Thermo Fisher (TMO US)

Improved outlook on the impact of tariffs

Thermo Fisher (TMO) reported improved financials for 2Q25, with revenue increasing by 3.0% YoY and adj. EPS declining lightly by 0.2% YoY. Both revenue and adj EPS exceeded Bloomberg consensus by 1.6% and 2.4%, respectively. Despite ongoing macroeconomic uncertainties, TMO delivered strong operational execution, effectively mitigating the negative impact of tariffs. As a result, mgmt. raised the lower end of its full-year guidance, expecting full-year revenue to grow by 1.7% to 3.1% YoY, with adj. EPS growing by 1.6% to 4.5% YoY.

- **Multiple segments delivered solid growth, indicating a demand recovery from pharma and biotech customers.** In 2Q25, revenue from the pharma & biotech end market registered a mid-single-digit growth, marking the highest sequential growth in the past nine quarters. Encouraging momentum was seen across major sub-segments. 1) Bioproduction delivered another outstanding quarter with robust orders, reflecting healthy customer activity. 2) The CDMO maintained its strength, supported by world-leading fill-finish capabilities which continued to be a key differentiating factor in the global market. 3) Revenue from clinical CRO services returned to slightly positive growth, while new bookings grew significantly, boding well for a recovery in the near future. Mgmt. noted increased engagement from biotech customers at recent industry conferences while several MNC clients are experiencing solid growth, suggesting the optimistic sentiment across the industry.
- **The impact of tariffs was less severe than initially anticipated**. Although the US policies on tariffs introduced volatility to the industry, mgmt. stated that the actual impact on 2Q25 results was less than expected. Specifically, revenue came in US$75mn higher than expected, and adjusted EPS beat prior guidance by US$0.13, of which US$0.08 was attributable to lower-than-expected tariff impact. If the current tariff environment remains stable, there could be further upside to the full-year guidance, per mgmt. In the current macro environment, customer interest in reshoring manufacturing to the US has increased. To capture this growing opportunity, TMO announced in April a US$2bn investment plan in the US, including US$1.5bn in Capex.
- **Reaffirming long-term growth outlook.** Mgmt. of TMO is forecasting organic revenue to grow by 3% in 2026 and 6% in 2027. Several headwinds that weighed on the Company's current performance are expected to become tailwinds going forward, including the potential stabilization and recovery in government-related demand and the strong momentum observed in clinical CRO bookings. These developments are likely to contribute positively to organic growth in the coming years. Mgmt. also expressed confidence that TMO can expand its organic growth to above 7% in the long run.
- **Maintain BUY.** We raise our DCF-based TP from US$526 to US$553 (WACC: 7.45%, terminal growth: 2.00%) to reflect our improved outlook on the impact of tariffs. We forecast its revenue to grow by 2.7%/ 5.4%/ 7.8% YoY and adjusted EPS to increase by 2.5%/ 11.2%/ 12.5% YoY in 2025E/ 26E/ 27E, respectively.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US$ mn)	42,857	42,879	44,054	46,447	50,091
YoY growth (%)	(4.6)	0.1	2.7	5.4	7.8
Adjusted net profit (US$ mn)	8,364	8,381	8,494	9,290	10,276
YoY growth (%)	(8.7)	0.2	1.3	9.4	10.6
EPS (Adjusted) (US$)	21.67	21.94	22.48	25.00	28.13
YoY growth (%)	(7.3)	1.3	2.5	11.2	12.5
Consensus EPS (US$)	na	na	22.5	24.4	26.9
P/E (Adjusted) (x)	22.2	21.9	21.3	19.1	17.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**US$553.00**
(Previous TP	US$526.00)
Up/Downside	**15.6%**
Current Price	**US$478.32**

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Stock Data

Mkt Cap (US$ mn)	182,718.2
Avg 3 mths t/o (US$ mn)	449.9
52w High/Low (US$)	624.21/390.26
Total Issued Shares (mn)	382.0

