Thermo Fisher Scientific (TMO)

Updated November 11th, 2020 by Nikolaos Sismanis

Key Metrics

Current Price:	$527	**5 Year CAGR Estimate:**	10.2%	**Market Cap:**	$209B
Fair Value Price:	$527	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	12/14/2020
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date:**	01/15/2021
Dividend Yield:	0.2%	**5 Year Price Target**	$849	**Years Of Dividend Growth:**	2
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	15.7%

Overview & Current Events

Thermo Fisher Scientific Inc. is the world leader in serving complex analytical challenges, helping its customers accelerate life sciences research, improving patient diagnostics, and increasing productivity in global laboratories. The company's operational segments, along with their respective % of revenues, are: Diagnostics & Healthcare (23%), Pharma & Biotech (42%), Industrial applications (16%), and Academic & Government (19%). Thermo Fisher generates around $25 billion in annual sales and is based in Waltham, Massachusetts.

On October 21st, Thermo Fisher reported its Q3 results for the quarter ending September 30th, 2020. During the period, the company further expanded its global pandemic response, reporting a sizeable revenue increase of 36% to $8.52 billion. Due to an unprecedented demand for its laboratory and diagnostic products and services, net income margins expanded to an all-time high of 17.1%. Along with increased sales, it drove the company's quarterly EPS to $5.63, 91% higher than Q3 2019. As COVID-19 remains active, with new daily cases rising globally, management has continued to increase its capacity to help governments and biopharma customers globally meet their future demand for new therapies and vaccines. As a result, Thermo Fisher's future outlook remains bright, with plenty of opportunities for the company to grow.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.57	$3.49	$3.24	$3.53	$4.76	$4.95	$5.12	$5.63	$7.31	$9.24	***$18.31***	***$29.49***
DPS	---	---	$0.54	$0.60	$0.60	$0.60	$0.60	$0.60	$0.68	$0.76	***$0.88***	***$1.77***
Shares[1]	403.3	380.8	363.8	360.3	398.2	399	395	395	402	400	***397***	***400.0***

Thermo Fisher's growth over the past decade has been phenomenal, constantly improving its operations and expanding its margins, resulting in an EPS CAGR of 15% up until 2019, before COVID-19. However, this year has been excellent for the company, as all of its operations have been boosted due to the pandemic. Not only is the company expected to close FY2020 with a record EPS of around $18.31, but such high levels of profitability should be maintained over the medium term, as management sees continuous and even increasing demand for COVID-related products and services.

The company has developed a range of COVID-19 tests, which governments all over the world should keep ordering with increased pace, as global lockdowns have kicked in. We expect Thermo Fisher's profitability levels to remain high due to the pandemic persisting, and hence we are forecasting an EPS growth of around 10% in the medium term, as the company gradually expands its capacities to meet the underlying demand. In terms of dividend payouts, management has been intentionally keeping distributions low relative to its net income as it reinvests the majority of its profits to grow the business. We expect DPS to grow by an annualized rate of 15% going forward, in-line with its previous rate of increase. Considering this year's outstanding performance, this figure could be higher, as the company comfortably accelerates its distributions, though we remain prudent.

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[1] Share count is in millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	24.0	20.0	17.6	25.7	31.0	21.2	29.0	32.9	38.5	31.4	***28.8***	***28.8***
Avg. Yld.	---	---	1.0%	0.7%	0.5%	0.4%	0.4%	0.3%	0.3%	0.3%	***0.2%***	***0.2%***

Over the past decade, shares have continuously hovered between 20 and 30 times their underlying earnings, based on the market's expectations for the company's future profits. While EPS has doubled compared to last year, so has the company's stock, hence the P/E of around 30. As the company's operations are likely to remain in high demand, we expect the stock's P/E to remain close to its current levels, as investors bet on Thermo-Fisher's secure cash flows over the medium term. The company's distribution policy has mostly been a token of shareholder returns, as management reinvests most of its bottom line back to the business. For example, while profitably snowballed from 2013 to 2017, dividends were held constant, as the company was expanding its global infrastructure capacities, which ended up paying off greatly. For this reason, however, the yield has remained exceptionally low. Despite our rapid DPS growth estimates, we expect it to continue being tiny, only marginally contributing to shareholder returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

