

Thermo Fisher (TMO)

\$300.12 (As of 03/13/20)

Price Target (6-12 Months): **\$315.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: C

Summary

Thermo Fisher's Life Sciences Solutions, and Laboratory Products and Services segments witnessed strong revenue growth. Barring industrial and applied, the company saw strength in all three end markets. Further, the company registered solid international performance with growth in Europe and Asia-Pacific. We are looking forward to the company's recent purchases of Brammer Bio in the field of Gene and Cell Therapy and an active pharmaceutical ingredient manufacturing facility from GlaxoSmithKline. The company put up a robust performance in the fourth quarter with better-than-expected results. Over the past six months, Thermo Fisher outperformed its industry. On the flip side, Thermo Fisher's operating segments are getting impacted by unfavorable business mix. Competitive headwinds and escalating costs pose threat.

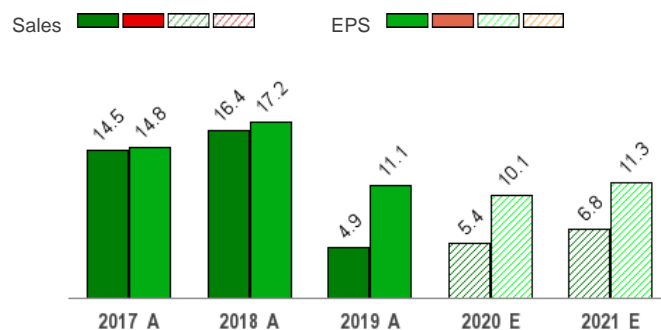
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$342.26 - \$253.22
20 Day Average Volume (sh)	2,321,474
Market Cap	\$119.7 B
YTD Price Change	-7.6%
Beta	1.14
Dividend / Div Yld	\$0.88 / 0.3%
Industry	Medical - Instruments
Zacks Industry Rank	Top 24% (60 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.3%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	04/22/2020
Earnings ESP	-2.7%
P/E TTM	24.3
P/E F1	22.1
PEG F1	1.8
P/S TTM	4.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,612 E	7,016 E	7,042 E	7,731 E	28,738 E
2020	6,329 E	6,642 E	6,644 E	7,301 E	26,917 E
2019	6,125 A	6,316 A	6,272 A	6,829 A	25,542 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.35 E	\$3.77 E	\$3.81 E	\$4.46 E	\$15.14 E
2020	\$2.96 E	\$3.36 E	\$3.31 E	\$3.97 E	\$13.60 E
2019	\$2.81 A	\$3.04 A	\$2.94 A	\$3.55 A	\$12.35 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/13/2020. The reports text is as of 03/16/2020.

Overview

Headquartered in Waltham, MA, Thermo Fisher Scientific is a scientific instrument maker and a world leader in serving science. In Nov 2006, Thermo Fisher Scientific, Inc. was formed through the merger of Thermo Electron Corporation with Fisher Scientific International Inc. On Feb 3, 2014, Thermo Fisher acquired Life Technologies Corporation.

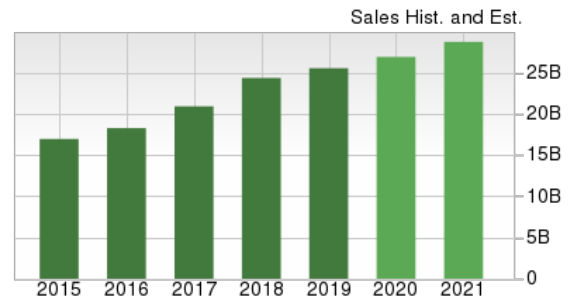
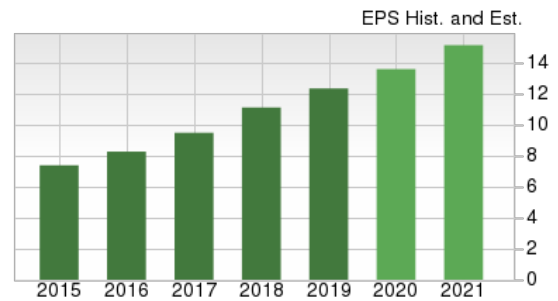
Following the acquisition, the new reporting segments are:

Life Sciences Solutions Segment: This segment (26.1% of total revenues in 2019) was added post the acquisition of Life Technologies. It incorporates majority of the former Life Technologies and Thermo Fisher's Biosciences businesses. In 2018, this business registered growth of 9.4% from 2017.

