



Thermo Fisher Scientific resulted from the merger of Thermo Electron and Fisher Scientific in November 2006. Since then, the company has further expanded through various acquisitions, including Life Technologies in 2014, Affymetrix in 2016, FEI in 2016, Patheon in 2017, and Brammer in 2019. Today, TMO provides a complete range of instruments, consumables, and services for research, analysis, discovery, and diagnostics and serves over 400,000 customers in ~150 countries. Customers include pharmaceutical and biotech companies, hospitals, clinical diagnostic labs, universities, research institutions, government agencies, and environmental/industrial firms using quality and process controls.

Name	Ticker	Yield	Growth	D + G
Thermo Fisher Scientific Inc.	TMO	0.27%	10.50%	10.77%

Highlights: TMO continues to show strong underlying growth and the business's diversification allows management to lean into high-growth markets no matter the macro environment. It reminds us of a healthcare portfolio manager adding a little here, trimming some there, captaining the ship through any waters. TMO's performance in China is a perfect example of this. Management was guiding to 2%-3% headwinds to overall growth in the quarter due to the lockdowns, which implied a 30% decline in the region. However, China actually grew 20% given TMO's strong testing presence in the region. That is a 400bps swing to overall growth. So, when we say that we believe Tools are recession proof and we favor the diversified names with further upside, TMO checks all of the boxes.

Bull Case:

- **Diverse End Markets Provide Balanced Growth** – We believe TMO is positioned to take advantage of a wide array of growth opportunities, with balanced exposure across pharma/biotech, healthcare/diagnostics, academic/government, and industrial/applied. In recent quarters, most of these end markets have been stable or improving. The core TMO franchise is also seeing nice uptake of recently launched products, while TMO complements core product launches with M&A.
- **Continued Solid Execution** - Steady organic growth, supplemented by M&A, drove compounded annual growth of 11% in revenue, 60bps+ average expansion in OM%, and 15% compound annual growth in adjusted EPS over the last ten years. Management has a track record of successfully integrating acquisitions and delivering on synergy targets.
- **Attractive Fundamental Growth Story** - At its most recent "Investor Day", TMO guided its expected three-year organic revenue CAGR of 7%-9% and adjusted EPS CAGR of 14%-15% (assuming \$48B capital deployment and 2.75x average year-end leverage). Management remains committed to solid free cash generation, consistent return of capital, healthy operating margin expansion, and capital deployment.

Bear Case:

- **Integration Risk** - TMO is an acquisitive company and must be able to integrate new companies in order to achieve future revenue and cost synergies. Acquisitions naturally pose integration risk and introduce additional uncertainties into the competitive landscape (e.g., will other life sciences players feel compelled to grow through M&A in response?).
- **Intellectual Property Risk** - High-technology industries, such as those that TMO competes in, are heavily influenced by intellectual property. Should TMO not be able to develop new technologies, or license them at reasonable rates, the company's future growth could suffer. Similarly, if the company is unable to defend its patents, future earnings could be negatively affected.

Overall Thesis:

TMO is the largest company in the life science tools and diagnostics sector, which we estimate is >\$115B market and growing at mid-single-digits. The industry remains highly fragmented, creating significant opportunity for organic growth at the expense of weaker competitors, as well as M&A, which TMO has demonstrated is a valuable tool for deploying strong FCF. We believe TMO is well-positioned to benefit from positive secular trends, as well as capture share given its position in attractive end markets, its strong reputation with customers, unmatched scale, and global commercial reach.

Disclosure:

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