Thermo Fisher Scientific (TMO)

Updated July 29th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$598	**5 Year CAGR Estimate:**	8.4%	**Market Cap:**	$233.9 B
Fair Value Price:	$550	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	09/14/2022[1]
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.6%	**Dividend Payment Date:**	10/15/2022
Dividend Yield:	0.2%	**5 Year Price Target**	$886	**Years Of Dividend Growth:**	5
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 (28%), Pharma & Biotech (45%), Industrial applications (13%), and Academic & Government (14%). Thermo Fisher generates around $41 billion in annual sales and is based in Waltham, Massachusetts.

On July 28th, 2022, Thermo Fisher reported its Q2 results for the period ending July 2nd, 2022. The company treaded further into fiscal 2022 on strong momentum, with revenues growing 18.3% to $10.97 billion. This was derived from organic revenue growth of 3%, revenue growth from acquisitions of 19%, and a headwind of 4% from foreign exchange.

The adjusted operating income margin remained quite high at 26.6%, but declined from the prior-year period of 32.3% due to higher operating expenses. Thus, adjusted EPS declined by 1.6% to $5.51, despite the strong top-line growth.

Management continued to invest in its industry-leading scale in high-growth and emerging markets. Year-to-date, Thermo Fisher opened a new bio-repository in Vacaville, California, to advance its cell and gene therapy services. Last year's acquisition of PPD, Inc., a leading provider of clinical research services for the biopharma industry, is also performing well and integrating smoothly according to management. For fiscal 2022, the company boosted its guidance, expecting revenues to land at $43.15 billion (previously $42.45 billion). Further, adjusted EPS is expected to land around $22.93 (previously $22.65), implying another year of record profitability, and year-over-year growth of 16.9%.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$3.24	$3.53	$4.76	$4.95	$5.12	$5.63	$7.31	$9.24	$16.09	$19.62	***$22.93***	***$36.93***
DPS	$0.54	$0.60	$0.60	$0.60	$0.60	$0.60	$0.68	$0.76	$0.88	$1.04	***$1.20***	***$2.41***
Shares[2]	363.8	360.3	398.2	399.0	395.0	395.0	402.0	400.0	396.0	394.0	***392.0***	***380.0***

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 22.2% up until 2021. The pandemic was proven a key catalyst for the company, as its healthcare operations were 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.

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 payouts 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 Thermo Fischer could comfortably accelerate its dividend growth. Still, we remain prudent. The company has repurchased $2 billion worth of stock year-to-date. Buybacks should also contribute to EPS growth.

---

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

[2] Share count is in millions.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	20.0	17.6	25.7	31.0	21.2	29.0	32.9	38.5	31.4	29.0	***26.1***	***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%***	***0.3%***

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. The stock is currently trading at roughly 26 times the underlying expected adjusted EPS, which is modestly above our target multiple. Thus, we feel that a modest P/E compression is quite possible. Regarding the company's dividend, it has mostly been a token of shareholder returns, as most of the bottom line is reinvested back into 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, the yield has remained exceptionally low. Despite our rapid DPS growth estimates, we expect it to continue to be on the small side and only marginally contribute to shareholder returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

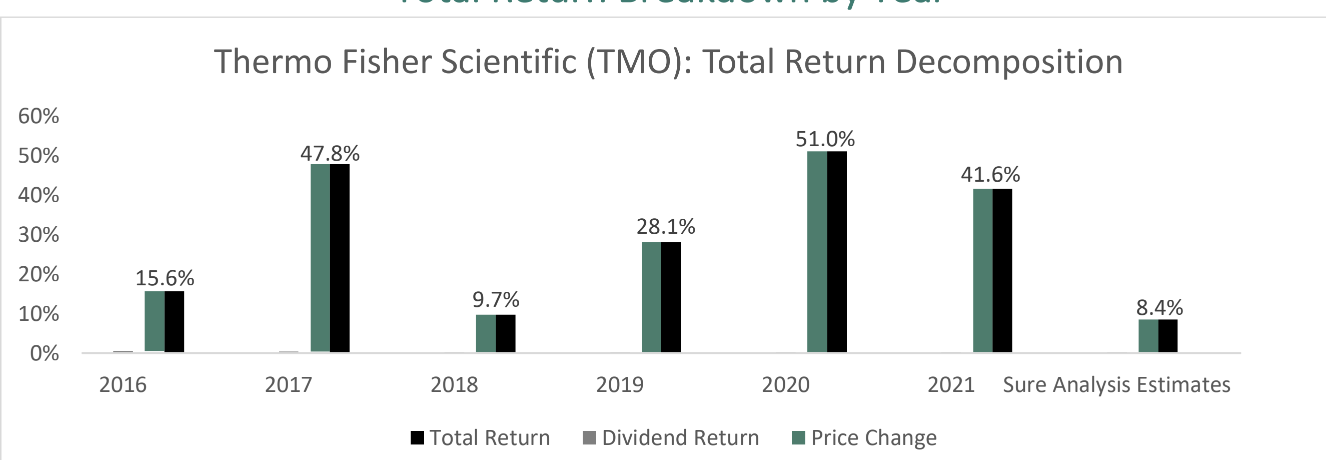
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	16.7%	17.0%	12.6%	12.1%	11.7%	10.7%	9.3%	8.2%	5.5%	5.3%	***5.2%***	***6.5%***

