

Why We Own Thermo Fisher Scientific

A laboratory can have a question that matters deeply to a patient and still lack the tools to answer it at scale. A blood sample must be collected, measured and analysed reliably. Researchers must be able to compare its signals with thousands of others. Only then can a possible clue about disease become a testable finding, and much more work is needed before that finding changes care.

Singapore's PRECISE-SG100K programme offers a concrete example. It is building a research resource from roughly 100,000 participants to study how genes, proteins and other health information relate to disease. In April 2026, PRECISE confirmed that Thermo Fisher Scientific and Seer would provide technology for protein analysis. The collaboration is evidence that serious researchers need industrial-scale tools. It is not yet evidence that a patient has received a better diagnosis or that the contract is material to Thermo Fisher's earnings.

That distinction is central to Delta Outcomes' investment question: can a company that equips research and medicine turn persistent demand for better science into durable earnings, while the eventual human benefit is measured honestly?

The structural need

Drug discovery, clinical testing and biopharmaceutical manufacturing are becoming more complex. Researchers need to measure more biological features precisely and reproducibly. Companies developing therapies need reliable supplies, instruments, manufacturing capacity and clinical services. Health systems need tests that are accurate, available and economical. Each step adds standards, training and quality demands; a promising scientific idea is of little practical value if it cannot be produced consistently.

The PRECISE programme illustrates both the scale and the long time horizon involved. An intermediate release covering 50,000 participants supported 37 selected academic and clinical projects. That is a research-use measure, not a count of treatments or people helped. Even so, it shows why institutions buy instruments, reagents, software and specialist services: complex research requires dependable workflows, not just a single machine.

What the company does

Thermo Fisher supplies life-science tools, analytical instruments, diagnostics and laboratory products. It also provides services to biopharma companies, including support for drug development and manufacturing. Customers range from academic laboratories and hospitals to pharmaceutical companies and industrial organisations. Much of the work happens well before a patient sees a medicine, but the equipment and services can determine whether a project moves forward efficiently.

Its businesses earn money in different ways. Instruments create demand for consumables, maintenance and upgrades. Laboratories repeatedly buy reagents and supplies. Biopharma customers may use development, clinical and manufacturing services over a longer project

life. This mix can broaden the customer relationship, though it also exposes the company to research budgets, biotech funding and pharmaceutical investment cycles.

Where it fits. Thermo Fisher sits primarily in Delta's Human Advancement theme because its products and services help customers research disease, develop treatments and deliver diagnostics. Delta's other themes are Climate Action and Nature Innovation. Laboratories use energy, water and materials, so resource efficiency matters, but the primary investment classification here is health and scientific capability. The classification does not determine what the shares are worth.

From advantage to earnings

The prospective advantage is the breadth of Thermo Fisher's offering and the reliability required in regulated and research settings. A customer who has validated an instrument, trained staff and built a workflow around its consumables may be reluctant to change suppliers without a clear benefit. Sales and service reach also matter when a programme spans many sites. Those features can support repeat sales and services, but they are not immunity from competition or price pressure.

The second-quarter 2026 filing lets us test the earnings mechanism. Revenue was \$11.994 billion, 10% higher than a year earlier; the company calculated organic growth at 5% after removing the contributions of acquisitions and currency. The difference matters: buying revenue can create value, but only if the acquired business earns an adequate return after its purchase price and integration costs. The quarter's GAAP operating margin was 17.4%, up from 16.9%, while adjusted operating margin was 22.8%, up from 21.9%. Both measures deserve attention because adjustments can obscure the full cost of growth.

The segment mix tells a more useful story than the headline growth rate alone. Thermo Fisher's second-quarter release reported \$6.693 billion of revenue in Laboratory Products and Biopharma Services, over half of the group total before eliminations, and \$2.815 billion in Life Sciences Solutions. These are commercial businesses serving customer research and production demand. PRECISE is one illustration of the use case; the investment case has to be proved in recurring orders, margins, cash conversion and returns across the whole group.

What the recent results test

Management said customer activity strengthened across pharma and biotech, academic and government, industrial and applied, and diagnostics and healthcare markets in the second quarter. That is company commentary, supported by reported sales growth but still subject to later confirmation. The same quarterly filing identifies higher interest expense linked in part to debt used for capital deployment, including buybacks and the Clario acquisition. It also describes planned restructuring charges of about \$220 million, mainly in 2026, in Laboratory Products and Biopharma Services. Those are costs the ownership case must absorb, not dismiss as noise.

The company reported second-quarter free cash flow of \$1.678 billion as a non-GAAP measure, up from \$1.105 billion a year earlier. Cash generation gives management room to invest, pay down debt or return capital. We still need to judge how much comes from lasting

operating performance and how much from timing, and whether acquisitions earn more than their cost of capital.

