Thermo Fisher Scientific (TMO)

Updated July 28th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$530	**5 Year CAGR Estimate:**	10.2%	**Market Cap:**	$208.4B
Fair Value Price:	$530	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	08/31/2021[1]
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date:**	09/15/2021
Dividend Yield:	0.2%	**5 Year Price Target**	$853	**Years Of Dividend Growth:**	4
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	18%

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 (33%), Pharma & Biotech (38%), Industrial applications (13%), and Academic & Government (16%). Thermo Fisher generates around $32 billion in annual sales and is based in Waltham, Massachusetts.

On July 28th, 2021, Thermo Fisher reported its Q2 results for the quarter ending July 3rd, 2021. During the period, the company continued riding the accelerated wave of increased demand for diagnostics following the pandemic, reporting a significant revenue increase of 34% to $9.27 billion. The company's laboratory and diagnostic products and services continue enjoying unprecedented demand, resulting in a high net income margin of 19.7%. By combining record sales and its ability to deliver high margins, Thermo Fisher reported quarterly EPS of $4.61, 59% higher than Q2-2020. Management continued to invest in its industry-leading scale in high-growth and emerging markets entering 2021. During the quarter, Thermo Fisher brought additional capacity online to support vaccine and therapy production globally and expanded its production of laboratory plastics in North America and Europe. Subsequent to the quarter-end, the company opened a new plasmid DNA facility in Carlsbad, California, to meet the growing demand for plasmid DNA-based therapies and mRNA-based vaccines. Its expansion strategy is therefore being executed as planned.

Management now expects adjusted FY2021 EPS of $22.07, which we have embedded in our calculations.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$3.49	$3.24	$3.53	$4.76	$4.95	$5.12	$5.63	$7.31	$9.24	$19.55	***$22.07***	***$35.54***
DPS		$0.54	$0.60	$0.60	$0.60	$0.60	$0.60	$0.68	$0.76	$0.88	***$1.04***	***$2.09***
Shares[2]	380	363	360	398	399	395	395	402	400	397	***393***	***380***

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 21.1% up until 2020. The ongoing pandemic has been proven a key catalyst for the company, as its healthcare operations have been massively boosted, resulting in record financials. Thermo Fisher has been taking advantage of its magnified cash inflows to increase its global presence, closing various acquisitions year-to-date, such as those of Mesa Biotech and PPD. In the meantime, Thermo Fisher's COVID-19 tests remain in high demand, with governments ordering its kits constantly. We retain our EPS growth expectations of around 10% in the medium term as the company gradually expands its capacities to meet the underlying demand for its products and services. 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 retain our growth estimates to an annualized rate of 15% going forward. DPS growth could be higher, as TMO could comfortably accelerate its payouts. Still, we remain prudent. The company also bought $2 billion worth of stock during the quarter. Buybacks should also contribute to EPS growth.

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[1] Estimated dividend dates based on past dividend frequency.

[2] Share count is in millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	24.0	20.0	17.6	25.7	31.0	21.16	29.0	32.9	38.5	31.4	***24.0***	***24.0***
Avg. Yld.	---	1.0%	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 largely hovered between 20 and 30 times their underlying earnings, based on the market's expectations for the company's future profits. Considering TMO's rapid EPS expansion prospects, we feel that the stock's valuation of around 24 times its FY2021 EPS remains quite fair. Diagnostics are likely to remain in high demand, while the acquisitions and buybacks should also contribute to growth. Hence, we expect a stable multiple going forward. The company's dividend 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