Source: FactSet

Shareholding Structure

Vanguard	8.9%
BlackRock	7.7%

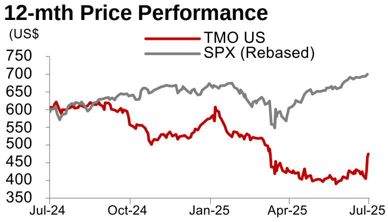
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	16.5%	11.1%
3-mth	12.7%	-2.5%
6-mth	-16.8%	-20.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

	New			Old			Diff (%)		
US$mn	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	44,054	46,447	50,091	43,806	46,518	50,283	0.57%	-0.15%	-0.38%
Gross profit	17,716	19,292	21,317	17,952	19,842	22,091	-1.32%	-2.77%	-3.50%
Operating profit	7,264	8,305	9,525	7,133	8,307	9,579	1.85%	-0.02%	-0.57%
Non-GAAP net profit	8,494	9,290	10,276	8,461	9,293	10,329	0.39%	-0.03%	-0.51%
Non-GAAP EPS (US$)	22.48	25.00	28.13	22.42	25.09	28.42	0.27%	-0.34%	-1.01%
Gross margin	40.21%	41.53%	42.56%	40.98%	42.65%	43.93%	-0.77ppt	-1.12ppt	-1.38ppt
Operating margin	16.49%	17.88%	19.02%	16.28%	17.86%	19.05%	+0.21ppt	+0.02ppt	-0.04ppt
Net margin	19.28%	20.00%	20.52%	19.31%	19.98%	20.54%	-0.03ppt	+0.02ppt	-0.03ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
US$mn	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	44,054	46,447	50,091	43,842	45,927	48,511	0.48%	1.13%	3.26%
Gross profit	17,716	19,292	21,317	18,296	19,365	20,633	-3.17%	-0.38%	3.32%
Operating profit	7,264	8,305	9,525	9,887	10,679	11,428	-26.53%	-22.23%	-16.65%
Non-GAAP net profit	8,494	9,290	10,276	8,509	9,151	9,931	-0.18%	1.52%	3.48%
Non-GAAP EPS ($)	22.48	25.00	28.13	22.49	24.42	26.88	-0.05%	2.39%	4.66%
Gross margin	40.21%	41.53%	42.56%	41.73%	42.17%	42.53%	-1.52ppt	-0.63ppt	+0.02ppt
Operating margin	16.49%	17.88%	19.02%	22.55%	23.25%	23.56%	-6.06ppt	-5.37ppt	-4.54ppt
Net margin	19.28%	20.00%	20.52%	19.41%	19.93%	20.47%	-0.13ppt	+0.08ppt	+0.04ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: DCF valuation of Thermo Fisher

DCF Valuation (in US$bn)	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
EBIT	7.2	8.2	9.5	10.8	12.4	14.0	15.8	17.8	20.0	22.3
Tax rate	8.8%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
EBIT*(1-tax rate)	6.6	7.4	8.5	9.8	11.1	12.6	14.3	16.0	18.0	20.0
+ D&A	3.2	3.2	3.1	3.5	4.0	4.5	5.0	5.6	6.2	6.8
- Change in working capital	(0.5)	(0.5)	(0.8)	(0.9)	(1.1)	(1.2)	(1.3)	(1.5)	(1.7)	(1.8)
- Capex	(6.6)	(5.7)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)
FCFF	2.8	4.4	5.0	6.5	8.2	10.1	12.1	14.3	16.7	19.2
Terminal value										**359.7**

Terminal growth rate	**2.00%**
WACC	**7.45%**
Cost of equity	8.90%
Cost of debt	5.30%
Equity beta	0.90
Risk free rate	4.40%
Market risk premium	5.00%
Target debt to asset ratio	35.00%
Effective corporate tax rate	10.00%

PV of terminal value (US$bn)	175.3
Total PV (US$bn)	236.4
Net debt (US$bn)	27.5
Non-controlling interest (US$bn)	(0.0)
Equity value (US$bn)	208.9
# of shares (mn)	378
Price per share (US$)	**553.00**