Analytical Instruments: Formerly known as Analytical Technology, this segment (24.1%) has been renamed in order to reflect the transfer of the bioprocess production business to the newly formed Life Sciences Solutions Segment. In 2018, this business registered growth of 13.4% from 2017.

Specialty Diagnostics (SD): This segment (14.6%), formed after the acquisition of Phadia, serves customers in healthcare and clinical laboratories with a portfolio of diagnostic test kits, reagents and instruments used to increase the speed and accuracy of diagnoses to improve patient care. In 2018, this business registered growth of 6.8% from 2017.

Laboratory Products and Services (LPS): This segment (40%) serves laboratory customers with equipment and consumables that improve productivity and a range of BioPharma outsourcing services. This segment also includes the company's research and safety market customer channels. Post-acquisition, Thermo Fisher's Global Chemicals business has moved to the Laboratory Products and Services Segment. In 2018.



Reasons To Buy:

▲ **Share Price Performance:** Over the past six months, Thermo Fisher has successfully outperformed its industry. The stock has gained 2.5% against the industry's 10.4% fall. Thermo Fisher ended fourth quarter 2019 on a solid note with both EPS and revenues beating the Zacks Consensus Estimate. Organic growth was 5% in the quarter with Life Sciences Solutions and Laboratory Products and Services segments witnessing strong year-over-year growth. Barring industrial and applied, the company saw strength in all three end markets. In fact, within industrial and applied, growth was flat due to difficult year-over-year comparison. Further, the company registered solid international performance with strong growth in Europe and Asia-Pacific including China. Also, a series of product launches with progress in precision medicine initiatives aided its performance. During the reported quarter, the company launched the Ion Torrent Genexus next-generation sequencing instrument.

With several takeovers including Advanced Bioprocessing buyout from BD and Patheon, Thermo Fisher is expanding inorganic growth profile. The company's strong focus on emerging market is also encouraging.

In 2019, the company broadened its global market reach by setting up new customer solution centers in Seoul and Shanghai for life sciences applications; new centers in Beijing and Delhi for improving food quality and safety; and a new pharma and biotech customer center in Shanghai to accelerate development of new drug therapies. Additionally, in 2019, the company strengthened its pharma services network by acquiring viral vector manufacturer Brammer Bio and the GSK active pharmaceutical ingredient manufacturing site in Ireland. It also expanded production capacity at facilities in North America and Europe to perk up growing demand for biologics and gene therapies.

▲ **Three-Pronged Strategy Bodes Well:** Thermo Fisher has been progressing well with respect to its three-pronged strategy. The commitment to develop high-impact, innovative products forms the first pillar of the strategy. In this regard, in 2019, the launch of new generation of Thermo Scientific Orbitrap instruments needs a mention. Within mass spectrometry, the new Exploris 480 and Eclipse Tribrid systems have significantly raised the bar in protein analysis. Within electron microscopy business, the company launched the new generation Krios G4 instrument for structural biology during the year. Within industrial applications, the launch of the Metrios AX is important. Within specialty diagnostics, in 2019, the company continued to expand its menu of ImmunoCAP allergy tests. In life sciences solutions segment, Thermo Fisher launched a range of the products to strengthen its bio-production, biosciences and genetic sciences offering highlighted by the QuantStudio 6 and 7 Pro real-time PCR systems.

