Thermo Fisher Scientific (TMO)

Updated April 24th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$570	**5 Year CAGR Estimate:**	6.4%	**Market Cap:**	$217.7 B
Fair Value Price:	$475	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	06/14/2024
% Fair Value:	120%	**5 Year Valuation Multiple Estimate:**	-3.6%	**Dividend Payment Date:**	07/15/2024
Dividend Yield:	0.3%	**5 Year Price Target**	$765	**Years Of Dividend Growth:**	7
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Thermo Fisher Scientific Inc. stands as the global forefront in addressing intricate analytical challenges, empowering its clientele to expedite advancements in life sciences research, enhance patient diagnostics, and elevate efficiency across international laboratories. The company's operational segments, along with their respective % of revenues, are: Life Sciences Solutions (22.7%), Analytical Instruments (16.9%), Specialty Diagnostics (10.3%), and Laboratory Products and Biopharma (58.0%). Notably, these percentages encompass 4.1% attributed to discontinued operations, an aspect we plan to rectify in our next quarterly report. Thermo Fisher generates around $43 billion in annual sales and is based in Waltham, Massachusetts.

On February 21st, 2024, Thermo Fisher raised its dividend 11.4% to a quarterly rate of $0.39.

On April 24th, 2024, Thermo Fisher posted its Q1 results for the period ending March 31st, 2024. For the period, revenues came in at $10.34 billion, 3% lower compared to last year. This was entirely due to a decline in organic revenue growth.

The adjusted operating income margin remained quite assertive at 22%, growing from last year's 11.8% due to lower operating expenses. Thus, despite the decline in revenues, adjusted EPS rose by 1.6% to $5.11.

Management continued to invest in its industry-leading scale in high-growth and emerging markets. They also advanced their proven growth strategy, launching a range of high-impact, innovative new products.

For fiscal 2024, management raised their guidance, expecting to achieve an adjusted operating margin between 22.4% and 22.8% (up from 22.3% to 22.8%). The company also expects adjusted EPS to land between $21.14 and $22.02 (up from $20.95 to $22.00). We have applied the midpoint of the updated range to our estimates. However, all past figures are on a GAAP basis.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$4.76	$4.95	$5.12	$5.63	$7.31	$9.24	$16.10	$19.62	$17.75	$15.52	***$21.58***	***$34.75***
DPS	$0.60	$0.60	$0.60	$0.60	$0.68	$0.76	$0.88	$1.04	$1.20	$1.40	***$1.56***	***$3.14***
Shares[1]	398	399	395	395	402	400	396	394	392	386	***384***	***375***

Thermo Fisher's growth over the past decade has been strong, constantly improving its operations and expanding its margins, resulting in an EPS CAGR of 14.0% from 2014 to 2013. The pandemic was proven a key catalyst for Thermo, as its healthcare operations were massively boosted, resulting in record profits in 2021 and 2022. The company has been taking advantage of its magnified cash inflows to increase its global presence, closing various acquisitions last year, 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

[1] Share count is in millions.

Thermo Fisher Scientific (TMO)

Updated April 24th, 2024 by Nikolaos Sismanis

Thermo Fischer could comfortably accelerate its dividend growth. Still, we remain prudent. The company repurchased $3 billion worth of stock in 2022 and another $3 billion in 2023. Buybacks should continue to contribute to EPS growth.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	25.7	31	21.2	29.0	32.9	38.5	31.4	29.0	31.0	34.4	***26.4***	***22.0***
Avg. Yld.	0.7%	0.5%	0.4%	0.4%	0.3%	0.3%	0.3%	0.2%	0.2%	2.2%	***0.3%***	***0.4%***

Over the past decade, shares have largely hovered between 20 and 30 times their underlying earnings. The stock is currently trading at 26.4 times management's expected adjusted EPS for FY2024, which is notably higher from our target multiple. 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 extremely 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