Source: CMBIGM estimates

Figure 4: Valuation range based on sensitivity analysis

Price per share (US$)		WACC				
		6.45%	**6.95%**	**7.45%**	**7.95%**	**8.45%**
Terminal growth rate	**3.0%**	911.43	771.07	662.70	576.62	506.69
	2.5%	805.31	692.17	602.32	529.33	468.94
	2.0%	723.01	629.20	**553.00**	489.97	437.04
	1.5%	657.33	577.77	511.97	456.72	409.72
	1.0%	603.68	534.98	477.30	428.24	386.07

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US$ mn)						
Revenue	**44,915**	**42,857**	**42,879**	**44,054**	**46,447**	**50,091**
Cost of goods sold	(25,944)	(25,757)	(25,177)	(26,338)	(27,156)	(28,774)
Gross profit	**18,971**	**17,100**	**17,702**	**17,716**	**19,292**	**21,317**
Operating expenses	**(10,578)**	**(10,241)**	**(10,364)**	**(10,452)**	**(10,987)**	**(11,792)**
SG&A expense	(8,993)	(8,445)	(8,595)	(8,652)	(9,075)	(9,737)
R&D expense	(1,471)	(1,337)	(1,390)	(1,420)	(1,511)	(1,655)
Others	(114)	(459)	(379)	(380)	(400)	(400)
Operating profit	**8,393**	**6,859**	**7,338**	**7,264**	**8,305**	**9,525**
Interest income	272	879	1,078	892	481	346
Interest expense	(726)	(1,375)	(1,390)	(1,414)	(946)	(781)
Other income/expense	(104)	(65)	12	(32)	(60)	(60)
Pre-tax profit	**7,835**	**6,298**	**7,038**	**6,710**	**7,780**	**9,030**
Income tax	(703)	(284)	(657)	(593)	(778)	(903)
Others	(172)	(59)	(42)	(24)	(100)	(100)
After tax profit	**6,960**	**5,955**	**6,339**	**6,093**	**6,902**	**8,027**
Minority interest	(10)	40	(3)	(12)	(13)	(15)
Net profit	**6,950**	**5,995**	**6,336**	**6,081**	**6,888**	**8,012**
Adjusted net profit	**9,159**	**8,364**	**8,381**	**8,494**	**9,290**	**10,276**
Gross dividends	470	540	596	608	689	801

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US$ mn)						
Current assets	**25,229**	**24,589**	**22,138**	**21,970**	**22,458**	**23,876**
Cash & equivalents	8,524	8,077	4,009	3,314	3,181	3,577
Account receivables	8,115	8,221	8,191	8,431	8,889	9,586
Inventories	5,634	5,088	4,978	5,265	5,429	5,752
Prepayment	0	0	0	0	0	0
Other current assets	1,644	1,760	3,525	3,525	3,525	3,525
Contract assets	1,312	1,443	1,435	1,435	1,435	1,435
Non-current assets	**71,925**	**74,137**	**75,184**	**78,502**	**80,987**	**83,688**
PP&E	9,280	9,448	9,306	9,896	10,525	11,237
Intangibles	17,442	16,670	15,533	14,761	13,818	13,006
Goodwill	41,196	44,020	45,853	49,353	52,153	54,953
Other non-current assets	4,007	3,999	4,492	4,492	4,492	4,492
Total assets	**97,154**	**98,726**	**97,322**	**100,472**	**103,445**	**107,563**
Current liabilities	**17,010**	**14,012**	**13,332**	**13,266**	**13,262**	**13,354**
Short-term borrowings	5,579	3,609	2,214	2,114	2,014	1,914
Account payables	3,381	2,872	3,079	3,113	3,209	3,401
Other current liabilities	5,449	4,842	5,187	5,187	5,187	5,187
Contract liabilities	2,601	2,689	2,852	2,852	2,852	2,852
Non-current liabilities	**36,112**	**37,990**	**34,438**	**33,838**	**33,238**	**32,638**
Long-term borrowings	28,909	31,308	29,061	28,661	28,261	27,861
Other non-current liabilities	7,203	6,682	5,377	5,177	4,977	4,777
Total liabilities	**53,122**	**52,002**	**47,770**	**47,104**	**46,500**	**45,992**
Share capital	441	442	444	444	444	444
Capital surplus	16,743	17,286	17,962	17,962	17,962	17,962
Retained earnings	41,910	47,364	53,102	58,906	65,470	73,081
Other reserves	(15,116)	(18,357)	(21,923)	(23,923)	(26,923)	(29,923)
Total shareholders equity	**43,978**	**46,735**	**49,585**	**53,389**	**56,953**	**61,564**
Minority interest	54	(11)	(33)	(21)	(8)	7
Total equity and liabilities	**97,154**	**98,726**	**97,322**	**100,472**	**103,445**	**107,563**