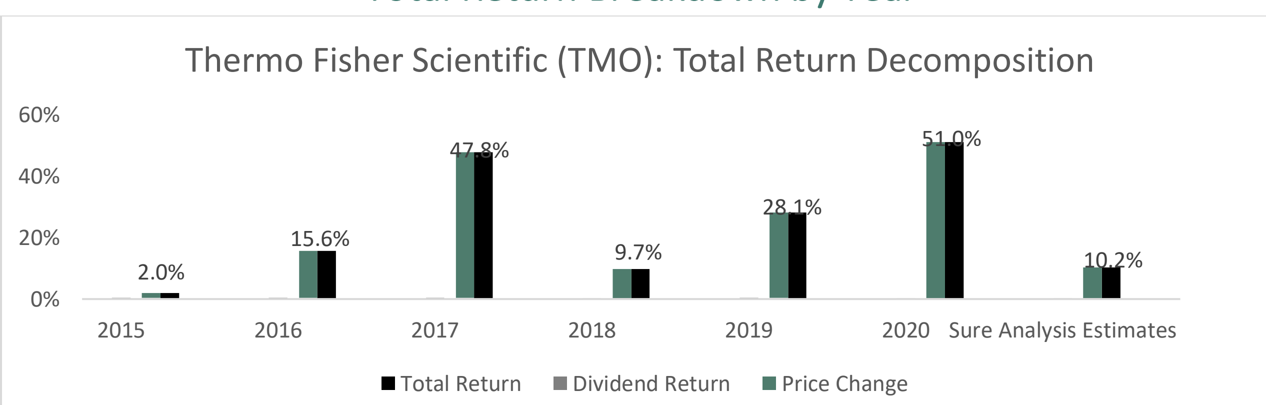
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	16.7%	17.0%	12.6%	12.1%	11.7%	10.7%	9.3%	8.2%	4.5%	4.7%	***5.9%***

In terms of its payout ratio, dividends remain exceptionally safe and should only continue growing from here. The company is currently enjoying spectacular 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 $7.0 billion cash position and a healthy debt/equity ratio of just 50.8%. Combined with the company's ultra-low-cost of debt of around 2.8% 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 decade and at a great consistency. We expect annualized returns of around 10.2%, primarily powered by TMO's earnings growth. We believe the stock is a buy at its current levels, with total returns quite likely to come out stronger than our conservative EPS growth estimates. Future returns will mostly be delivered in the form of capital gains due to the tiny dividend.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	11559	12510	13090	16890	16965	18274	20918	24358	25542	32220
Gross Profit	4794	5296	5529	7492	7756	8372	9448	10857	11328	16500
Gross Margin	41.5%	42.3%	42.2%	44.4%	45.7%	45.8%	45.2%	44.6%	44.4%	51.2%
SG&A Exp.	3107	3355	3446	4896	4612	4971	5504	6057	6144	5764
D&A Exp.	860	984	1000	1685	1688	1758	2033	2267	2277	2325
Operating Profit	1347	1564	1687	1905	2452	2647	3057	3833	4181	7893
Op. Margin	11.7%	12.5%	12.9%	11.3%	14.5%	14.5%	14.6%	15.7%	16.4%	24.5%
Net Profit	1330	1178	1273	1894	1975	2022	2225	2938	3696	6375
Net Margin	11.5%	9.4%	9.7%	11.2%	11.6%	11.1%	10.6%	12.1%	14.5%	19.8%
Free Cash Flow	1430	1724	1728	2192	2519	2814	3497	3785	4047	6815
Income Tax	109	11	40	192	-44	-1	201	324	374	850

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	26834	27445	31863	42852	40834	45908	56669	56232	58381	69050
Cash & Equivalents	1016	806	5826	1344	452	786	1335	2103	2399	10320
Acc. Receivable	1764	1805	1942	2474	2545	3049	3879	4136	4349	5741
Inventories	1330	1443	1495	1860	1992	2213	2971	3005	3370	4029
Goodwill & Int.	19789	20279	19575	32953	31586	35297	41974	40325	39728	38730
Total Liabilities	11796	11980	15007	22304	19484	24368	31256	28646	28706	34540
Accounts Payable	612	641	692	821	822	926	1428	1615	1920	---
Long-Term Debt	7028	7124	10487	14564	12472	16627	21008	18990	17752	21740
Total Equity	15038	15465	16856	20548	21350	21540	25413	27586	29675	34510
D/E Ratio	0.47	0.46	0.62	0.71	0.58	0.77	0.83	0.69	0.60	0.63

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.5%	4.3%	4.3%	5.1%	4.7%	4.7%	4.3%	5.2%	6.4%	10.0%
Return on Equity	8.7%	7.7%	7.9%	10.1%	9.4%	9.4%	9.5%	11.1%	12.9%	19.9%
ROIC	6.7%	5.3%	5.1%	6.1%	5.7%	5.6%	5.3%	6.3%	7.9%	12.3%
Shares Out.	385	367	366	402	402	397	398	406	403	399
Revenue/Share	30	34	36	42	42	46	53	60	63	80.8
FCF/Share	4	5	5	5	6	7	9	9	10	17.1

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