s management team is led by President and CEO Marc Casper, who has held the position since October 2009. Under his leadership, TMO has been a leading consolidator in the life sciences industry, having deployed a total of US\$39B to complete 68 M&A transactions over the past decade. Management employs a disciplined approach to M&A with a focus on expanding into new capabilities and technologies that align closely with the core portfolio to maximize cost and revenue synergies. This strategy has resulted in a strong track record of successful integration, as the Company has consistently achieved synergy goals within three years following acquisitions, and acquired businesses are growing more rapidly within TMO than their standalone trajectory. Given the fragmented nature of the life sciences industry, the CPMT believes that TMO is well positioned to find and capitalize on inorganic growth opportunities moving forward.

Competitive Advantage: TMO’s ability to outpace the growth of its peers stems from the attractiveness of its end-market and geographic exposures. Over the past eight years, TMO has steadily increased its exposure to the biopharma market via organic investments and M&A, continuously bolstering its product and service portfolio to create a more comprehensive end-to-end solution across the R&D process. The biopharma market is particularly attractive due to rapid growth in R&D spending driven by private biopharma companies. Additionally, in 2019, R&D spending at S&P Global 1200’s biopharma companies increased 9% YoY, bringing the three-year average annual growth rate for 2017-2019 to 7%. Moving forward, we expect the continuation of healthy biopharma R&D spending, underpinned by rising capital inflows via IPOs, venture capital, and partnerships with larger peers. TMO’s one-of-a-kind contract development and manufacturing organization (CDMO) services, industry-leading biologics/bioprocessing portfolio, and strong commercial infrastructure position the Company well to capitalize on the growth of this segment.

With a significant infrastructure and manufacturing footprint in Singapore, India, China, and South Korea, TMO has the scale to leverage the rapid growth of emerging economies and develop and manufacture products tailored to local market needs. TMO is particularly well aligned with China’s five-year plans and the government’s sustained focus on life science research, public health, and health care. Beyond the public sector, TMO has invested in a new customer solutions center in Shanghai and expanded its pharma services and clinical trials capability in Suzhou, strategically positioning itself to serve the growing biopharma industry in China.

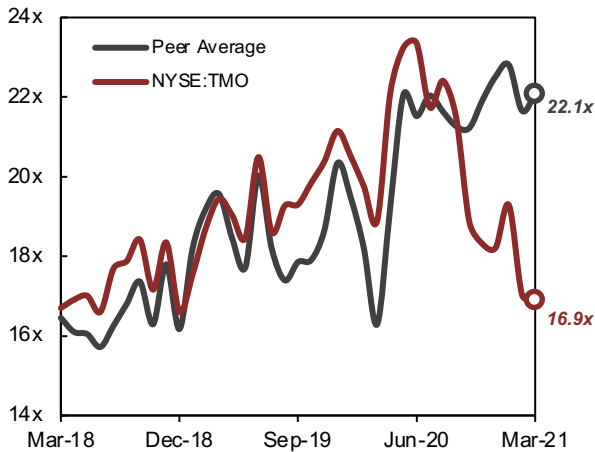
Strong Balance Sheet: Despite busy M&A activity, TMO has been able to capitalize on acquisitions quickly and efficiently, allowing the Company to reduce debt levels quickly should it choose to increase leverage to fund acquisitions. TMO currently has a strong debt profile that is in line with its peers, with Net Debt/EBITDA of 1.1x compared to the peer average of 1.4x (peer group consists of NASDAQ: BRKR and NYSE: A, DHR, MTD, PKI, WAT).