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US$ mn)						
Operating						
Profit before taxation	**7,835**	**6,298**	**7,038**	**6,710**	**7,780**	**9,030**
Depreciation & amortization	3,381	3,406	3,108	3,232	3,164	3,100
Tax paid	(703)	(284)	(657)	(593)	(778)	(903)
Change in working capital	(1,049)	(537)	(379)	(493)	(525)	(830)
Others	(310)	(477)	(443)	107	64	101
Net cash from operations	**9,154**	**8,406**	**8,667**	**8,963**	**9,706**	**10,498**
Investing						
Capital expenditure	(2,243)	(1,479)	(1,400)	(1,550)	(1,650)	(1,800)
Acquisition of subsidiaries/ investments	(39)	(3,660)	(3,132)	(5,000)	(4,000)	(4,000)
Others	123	(3)	(1,309)	0	0	0
Net cash from investing	**(2,159)**	**(5,142)**	**(5,841)**	**(6,550)**	**(5,650)**	**(5,800)**
Financing						
Dividend paid	(455)	(523)	(583)	(608)	(689)	(801)
Net borrowings	654	(155)	(2,403)	(500)	(500)	(500)
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(3,000)	(3,000)	(4,000)	(2,000)	(3,000)	(3,000)
Others	(9)	56	195	0	0	0
Net cash from financing	**(2,810)**	**(3,622)**	**(6,791)**	**(3,108)**	**(4,189)**	**(4,301)**
Net change in cash						
Cash at the beginning of the year	4,491	8,537	8,097	4,009	3,314	3,181
Exchange difference	(139)	(82)	(91)	0	0	0
Cash at the end of the year	**8,537**	**8,097**	**4,041**	**3,314**	**3,181**	**3,577**

GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	14.5%	(4.6%)	0.1%	2.7%	5.4%	7.8%
Gross profit	(3.4%)	(9.9%)	3.5%	0.1%	8.9%	10.5%
Operating profit	(16.3%)	(18.3%)	7.0%	(1.0%)	14.3%	14.7%
Net profit	(10.0%)	(13.7%)	5.7%	(4.0%)	13.3%	16.3%
Adj. net profit	(8.2%)	(8.7%)	0.2%	1.3%	9.4%	10.6%

PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	42.2%	39.9%	41.3%	40.2%	41.5%	42.6%
Operating margin	18.7%	16.0%	17.1%	16.5%	17.9%	19.0%
Adj. net profit margin	20.4%	19.5%	19.5%	19.3%	20.0%	20.5%
Return on equity (ROE)	16.4%	13.2%	13.2%	11.8%	12.5%	13.5%

GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	0.6	0.6	0.5	0.5	0.5	0.4
Current ratio (x)	1.5	1.8	1.7	1.7	1.7	1.8
Receivable turnover days	65.4	69.6	69.9	69.9	69.9	69.9
Inventory turnover days	75.2	76.0	73.0	73.0	73.0	73.0
Payable turnover days	44.0	44.3	43.1	43.1	43.1	43.1

VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
P/E (adjusted)	20.6	22.2	21.9	21.3	19.1	17.0
P/B	4.3	4.0	3.7	3.4	3.1	2.8
P/CFPS	20.5	22.0	21.1	20.2	18.3	16.6
Div yield (%)	0.3	0.3	0.3	0.3	0.4	0.5

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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