Thermo Fisher is also moving ahead with reference to its second leg of the three-pronged growth strategy that implies leveraging scale in the high growth and emerging markets. In this regard, during 2019, the company has reported strong performance in the emerging economies led by 13% growth in China. Also, during the year, Thermo Fisher continued to build on its capabilities in South Korea, India, and Singapore. The company has also enhanced its pharma services capabilities to serve the growing biopharmaceutical industry in China. In the fourth quarter, the company opened a new pharma and biotech customer solution center in Shanghai. Earlier, in Suzhou, it had expanded its clinical trials capabilities to support the growing number of studies being conducted in China.

The company's is also progressing with its third leg of the growth strategy that requires it to provide unique customer value proposition. In this regard, the added a new Active Pharmaceutical Ingredient manufacturing facility in Ireland that the company acquired from GlaxoSmithKline. The company is also significantly increasing its capabilities in the high growth gene therapy market with the acquisition of Brammer Bio. Further, in December, the company opened its new viral vector facility in Lexington, Massachusetts.

According to Thermo Fisher, successful execution of these growth strategies, while delivering a differentiated experience to customers, is driving meaningful share gains across the company's businesses.

▲ **Strength in All End Markets:** In fourth-quarter 2019, Thermo Fisher witnessed strength in three out of its four end markets categorized either by customer type or geography. In pharma and biotech, the company witnessed 10% growth fueled by broad-based strength across all businesses serving these customers.

In diagnostics and healthcare, Thermo Fisher delivered mid-single digit growth on strong growth in immunodiagnostics, clinical diagnostics and healthcare market channel businesses serving this end market. Within the academic and government market, the company delivered low-single-digit growth from ongoing strength in all major geographies. Although, in industrial and applied, growth declined year over year, the company witnessed continued strong demand in chromatography and mass spectrometry business.

▲ **Bioproduction Business on the Rise:** Thermo Fisher's Gibco Cell Culture for Bioprocessing, Chromatography and Protein Purification are already in high demand. The company has of let made a series of development to augment Bioprocessing growth since then. In 2019, the company launched a scalable bioreactor workflow called Thermo Scientific TruBio Discovery Automation System. This apart, the company has made another major investment within this field with the acquisition of Brammer Bio, a leader in viral vector manufacturing, helping pharma and biotech customers provide breakthrough gene and cell therapies to patients with rare diseases. According to Thermo Fisher, Brammer Bio will perfectly complement its biosciences and bioproduction portfolios serving the gene therapy market. Earlier to that, the purchased Advanced Bioprocessing business from BD which is expected to significantly expand the company's Life Sciences Solutions line of offerings.

▲ **Complementary Acquisitions to Add Value:** As part of its strategy to effectively deploy capital, Thermo Fisher has undertaken several acquisitions in the recent past. On top of boosting revenue accretion, these deals have historically benefited the company's operating margin while also resulting in tax synergies. Apart from the buyout of Brammer Bio, recently, the company has also acquired a site in Cork, Ireland from GlaxoSmithKline. The site produces complex Active Pharmaceutical Ingredients used to treat diseases, including childhood cancers, depression and Parkinson's. Recently, the company acquired HighChem, a small business that expands its mass spectrometry software offerings.

▲ **Focus on Emerging Markets:** Thermo Fisher boasts strong international operations and has witnessed consistent growth in the Asia-Pacific and emerging markets. The company plans to continue to strengthen its foothold in emerging markets, such as China and India, and to translate this success to other high-priority opportunities in regions such as South Korea, Russia and Brazil. In 2019, the standout contributor was China, where the company registered 13% growth rate.

We are currently looking forward to Thermo Fisher's 5-year plan, introduced in 2016 that outlines investments in innovation, healthcare and environment. According to the company, increasing growth scale in emerging markets is the key competitive advantage resulting in significant client wins. The company is also looking at expanding manufacturing footprint to serve local markets and capitalize on demand for specialty diagnostics.

▲ **Strong Balance Sheet:** Effective capital deployment has been one of the key contributors to EPS growth. Thermo Fisher exited 2019 with cash and cash equivalents of \$2.34 billion compared with \$2.29 billion at the end of 2018. Full-year, net cash provided by operating activities was \$4.97 billion compared with \$4.54 billion a year ago.

