

# China Healthcare

## Overseas CXO/ life science upstream 2Q24 review: life science upstream continuing to expect demand recovery

We have summarized 2Q24 earnings of major overseas CXO and life science upstream (LSU) companies, which engage in clinical CROs, preclinical CROs, C(D)MOs, and LSU fields. We find that those companies' 2023 earnings growth varied across sub-sectors, with later-stage CXOs performing better than early-stage ones and non-manufacturing CXOs outperforming manufacturing ones. However, the performance differences among sub-sectors decreased in 1Q24, and continued to narrow in 2Q24, with earnings of LSU and C(D)MO companies performing better than expected. It is worth noting that, in 2Q24, only mgt. of LSU companies continued to expect a demand recovery in 2H24.

- **LSU and C(D)MO companies performing better than expected in 2Q24.** We believe that the earnings growth variation of overseas CXO and LSU companies in 2023 was driven by pharmaceutical companies allocating more resources to advance key late-stage clinical projects, demand for COVID-19 drugs causing a high base for C(D)MOs, and relatively low post-pandemic capacity utilization for C(D)MOs. From 1Q24, the earnings performance difference among sub-sectors continued to narrow for three reasons: (1) the high base for clinical CROs in 2023; (2) the weakening demand from clinical-stage projects; and (3) profit improvements in 1H24 due to cost control measures by capital-intensive C(D)MO companies. The LSU companies performed relatively well in 2Q24, benefiting from the normalization of clients' order pacing as downstream clients have steadily destocked and the gradual elimination of high base effect from COVID-19 demand, while C(D)MO companies benefited from continued solid demand of commercial production.
- **2024 guidance facing downward pressure with bottom-line improvement still being expected.** Due to the ongoing challenging macro environment and the lagging impact of biotech funding recovery on earnings, overseas mgt. remained cautious about 2024 full-year guidance in 2Q24. More than half (6/11) of those companies lowered their full-year revenue guidance, but most maintained or raised their full-year profit guidance, reflecting the continuously positive effects from cost controls taken in 2023.
- **LSU companies continuing to expect demand recovery in 2H24.** In the previous earnings calls, mgt. from multiple overseas companies explicitly expected to see recovery in industry demand as well as company earnings in 2H24. However, after the 2Q24 earnings, only mgt. of LSU companies maintained this judgment. We find that mgt. of several representative LSU companies remains optimistic about the demand recovery in 2H24, especially global-leading companies like Thermo Fisher, Danaher, and Merck KGaA.
- **Our assessment of sub-sectors.** We believe that the earnings recovery of overseas LSU and C(D)MO companies shows high visibility, mainly due to the largely completed destocking among downstream clients, the increased capacity utilization, and the high demand for outsourced commercial production. Although demand for overseas clinical CROs continues to grow, some clinical CRO companies are experiencing a slowdown in order growth, which may put future earnings growth under pressure. Overseas preclinical CROs are still confronted with sluggish customer demand and need to wait for signals of order recovery as the macro environment improves.

### Valuation Table

Company	Ticker	Rating	Mkt Cap		CAGR 23-26E		P/E (x)			PEG
			US\$bn	Revenue	Net income	FY24E	FY25E	FY26E	FY24E	
Thermo Fisher	TMO US	NR	228.8	4.5%	6.1%	27.5	24.9	22.3	4.5	
Danaher	DHR US	NR	193.0	4.8%	8.1%	35.2	30.7	27.5	4.3	
IQVIA	IQV US	NR	42.2	5.6%	9.7%	20.7	18.6	16.5	2.1	
Charles River	CRL US	NR	10.0	2.4%	4.8%	19.5	18.1	15.9	4.1	
Lonza	LONN SW	NR	45.4	8.8%	14.8%	40.7	33.2	27.8	2.7	
Samsung Bio	207940 KS	NR	48.7	16.9%	19.3%	64.8	54.8	45.4	3.4	

Source: Bloomberg. As of 13 Aug 2024

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