

Letter from the Field

Thermo Fisher Scientific:

August 2025

Dear client,

We added to our position in Thermo Fisher Scientific in 2025. We have met with the management in Boston and conducted a series of interviews with people working in laboratories that are customers of Thermo Fisher. From this exercise we have gained a clear view of what makes the company strong and how it adds real value in the life sciences field – an area that is key to improving life and pushing humanity forward.

Birth of a life sciences world leader

On May 8, 2006, two titans of the life sciences industry—Thermo Electron Corporation and Fisher Scientific International Inc.—announced their merger, forming what would become Thermo Fisher Scientific, the world's leading provider of scientific products and services.

Combining Fisher's unparalleled distribution network and customer reach with Thermo's innovation capabilities created extraordinary synergy—an innovation and distribution machine that improved how life sciences products and services reach laboratories worldwide.

This transformative merger not only consolidated two complementary market leaders, but established the foundation of a platform that would integrate hundreds of acquired companies, continuously expanding its technological capabilities and market presence to accelerate life science advances across the research, healthcare and biotechnology sectors. The result is an industry giant that provides a comprehensive range of scientific instruments, laboratory equipment, reagents, software and services to enable research, drug development and clinical diagnostics.

It is hard to think of a better example of the kind of business Lloyd Capital looks for—one adding substantial value in ways no competitor can easily match, serving industries truly critical to society's functioning and that grows structurally. Such a combination allows businesses to extract and defend high profitability. Where the magic works real wonders is when such a company is able to redeploy capital at consistently high rates of return, creating a

Formed in 2006 through the merger of Thermo Electron and Fisher Scientific, the company fused cutting-edge innovation with expansive distribution—building a platform central to life sciences.

It's a textbook example of what we are looking for: structurally growing, essential businesses with competitive advantages that are hard to replicate and that compound over time.

compounding effect that drives sustainable wealth creation over time.

The Amazon of life sciences: Thermo Fisher's distribution power

Talking to our companies' customers is a great way to understand a business' strengths and weaknesses. It gives us a well-rounded view of the company's reputation and the value it delivers.

Thermo Fisher's customers unanimously praise the efficiency of its distribution network. The firm's online platform is by far the most comprehensive "shopping center" for lab people, with 2.5 million items manufactured both by Thermo Fisher and other third parties on offer. When a lab technician needs a consumable, they cannot afford to shop around—their work would be disrupted, experiments delayed and productivity compromised if an item does not arrive promptly. Thermo Fisher's sleek online platform allows customers to click on the reagents, proteins or antibodies they need, put them in the shopping basket and hit the order button, just like buying pots or books on Amazon.com.

Thermo Fisher's distribution platform is its most valuable asset. It gives the company a competitive advantage in a field where reliability is highly valued. That platform would be very hard to replicate and is an important pillar of Thermo Fisher's economic moat.

The distribution advantage extends beyond speed to encompass convenience and reliability. It is backed by deep manufacturing capacity and a global footprint built over the course of the last 120 years, when Chester G. Fisher established Fisher Scientific as the premier distributor of laboratory equipment, chemicals and supplies, pioneering the use of illustrated catalogs and sophisticated inventory management systems to serve the scientific community, and laying the groundwork for what would become a cornerstone of laboratory supply distribution.

That network represents one of the most formidable, hard-to-replicate competitive advantages in the industry. The management of Thermo Fisher has worked to reinforce that advantage over time.

Delivering valuable advice to foster loyalty

Beyond a supplier, Thermo Fisher strives to be a partner and advisor to its customers. The company's deep understanding of customer needs, proactive innovation and "try and buy" approach where it lets its customers test innovative products to drive adoption create strong relationships that transcend traditional vendor dynamics.

Thermo Fisher isn't just a vendor—it's a trusted partner. From regulatory advice to software integration, its role in customers' workflows strengthens loyalty and raises switching costs.

Customers value the regulatory support, technical expertise and consultation services, making price considerations secondary to the total value proposition. This advisory role is particularly valuable in the fast-evolving life sciences landscape, where Thermo Fisher consistently provides first-to-market solutions for emerging fields like

gene therapy, while software integration creates workflow efficiencies that lock in business over time.

When breadth beats cutting edge

Technology can be a double-edged sword for investors—providing advantages to companies at the cutting edge while simultaneously making today's leaders vulnerable to disruption by the next kid on the block.

Thermo Fisher's greatest strength lies in its ability to provide integrated solutions across the entire drug development lifecycle. This one-stop shop capability allows pharmaceutical companies to streamline processes, reduce supply chain risk and accelerate time-to-market.

The interoperability of components, where equipment, consumables and software work seamlessly together, creates significant value that individual component suppliers cannot match. While competitors may offer specific components, no one can rival the breadth and integration of Thermo Fisher's comprehensive, connected ecosystem.

Although some peers may propose more cutting-edge tools in specific niches, Thermo Fisher also remains a formidable innovator, providing high-quality instruments across virtually every step of research and drug development.

This innovation capability stems from the DNA of Thermo Electron, founded in 1956 by two Greek immigrants, George N. Hatsopoulos and Peter M. Nomikos. Hatsopoulos drew inspiration from his doctoral thesis in thermodynamics on energy conversion to create an electronic instruments company. This early focus on innovative technology would define the company's culture for decades, establishing a foundation of scientific rigor and technological excellence that continues to drive the company today.