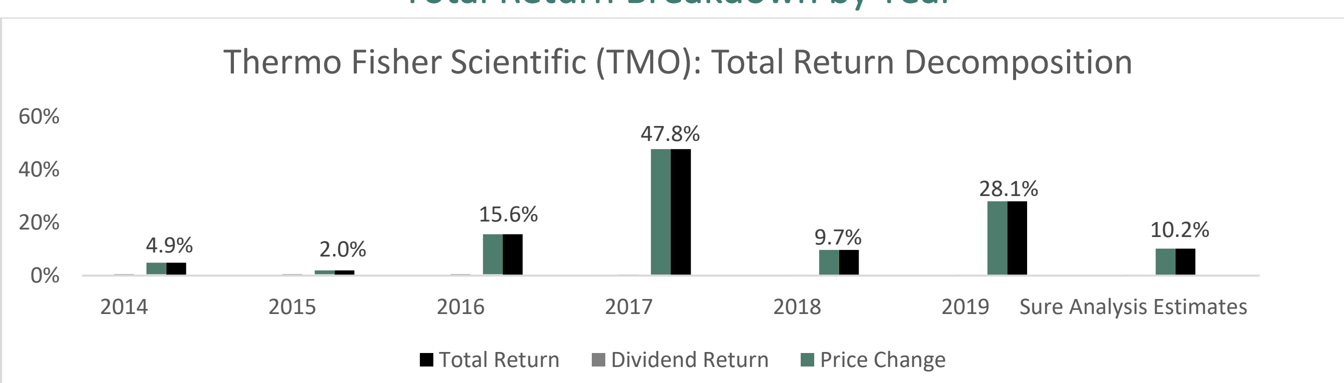
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	16.7%	17.0%	12.6%	12.1%	11.7%	10.7%	9.3%	8.2%	4.8%	***6.0%***

In terms of its payout ratio, distributions remain exceptionally safe and should only continue growing from here. The company is currently enjoying spectacularly momentum, as its operations perfectly cover all of the areas of increased demand due to COVID-19 both from governmental and corporate parties. As the company continues to roll out improved testing products to fight the pandemic, we can see this euphoria remaining over the next few years. Additionally, Thermo Fisher is financially sound, featuring a $7.54 billion cash position and a healthy debt/equity ratio of just 66%. Combined with the company's ultra-low-cost of debt of around 3.6% amid leveraging its strong financials, we believe that its robust growth will continue, further bolstering its competitive advantage in the life-sciences sector.

Final Thoughts & Recommendation

Thermo Fisher has been delivering exceptional shareholder returns over the past few years. We believe that as COVID-19 continuous to persist, growth will remain robust. While shares have doubled over the past year, EPS should continue growing as the company's operational capacities expand to meet COVID-19-related demand. Current investors are still looking at potentially attractive returns ahead, which we estimate to be around 10.2%. In any case, future returns will mostly be delivered in the form of capital gains, as the company's distributions remain tiny relative to its net income.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	10393	11559	12510	13090	16890	16965	18274	20918	24358	25542
Gross Profit	4262	4794	5296	5529	7492	7756	8372	9448	10857	11328
Gross Margin	41.0%	41.5%	42.3%	42.2%	44.4%	45.7%	45.8%	45.2%	44.6%	44.4%
SG&A Exp.	2729	3107	3355	3446	4896	4612	4971	5504	6057	6144
D&A Exp.	746	860	984	1000	1685	1688	1758	2033	2267	2277
Operating Profit	1248	1347	1564	1687	1905	2452	2647	3057	3833	4181
Op. Margin	12.0%	11.7%	12.5%	12.9%	11.3%	14.5%	14.5%	14.6%	15.7%	16.4%
Net Profit	1036	1330	1178	1273	1894	1975	2022	2225	2938	3696
Net Margin	10.0%	11.5%	9.4%	9.7%	11.2%	11.6%	11.1%	10.6%	12.1%	14.5%
Free Cash Flow	1240	1430	1724	1728	2192	2519	2814	3497	3785	4047
Income Tax	102	109	11	40	192	-44	-1	201	324	374

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	21349	26834	27445	31863	42852	40834	45908	56669	56232	58381
Cash & Equivalents	917	1016	806	5826	1344	452	786	1335	2103	2399
Acc. Receivable	1474	1764	1805	1942	2474	2545	3049	3879	4136	4349
Inventories	1173	1330	1443	1495	1860	1992	2213	2971	3005	3370
Goodwill & Int.	14909	19789	20279	19575	32953	31586	35297	41974	40325	39728
Total Liabilities	5988	11796	11980	15007	22304	19484	24368	31256	28646	28706
Accounts Payable	547	612	641	692	821	822	926	1428	1615	1920
Long-Term Debt	2137	7028	7124	10487	14564	12472	16627	21008	18990	17752
Total Equity	15361	15038	15465	16856	20548	21350	21540	25413	27586	29675
D/E Ratio	0.14	0.47	0.46	0.62	0.71	0.58	0.77	0.83	0.69	0.60

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	4.8%	5.5%	4.3%	4.3%	5.1%	4.7%	4.7%	4.3%	5.2%	6.4%
Return on Equity	6.7%	8.7%	7.7%	7.9%	10.1%	9.4%	9.4%	9.5%	11.1%	12.9%
ROIC	5.9%	6.7%	5.3%	5.1%	6.1%	5.7%	5.6%	5.3%	6.3%	7.9%
Shares Out.	409	385	367	366	402	402	397	398	406	403
Revenue/Share	25	30	34	36	42	42	46	53	60	63
FCF/Share	3	4	5	5	5	6	7	9	9	10

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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