Reasons To Sell:

- ▼ **Exposure to Foreign Currency:** Thermo Fisher derives more than 50% of its revenues from the international market, which exposes it to fluctuations in foreign currency. In past several years, the company's earnings were affected significantly on headwind from foreign exchange.
 - ▼ **Economic Uncertainty Continues to Hamper Growth:** Thermo Fisher's business depends heavily on general economic conditions. The company makes scientific instruments which are primarily of big ticket sizes and non-life-sustaining in nature. The company has been witnessing headwinds in the government and academic markets. Moreover, many countries in Europe are also going through a tough time that might impact their academic budgets. We remain cautious since growth could further moderate if the economic scenario worsens.
 - ▼ **Tough Competitive Pressure:** On account of its diversified portfolio, Thermo Fisher faces different types of competitors including a broad range of manufacturers and third-party distributors. The competitive landscape is quite tough with changing technology and customer demands that require continuing research and development.
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Unfavorable macroeconomic conditions continue to weigh heavily on Thermo Fisher's stocks. Also competitive headwinds and currency fluctuations continue to pose a threat on the stock's value.

Last Earnings Report

Thermo Fisher Beats on Q4 Earnings on Growth In Major Arms

Thermo Fisher Scientific's fourth-quarter 2019 adjusted earnings per share of \$3.55 beat the Zacks Consensus Estimate by a penny. The figure also improved from the year-ago quarter by 9.2%. On a reported basis, earnings per share was \$2.49, increasing 12.2% year over year.

For the full year, adjusted earnings came in at \$12.35 per share, ahead of the Zacks Consensus Estimate by 0.2% and also up 11.1% from the year-ago figure. The adjusted figure also surpassed the company's guided range of \$12.28-\$12.34.

Revenues in the quarter under review grossed \$6.83 billion, up 4.9% year over year. The top line also bettered the Zacks Consensus Estimate by 0.7%.

Full-year revenues of \$25.54 billion exceeded the Zacks Consensus Estimate by 0.2% and improved 4.9% from 2018 as well. Further, this exceeded the company's projected revenue range of \$25.34-\$25.50 billion for 2019.

Quarter in Detail

Organic revenues in the reported quarter grew 5% year over year while acquisitions, net of a divestiture, increased revenues by 1%. However, currency translation adversely impacted total revenues by a slight 1%.

Thermo Fisher operates under four business segments: Life Sciences Solutions, Analytical Instruments, Specialty Diagnostics and Laboratory Products and Services.

Revenues at the Life Sciences Solutions segment (26.9% of total revenues) improved 8% year over year to \$1.84 billion while Analytical Instruments Segment sales (22.2%) dipped 3.2% to \$1.52 billion.

Revenues at the Laboratory Products and Services segment (41.5%) rose 9% to \$2.83 billion. The Specialty Diagnostics segment (13.8%) recorded marginally flat revenues from compared with the year-ago quarter's \$0.94 billion.

Gross margin of 46.3% during the fourth quarter contracted 60 basis points (bps) year over year despite a 3.6% rise in gross profits. Adjusted operating margin for the quarter came in at 24.7%, reflecting an expansion of 33 bps.

The company exited 2019 with cash and cash equivalents of \$2.34 billion compared with \$2.29 billion at the end of 2018. Full-year, net cash provided by operating activities was \$4.97 billion compared with \$4.54 billion a year ago.

2020 Guidance

Full-year revenues are expected in the range of \$26.61 billion and \$27.01 billion (expected growth of 4% to 6% from 2019). Adjusted earnings per share guidance for 2020 is projected in the range of \$13.49 to \$13.67 (9% to 11% growth).

Quarter Ending **12/2019**

Report Date	Jan 30, 2020
Sales Surprise	0.67%
EPS Surprise	0.28%
Quarterly EPS	3.55
Annual EPS (TTM)	12.34

Recent News

On **Mar 16, 2020**, Thermo Fisher announced the commercial availability of Thermo Scientific Cascadion SM Clinical Analyzer with the Cascadion SM 25-Hydroxy Vitamin D assay in the United States.