Marc Casper, visionary CEO and architect of current strategy

Economic success underpinned by competitive advantages and a strong corporate culture take precedence over management quality: when management goes, moat and culture are what remain.

That doesn't mean we think management is unimportant. A CEO with a mindset at odds with the company's DNA, who is plain

The advantage conferred by superior technologies is prone to disruption. Thermo Fisher's breadth of equipment and their integration is much harder to disrupt.

Innovation is in its DNA. Thermo's culture, rooted in science and driven by engineers has endured.

Under CEO Marc Casper, capital allocation has been both bold and disciplined—traits we prize.

incompetent or whose interests are misaligned with shareholders' can create great damage, which only a good governance system can tame. At times we have removed good businesses from the portfolio when we thought our interests were not sufficiently protected.

By the same token, a few visionary CEOs have an outsized impact on the fate of the company they lead. Berkshire Hathaway's Warren Buffett, LVMH's Bernard Arnault and Chubb's Evan Greenberg come to mind.

Here again Thermo Fisher fits the bill. Its CEO Marc Casper is the architect of Thermo Fisher Scientific's modern strategic identity. He joined Thermo Electron in 2001 and spearheaded its transformative integration with Fisher Scientific. Since taking over as CEO of the combined group in 2009, Casper has masterfully executed a one-stop shop strategy that leverages the company's competitive advantages to enable systematic market share gain.

Casper turned the firm into a compounding machine: acquiring, integrating, and expanding into full-service pharma support.

Casper has also transformed Thermo Fisher into a sophisticated acquisition and integration machine, expertly reinvesting capital to compound the company's earning power while strengthening its technological core. Casper's latest strategic decision involves a series of acquisitions to enter the contract research organization (CRO) and contract development and manufacturing organization (CDMO) spaces, where Thermo Fisher no longer only supplies consumables and equipment but provides comprehensive end-to-end services directly to pharmaceutical and biotechnology companies.

Strategic bets, like entering CRO/CDMO, show vision aligned with long-term value creation.

Thermo Fisher has deployed US\$40 billion of capital since 2018 (organic and acquisition) and added \$5 billion of EBITDA. The system Casper crafted and strong investment discipline (he twice walked away from QIAGEN when it tried to raise Thermo Fisher's offer price above what he considered fair) allows for a much faster compounding pace of earnings than the underlying market.

Life sciences rejuvenation

Life sciences has always seen volatile growth rates, influenced by biotechnology companies' funding cycles, innovation breakthroughs, government policies, etc. The last few years have delivered one of the greatest booms in history, courtesy of the Covid pandemic, followed by apathy where one-off vaccines and PCR test policies have disappeared and the extra capacities built get absorbed.

It does not take much more than three years of a low growth environment for the notoriously impatient stock market and financial analyst community to conclude a market is permanently broken. In such cases, capital naturally flows in search of more exciting fields, pressuring the prices of unloved assets. This kind of territory is fertile ground for long-term investors like us, who are hunting for high quality businesses at a good price. When we make a correct judgement, taking a contrarian stance can reward us with outsized returns. Moreover, the large margin of safety offered by a low price limits the risk of loss resulting from a mistake.

This scenario is precisely what we think is happening now with Thermo Fisher. The three years post-Covid and wobble caused by the Trump administration's stance on academic research funding have resulted in record capital outflows from the healthcare sector—the worst of any industry—and brought stock prices down materially. At the time of writing, Thermo Fisher has corrected by nearly 40% from its 2021 peak, bringing its P/E ratio below 19x, versus 29x back then.

Thermo Fisher's stock fell ~40%, pulling its P/E below 19x. To us, this isn't a signal of structural issue—it's an opportunity. When the market overreacts the Price dislocation creates the margin of safety we require.

Thermo Fisher's asset price suggests the industry's growth driver is irreparably damaged. We beg to differ. Instead, we would argue the current period of consolidation has happened many times before.

The secular growth in life science investment is grounded in perennial forces. The history of life sciences represents humanity's oldest and most persistent quest: the understanding and preservation of life itself. From the earliest observations of medicinal plants to the sophisticated gene therapies of today, the field has been driven by a fundamental human imperative to alleviate suffering, extend life and understand the biological mechanisms that govern existence.

This human urge has led an increasing portion of the wealth created to be devoted to advances in the field, resulting in a market growth rate over the past two to five decades that meaningfully exceeds GDP rises. The economic significance of this industry cannot be overstated. In 2024, the global pharmaceutical market exceeded \$1.8 trillion, while the biotechnology sector reached approximately \$1.2 trillion. These figures represent not merely commercial success, but the culmination of centuries of scientific progress and human ingenuity.

The secular drivers of life sciences remain intact: aging demographics, breakthrough science, and efficiency demands. Thermo Fisher stands at the center of it all.

We do not believe any US administration or economic cycle will permanently upend such drivers.

Converging factors will sustain investment in the field. Seldom in history have we had so many scientific breakthroughs (GLP1, mRNA, CAR-T Cell therapy, gene therapies, proteomics, ...) that will stimulate spending to advance discoveries in these areas.



The world's ageing population, with the number of people aged 60 and older projected to double to 2.1 billion by 2050, creates sustained demand for innovative therapies. Most significantly, increasing budget constraints favor companies that can demonstrate improved efficiency in research, development and commercialization of therapies, positioning platform technology leaders to capture disproportionate value in this expanding market.

Sincerely yours,

Cedric Jacque, CFA

Senior Portfolio Manager

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