In terms of its payout ratio, dividends remain exceptionally safe and should only continue growing from here. The company continues to benefit from the trusted partner status that it has earned over many years with its pharma and biotech customers. As the company continues to expand its international diagnostics capacity, we can see its strong momentum lasting over the next few years. Additionally, Thermo Fisher is financially sound, featuring a $1.88 billion cash position and a healthy net debt/EBITDA ratio of 2.5. Combined with the company's ultra-low-cost of debt of around 1.89% 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 delivered exceptional shareholder returns over the past decade and with great consistency. We expect annualized returns of around 8.4% through 2027, primarily powered by TMO's earnings growth, slightly offset by modest valuation headwinds. We believe the stock is a hold at its current levels. Still, due to TMO's tendency to beat its guidance and the stock's propensity to retain its slightly premium multiple, total returns could end up being higher.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Thermo Fisher Scientific (TMO)

Updated July 29th, 2022 by Nikolaos Sismanis

Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	12510	13090	16890	16965	18274	20918	24358	25542	32220	39210
Gross Profit	5296	5529	7492	7756	8372	9448	10857	11328	16500	19640
Gross Margin	42.3%	42.2%	44.4%	45.7%	45.8%	45.2%	44.6%	44.4%	51.2%	50.1%
SG&A Exp.	3355	3446	4896	4612	4971	5504	6057	6144	5764	8007
D&A Exp.	984	1000	1685	1688	1758	2033	2267	2277	2325	2592
Operating Profit	1564	1687	1905	2452	2647	3057	3833	4181	7893	10220
Op. Margin	12.5%	12.9%	11.3%	14.5%	14.5%	14.6%	15.7%	16.4%	24.5%	26.1%
Net Profit	1178	1273	1894	1975	2022	2225	2938	3696	6375	7725
Net Margin	9.4%	9.7%	11.2%	11.6%	11.1%	10.6%	12.1%	14.5%	19.8%	19.7%
Free Cash Flow	1724	1728	2192	2519	2814	3497	3785	4047	6815	6789
Income Tax	11	40	192	-44	-1	201	324	374	850	1109

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	27445	31863	42852	40834	45908	56669	56232	58381	69050	95120
Cash & Equivalents	806	5826	1344	452	786	1335	2103	2399	10320	4477
Acc. Receivable	1805	1942	2474	2545	3049	3879	4136	4349	5741	7977
Inventories	1443	1495	1860	1992	2213	2971	3005	3370	4029	5051
Goodwill & Int.	20279	19575	32953	31586	35297	41974	40325	39728	38730	62040
Total Liabilities	11980	15007	22304	19484	24368	31256	28646	28706	34540	54150
Accounts Payable	641	692	821	822	926	1428	1615	1920	---	2867
Long-Term Debt	7124	10487	14564	12472	16627	21008	18990	17752	21740	34870
Total Equity	15465	16856	20548	21350	21540	25413	27586	29675	34510	40790
LTD/E Ratio	0.46	0.62	0.71	0.58	0.77	0.83	0.69	0.60	0.63	0.85

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.3%	4.3%	5.1%	4.7%	4.7%	4.3%	5.2%	6.4%	10.0%	9.4%
Return on Equity	7.7%	7.9%	10.1%	9.4%	9.4%	9.5%	11.1%	12.9%	19.9%	20.5%
ROIC	5.3%	5.1%	6.1%	5.7%	5.6%	5.3%	6.3%	7.9%	12.3%	11.7%
Shares Out.	367	366	402	402	397	398	406	403	399	397
Revenue/Share	34	36	42	42	46	53	60	63	80.8	98.77
FCF/Share	5	5	5	6	7	9	9	10	17.1	17.10

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