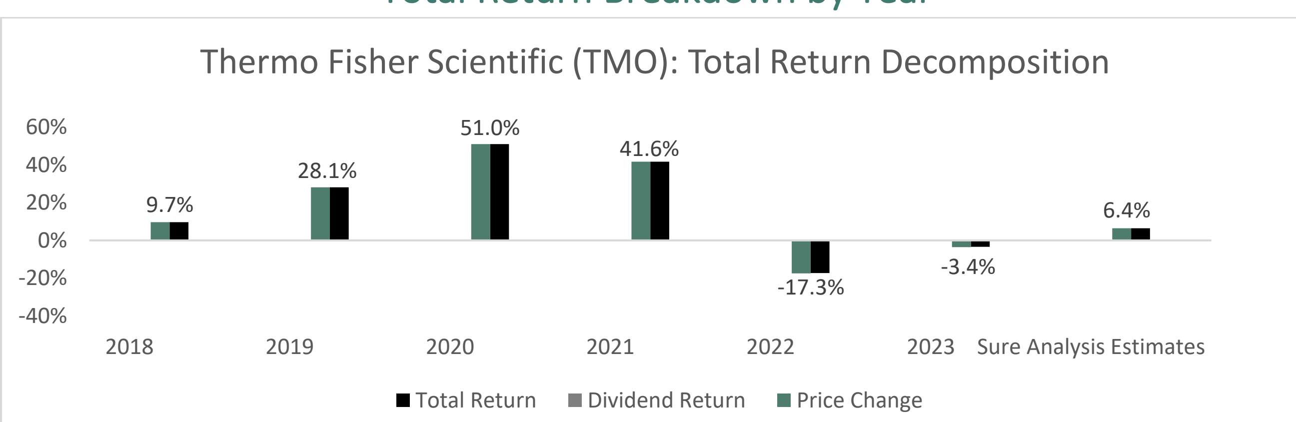
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	12.6%	12.1%	11.7%	10.7%	9.3%	8.2%	5.5%	5.3%	6.8%	9.0%	***7.2%***	***9.0%***

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 $5.5 billion cash position and a healthy net debt/EBITDA ratio of ~2.4. Combined with the company's ultra-low-cost of debt of around 2.1% due to leveraging its strong financials, we believe that Thermo Fisher's robust growth will continue, further bolstering its competitive advantage in the life-sciences sector.

Final Thoughts & Recommendation

Thermo Fisher's stock has experienced a noticeable decline from its 2021 peak, attributed to the company's financial performance not yet matching the inflated levels achieved during the pandemic. Nevertheless, Thermo Fisher remains highly profitable. We forecast annualized returns of 6.4% through 2029, powered by its earnings growth and the small yield, partially offset by the potential for modest valuation headwinds. We maintain the stock rating to a hold.

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 April 24th, 2024 by Nikolaos Sismanis

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	16890	16965	18274	20918	24358	25542	32220	39210	44920	42860
Gross Profit	7492	7756	8372	9448	10857	11328	16500	19640	18970	17100
Gross Margin	44.4%	45.7%	45.8%	45.2%	44.6%	44.4%	51.2%	50.1%	42.2%	39.0%
SG&A Exp.	4896	4612	4971	5504	6057	6144	5764	8007	8993	8445
D&A Exp.	1685	1688	1758	2033	2267	2277	2325	2592	3381	3406
Operating Profit	1905	2452	2647	3057	3833	4181	7893	10220	8507	7318
Op. Margin	11.3%	14.5%	14.5%	14.6%	15.7%	16.4%	24.5%	26.1%	18.9%	17.1%
Net Profit	1894	1975	2022	2225	2938	3696	6375	7725	6950	5995
Net Margin	11.2%	11.6%	11.1%	10.6%	12.1%	14.5%	19.8%	19.7%	15.5%	14.0%
Free Cash Flow	2192	2519	2814	3497	3785	4047	6815	6789	6911	6927
Income Tax	192	-44	-1	201	324	374	850	1109	703	284

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	42852	40834	45908	56669	56232	58381	69050	95120	97150	98730
Cash & Equivalents	1344	452	786	1335	2103	2399	10320	4477	8524	8077
Acc. Receivable	2474	2545	3049	3879	4136	4349	5741	7977	8115	8221
Inventories	1860	1992	2213	2971	3005	3370	4029	5051	5634	5088
Goodwill & Int.	32953	31586	35297	41974	40325	39728	38730	62040	58640	60690
Total Liabilities	22304	19484	24368	31256	28646	28706	34540	54150	53010	51880
Accounts Payable	821	822	926	1428	1615	1920	---	2867	3381	2872
Long-Term Debt	14564	12472	16627	21008	18990	17752	21740	34870	34490	34920
Total Equity	20548	21350	21540	25413	27586	29675	34510	40790	43980	46740
LTD/E Ratio	0.71	0.58	0.77	0.83	0.69	0.60	0.63	0.85	0.78	0.75

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.1%	4.7%	4.7%	4.3%	5.2%	6.4%	10.0%	9.4%	7.2%	6.1%
Return on Equity	10.1%	9.4%	9.4%	9.5%	11.1%	12.9%	19.9%	20.5%	16.4%	13.2%
ROIC	6.1%	5.7%	5.6%	5.3%	6.3%	7.9%	12.3%	11.7%	9.0%	7.5%
Shares Out.	402	402	397	398	406	403	399	397	394	388
Revenue/Share	42	42	46	53	60	63	80.8	98.77	114.00	110.46
FCF/Share	5	6	7	9	9	10	17.1	17.10	17.54	17.85

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