A financially strong business, not just a good story

A compelling scientific-infrastructure story only matters if the company behind it can keep funding the instruments, reagents and services that story depends on, through good years and weaker ones alike. So before we get carried away with the theme, we ask a simpler question: is this a genuinely well-run, profitable company? The honest answer is mixed, and we say so plainly. Profitability has held up reasonably well through a soft two-year patch for life-sciences and diagnostics spending, but earnings growth and shareholder returns have both been weak for stretches of the past three years. Much of the financial-quality case therefore now rests on a recovery that is guided and forecast, and only recently visible in delivered results.

Profitability. Return on shareholders' equity - essentially, how much profit the company generates for every dollar shareholders have invested - has held broadly steady at around 12-13% over the past three years (12.8% in 2023, 12.8% in 2024 and 12.6% in 2025), and is forecast to improve to around 14% by 2027 as growth and margins recover. The underlying operating margin has actually improved through the soft patch, rising from 17.1% to 18.2% over the same three years as cost and productivity programmes have taken hold, with further expansion to above 20% forecast for 2027. A broader profitability measure, adjusted EBITDA margin, tells a less flattering story: it fell from around 31% to 29% over the same period as a slower capital-spending environment weighed on the mix, though it is expected to recover to around 30% by 2028. Return on invested capital - a measure of how efficiently the company turns the capital it deploys, including capital used for acquisitions, into profit - has drifted down from 13.3% in 2023 to a forecast trough of 11.6% in 2026 as recent acquisitions have added to the capital base faster than they have added to profit; it has not fallen below the roughly 9% cost of capital we hold portfolio companies to in any year of the period, and it is projected to recover to around 14-15% by the end of the decade.

Earnings growth - the case ahead. Here the historical record does not yet make the case on its own, and we say so plainly rather than dressing it up. Adjusted earnings per share fell 7.3% in 2023 and grew only modestly through 2024 and 2025 (1.4% and 5.6% respectively), a period that broadly tracked a slowdown in life-sciences and diagnostics capital spending across the industry. That pattern has started to turn: in its most recent quarter the company delivered a broad-based earnings beat, with adjusted earnings per share up 12.5% year on year and organic revenue growth accelerating to 5%, led by a return to 7% organic growth in analytical instruments - outpacing competitors such as Danaher, which reported instrument growth of only around 2% over the same period - and management raised full-year guidance for both revenue and adjusted earnings growth as a result. Consensus forecasts see that reacceleration continuing, with adjusted earnings-per-share growth of 8.5% in 2026 building to 16.2% in 2027 as the capital-spending cycle improves further and cost-efficiency programmes continue to take hold. That is a credible, evidenced path - visible already in the most recent quarter's results - but it is a forecast, not a settled outcome, and it depends on the recovery continuing beyond a single strong quarter.

Shareholder returns - the case ahead. This is the weakest part of the historical record, and the house standard is to state it plainly. Total shareholder return - share price growth plus dividends - swung from a strong 2021 to three years of flat-to-negative returns from 2022

through 2024, before recovering to a positive 2025; year-to-date 2026 performance has turned negative again, even after a double-digit share-price jump on the day of the most recent results. Taken as a multi-year run, that is not the kind of consistent compounding record we look for elsewhere in this portfolio. The case ahead is more constructive: the current share price sits below the range of sell-side analyst price targets, which stretch from the low \$500s to above \$650, with an average nearer \$595 - implying meaningful potential upside if the guided earnings recovery is delivered and the market re-rates the shares accordingly. Capital return in the meantime has been consistent: the dividend was raised by more than 9% year on year in the most recent quarter, and the company continued to repurchase its own shares. That is a real, evidenced basis for expecting stronger forward returns; it is not yet a proven record.

None of this is guaranteed to continue - we come back to that below - but taken together it gives us a credible, evidenced path to the returns this thesis needs, built on a genuine reacceleration already visible in the numbers, though one that is not yet the proven, multi-year compounding record we can point to elsewhere in the portfolio.

Leadership we can trust

A good business also needs to be well led. However compelling the numbers, we need to be able to trust the people running the company - because performance, however strong, means little if it cannot be trusted to continue honestly. Thermo Fisher's governance shows real structural strengths. There is only one class of listed stock, so no shareholder carries outsized voting power over the rest. Every director stands for individual re-election each year, giving shareholders a regular say over who governs the company. The board conducts its own effectiveness review annually, with the findings and resulting actions disclosed rather than kept private. Its composition reflects a genuinely diverse mix of skills, experience and gender, spanning life sciences, finance, technology and governance backgrounds, with a reasonably balanced spread of tenures rather than a board dominated by long-serving insiders.