On **Mar 13, 2020**, Thermo Fisher announced receiving an emergency use authorization (EUA) from the FDA for its diagnostic test, which can be used with immediate effect by the Clinical Laboratory Improvement Amendments (CLIA) high-complexity laboratories in the United States to detect nucleic acid from the COVID-19 causing SARS-CoV-2 virus. However, this clearance is not applicable for the testing of any other viruses or pathogens.

On **Mar 12, 2020**, Thermo Fisher inked a deal with Janssen Biotech, Inc., one of the Janssen Pharmaceutical Companies of Johnson & Johnson. The deal was signed to co-develop a companion diagnostic (CDx) in oncology. The CDx will support clinical trial enrollment globally.

On **Mar 5, 2020**, Thermo Fisher announced the release of five new Thermo Scientific SureTect PCR Assays and enhanced software to test food and related samples. The new SureTect PCR Assays, along with those already available for detections, will give manufacturers access to a more comprehensive range of tests for every step of their analysis.

On **Mar 3, 2020**, Thermo Fisher announced the decision to acquire QIAGEN.

On **Feb 13, 2020**, Thermo Fisher entered into a collaboration with NanoPin Technologies to advance blood-based infectious disease detection technology through the development of highly sensitive liquid chromatography mass spectrometry (LC-MS)-based workflows.

On **Feb 5, 2020**, Thermo Fisher introduced a new next-generation sequencing (NGS)-based solution — Ion Torrent CarrierSeq ECS Kit — that enables reproductive health researchers to more efficiently analyze a broad range of key genetic markers with an end-to-end workflow. The ECS Kit for the Ion GeneStudio S5 System consolidates a multi-platform approach to expanded carrier screening (ECS) into a single solution that extends the company's reproductive health research portfolio.

On **Jan 21, 2020**, Thermo Fisher released the Thermo Scientific NanoDrop QC Software for the Thermo Scientific NanoDrop OneC Spectrophotometer. Together with the new software, the ultraviolet-visible (UV-Vis) microvolume spectrophotometer is designed to help materials science chemists quickly and accurately measure the concentration of different components that make up liquid samples, leading to higher productivity and lower costs.

On **Jan 2, 2020**, Thermo Fisher announced the continuation of its agreement to the industry-wide Instrument Control Exchange Program (ICEP) — fostering compatibility among key vendors' instrumentation and chromatography data systems (CDS).

Valuation

Thermo Fisher shares are down 7.6% in the year-to-date period and up 13.9% in the trailing 12-month periods. Year-to-date, the Zacks sub-industry is down 12.4% and sector is down 12.8%. Over the past year, the Zacks sub-industry is down 11.9% and sector is down 13.8%.

The S&P 500 index is down 15.9% in the year-to-date period and down 5.3% in the past year.

The stock is currently trading at 21.5X Forward 12-months earnings, which compares to 28.4X for the Zacks sub-industry, 17.9X for the Zacks sector and 15.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.5X and as low as 14.8X, with a 5-year median 18.2X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$315 price target reflects 22.6X forward 12-months earnings.

The table below shows summary valuation data for TMO.

Valuation Multiples - TMO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.54	28.39	17.95	15.72
	5-Year High	26.46	33.84	21.08	19.34
	5-Year Low	14.81	23.20	15.81	15.18
	5-Year Median	18.19	27.58	18.73	17.42
P/S F12M	Current	4.39	3.15	2.44	2.90
	5-Year High	5.13	3.63	3.84	3.43
	5-Year Low	2.71	2.16	2.44	2.54
	5-Year Median	3.40	2.55	2.96	3.00
P/B TTM	Current	4.06	2.64	4.00	3.64
	5-Year High	4.60	4.20	5.05	4.55
	5-Year Low	2.27	2.54	3.45	2.85
	5-Year Median	3.12	3.29	4.32	3.63

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Top 24% (60 out of 253)