Figure 5: EBITDA (US\$B) and EBITDA Margins



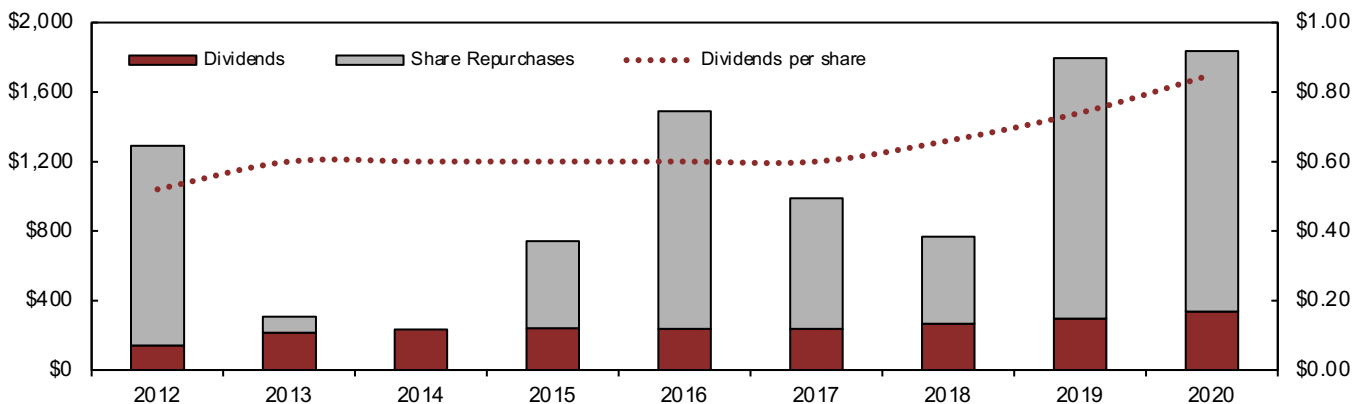
Source: Company Filings, CPMT Estimates

Figure 6: NTM EV/EBITDA vs Peers



Source: Company Filings, S&P Capital IQ

Figure 7: Dividends/Share Repurchases (US\$m) and Dividends per Share (US\$)



Source: Company Filings

Growing Free Cash Flow: TMO has a strong free cash flow profile, with a free cash flow CAGR of 14% from 2015-2019 and 23% from 2015-2020. In addition to strong organic revenue growth, TMO’s implementation of its Practical Process Improvement (PPI) Business System in 2011 has led to cost savings and improved speed and scale in multiple business areas, resulting in concrete improvements in operating margins and cash flows.

Valuation

The CPMT valued TMO through a five-year DCF model that consisted of a 50/50 blend of the Gordon growth method (assuming a 2.5% terminal growth rate) and an exit EV/EBITDA multiple of 20x. The target price of \$563 was derived using a WACC of 6.01%, implying a total return of 24% (including a 0.2% dividend yield). We modeled EBITDA margins to expand from 26.9% in 2019 to 30.6% in 2025, as TMO benefits from cost savings from the PPI Business System and increases in realized volumes. TMO currently trades at a steep discount relative to its peers despite its superior growth profile and demonstrated resiliency. This discount can be attributed to recent investor sentiment turning negative towards names exposed to COVID-19 diagnostics. Despite the anticipated decrease in testing revenue, the CPMT believes that TMO can emerge stronger post-pandemic with management’s plans to deploy COVID-related cash flows towards accretive M&A and strategic investments in high-growth markets. Additionally, the COVID-19 tailwind extends beyond diagnostics testing, as TMO’s CDMO business enables it to capture vaccine/therapy manufacturing upside that should last into 2022 and beyond. As a result, we view TMO as an attractive name, with an upside underpinned by future multiple expansion.

Investment Thesis

The CPMT views TMO as a high-quality life sciences name given its attractive end-market and geographic mix and demonstrated ability to increase operational efficiency via its PPI Business System. The diversified nature of TMO’s revenues provides a resilient business model that is not significantly reliant on a single-end market or operating segment. Additionally, the industry-leading scale and scope of TMO’s business have allowed the Company to adjust to macroeconomic events faster and better than its competitors. We believe that TMO faces a long runway for growth, with strong abilities to capture inorganic growth opportunities in addition to overall long-term demand upside across its end-markets. Lastly, TMO’s current valuation provides a very attractive entry point. As a result, the CPMT recommends a buy on TMO with a 2 conviction.