Two areas stand out as priorities for continued progress rather than settled concerns. Board leadership currently sits with the same individual who also runs the company day to day, and applying a stricter, tenure-based view of independence than the company's own standard means several of the board's longest-serving members - including its lead independent director and the chairs of some of its key oversight committees - fall outside that stricter threshold, leaving overall board independence short of the two-thirds level we look for. Separating those roles over time, and continuing to refresh the board's most senior positions, would bring the structure closer to what we consider best practice. Executive pay in the most recent year was also pushed materially higher by a large, one-off long-term equity award, a structure shareholders themselves signalled only lukewarm support for in that year's advisory vote; the compensation committee has since responded by lengthening performance periods, adding a capital-efficiency measure, and committing not to repeat one-off awards absent extraordinary circumstances, which we would expect to see followed through in practice. This sits alongside a capital-allocation record that has cleared our return hurdle in every year of the historical and forecast period we reviewed, even as the margin above that hurdle has narrowed. Taken together, this gives us reasonable confidence in current leadership's stewardship, alongside two identifiable, well-defined areas we will continue to watch as the board's composition and pay programme evolve.

Human evidence with a clear boundary

PRECISE's account is useful because the customer confirms that Thermo Fisher's platforms will be used alongside Seer's technology in a national research programme, and a later programme update describes the growing breadth of the cohort data. The measurable outcome today is research infrastructure and use: roughly 100,000 participants in the resource and 37 projects selected from the earlier 50,000-person release. Neither number is a treatment success rate. The hard future test is whether researchers produce validated discoveries that can be translated into better diagnosis or care.

Thermo Fisher also publishes operational data, including recalls and regulatory-inspection indicators. Those company-reported figures need careful boundary and quality review, and we would not use an outdated impact disclosure to assert a current clinical result. The wider customer benefit should be measured through independent clinical and research evidence where possible, not inferred from product sales.

Value, decision, and tension

We own Thermo Fisher because three things need to line up, and today two are more solidly in place than the third. The impact case rests on durable, structural demand for the instruments, reagents and services that make modern research and medicine possible - demand that shows up in real orders, not just a compelling narrative. The governance case is largely reassuring: the structural safeguards we look for are mostly in place, alongside two clearly identified areas - board independence and the design of one-off pay awards - where we expect continued progress rather than settled reassurance. The financial-quality case is the one that most asks for patience: profitability has held up through a soft patch and margins are recovering, but earnings growth and shareholder returns were both weak for stretches of the past three years, and the case for a stronger run now rests substantially on guidance and forecasts that have only recently started to show up in the actual numbers.

We do not own Thermo Fisher on the assumption that every acquisition will earn back its cost, that the current capital-spending recovery is permanent, or that governance concentration at the top will resolve itself without continued pressure. The central tension is that the investment case depends on a cyclical recovery in life-sciences and diagnostics capital spending converting into sustained earnings growth and a re-rating of the shares - a recovery that has been guided and, in the most recent quarter, delivered, but not yet proven across a full year. Valuation discipline, not the promise of a turnaround alone, is what should govern position sizing here.

What could break the chain

A number of things could weaken this thesis, spanning demand, execution, financial durability, governance and the impact case itself. We watch for all of them:

- Demand and execution risk. Research budgets, biotech funding and pharmaceutical capital spending can all soften again; government and academic funding policy remains a swing factor, and North America and China organic growth have stayed at only low-single-digit rates even as guidance has been raised.

- Integration and operational risk. The business continues to use debt to fund acquisitions, including the recent Clario acquisition, and to complete divestitures such as the pending microbiology sale. A weak integration, a quality failure, or a regulatory finding in a highly regulated industry would be costly to both earnings and trust.
- Financial-quality durability risk. The margin, earnings-growth and return-on-capital recovery described above rests on guidance and forecasts, not a full year of delivered results. If the recent capital-spending improvement stalls, the reacceleration we describe may not materialise on the timeline assumed, and shareholder returns could remain weak for longer.
- Governance risk. Leadership continuing to combine board and executive authority, and any further large one-off pay awards, would need to be balanced by continued independent oversight and follow-through on the pay-programme changes already announced for our confidence in leadership to hold.
- Impact-case risk. Research infrastructure use, like the PRECISE programme, is not itself evidence of a better diagnosis or improved care. The human benefit still needs independent verification, and a good research tool does not guarantee it is used to good effect.

The thesis would weaken materially if the recent recovery in organic growth and margins failed to continue beyond a single strong quarter, if an acquisition or integration destroyed value rather than added it, if board and pay-programme reforms stalled rather than progressed, or if independent evidence contradicted the company's own claims about the customer and patient benefit of its products. It would also weaken if the shares re-rated to reflect a full recovery before that recovery was actually delivered, leaving no margin of safety for disappointment.

Thermo Fisher is compelling not because every scientific programme it touches succeeds, but because researchers and clinicians need dependable infrastructure to find out what works - and because the company supplying that infrastructure is, on balance, a soundly financed, reasonably governed business working through a recognisable cyclical soft patch rather than a structural one. The investment case rests on Thermo Fisher continuing to turn a durable scientific need into recurring revenue and cash, on a genuine earnings recovery continuing beyond its first strong quarter, and on leadership following through on the governance and pay changes already underway - not on the theme, or the story, alone.

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