Top Peers

DexCom, Inc. (DXCM)	Outperform
Bruker Corporation (BRKR)	Neutral
Danaher Corporation (DHR)	Neutral
Illumina, Inc. (ILMN)	Neutral
Luminex Corporation (LMNX)	Neutral
PerkinElmer, Inc. (PKI)	Neutral
Quidel Corporation (QDEL)	Neutral
Bio-Rad Laboratories, Inc. (BIO)	Underperform

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	TMO Neutral	X Industry	S&P 500	DHR Neutral	ILMN Neutral	LMNX Neutral
VGM Score	C	-	-	D	C	D
Market Cap	119.70 B	76.69 M	19.05 B	98.44 B	34.30 B	1.20 B
# of Analysts	9	2	13	7	9	3
Dividend Yield	0.25%	0.00%	2.31%	0.48%	0.00%	1.35%
Value Score	C	-	-	D	C	D
Cash/Price	0.02	0.09	0.05	0.19	0.08	0.05
EV/EBITDA	19.13	-0.20	11.57	22.08	23.31	60.99
PEG Ratio	1.68	2.28	1.68	2.33	1.70	NA
Price/Book (P/B)	4.06	3.31	2.56	3.54	7.44	2.58
Price/Cash Flow (P/CF)	16.59	19.66	10.18	22.75	28.35	62.29
P/E (F1)	20.95	25.97	14.94	26.08	34.07	380.29
Price/Sales (P/S)	4.69	2.58	2.02	4.94	9.68	3.59
Earnings Yield	4.53%	-1.84%	6.67%	3.83%	2.94%	0.26%
Debt/Equity	0.58	0.10	0.70	0.75	0.40	0.04
Cash Flow (\$/share)	18.08	-0.06	7.01	6.21	8.23	0.43
Growth Score	B	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	13.63%	13.45%	10.85%	2.72%	19.06%	-18.78%
Proj. EPS Growth (F1/F0)	10.09%	17.45%	5.99%	22.66%	4.23%	133.33%
Curr. Cash Flow Growth	6.99%	7.70%	6.15%	1.84%	13.10%	-57.32%
Hist. Cash Flow Growth (3-5 yrs)	10.08%	10.99%	8.52%	5.87%	16.75%	-15.21%
Current Ratio	1.92	2.59	1.24	5.19	6.69	3.49
Debt/Capital	36.53%	15.34%	42.57%	41.54%	28.47%	3.56%
Net Margin	14.47%	-15.10%	11.64%	15.09%	28.27%	-1.18%
Return on Equity	17.24%	-23.03%	16.74%	11.50%	22.34%	-2.03%
Sales/Assets	0.45	0.58	0.54	0.35	0.49	0.62
Proj. Sales Growth (F1/F0)	5.38%	8.82%	3.54%	6.78%	9.74%	6.83%
Momentum Score	C	-	-	F	C	F
Daily Price Chg	5.56%	0.00%	8.21%	9.70%	4.50%	15.29%
1 Week Price Chg	7.00%	-0.29%	-0.67%	2.66%	3.29%	10.66%
4 Week Price Chg	-10.57%	-22.99%	-22.67%	-13.48%	-19.92%	10.78%
12 Week Price Chg	-7.16%	-19.09%	-20.46%	-6.02%	-28.25%	19.48%
52 Week Price Chg	14.80%	-36.77%	-10.79%	10.37%	-24.54%	10.73%
20 Day Average Volume	2,321,474	152,872	3,061,271	3,473,255	1,406,923	447,168
(F1) EPS Est 1 week change	-0.14%	0.00%	0.00%	-0.48%	-0.16%	-34.88%
(F1) EPS Est 4 week change	-0.10%	0.00%	-0.32%	-0.48%	-0.16%	-34.88%
(F1) EPS Est 12 week change	0.04%	0.00%	-0.65%	-2.60%	-3.25%	-37.78%
(Q1) EPS Est Mthly Chg	-0.04%	0.00%	-0.62%	-0.03%	0.00%	-166.67%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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