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# EDITED TRANSCRIPT

TMO - Thermo Fisher Scientific to Acquire One Lambda Conference Call

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## OVERVIEW:

TMO announced that it has signed a definitive agreement to acquire One Lambda for a purchase price of \$925m.



## CORPORATE PARTICIPANTS

**Ken Apicerno** *Thermo Fisher Scientific Inc - VP of IR*

**Marc Casper** *Thermo Fisher Scientific Inc - President, CEO*

**Pete Wilver** *Thermo Fisher Scientific Inc - SVP and CFO*

## CONFERENCE CALL PARTICIPANTS

**Aaron Gorin** *Morgan Stanley - Analyst*

**Ramesh Donthamsetty** *JPMorgan - Analyst*

**Amit Bhalla** *Citigroup - Analyst*

**Doug Schenkel** *Cowen and Company - Analyst*

**Jonathan Groberg** *Macquarie Research Equities - Analyst*

**Eric Criscuolo** *Mizuho Securities USA - Analyst*

**Isaac Ro** *Goldman Sachs - Analyst*

**Sung Ji Nam** *Cantor Fitzgerald - Analyst*

**Dan Leonard** *Leerink Swann & Company - Analyst*

**Derik De Bruin** *BofA Merrill Lynch - Analyst*

**Tim Evans** *Wells Fargo Securities - Analyst*

**Nandita Koshal** *Barclays Capital - Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to today's conference call and webcast to discuss Thermo Fisher's acquisition of One Lambda. At this time, all participants have been placed in a listen-only mode, and the floor will be opened for your questions following the presentation. I would now like to turn the call over to Ken Apicerno, Vice President of Investor Relations at Thermo Fisher Scientific. Please go ahead, sir.

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### Ken Apicerno - *Thermo Fisher Scientific Inc - VP of IR*

Thank you. Good morning, everyone. Welcome to our conference call to discuss Thermo Fisher's acquisition of One Lambda, which was announced earlier today. On the call, we have Marc Casper, our President and Chief Executive Officer, and Pete Wilver, our Chief Financial Officer, who will run through a brief slide presentation for you that's available in the investor section of our website. Also with us is Andy Thomson, President of our specialty diagnostics business. After the prepared comments, Marc, Pete, and Andy will be available to take your questions.

During the call we'll make forward-looking statements, as outlined on slide 2. Before we begin, let me briefly cover our Safe Harbor statement. This presentation contains forward-looking statements that involve a number of risks and uncertainties. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are set forth in Thermo Fisher's most recently quarterly report under the caption Risk Factors, which is on file with the Securities and Exchange Commission and available on Thermo Fisher's website, and in our press release announcing the acquisition, dated July 11, 2012, which is also available on our website. While Thermo Fisher may elect to update forward-looking statements at some point in the future, the Company specifically disclaims any obligation to do so, even if estimates change, and therefore, you should not rely on these forward-looking statements as representing our views as of any date subsequent to today.



In addition to the financial measures prepared in accordance with Generally Accepted Accounting Principles, we use certain non-GAAP financial measures, including adjusted EPS, adjusted operating income, and adjusted EBITDA. We believe that the use of non-GAAP measures helps investors to gain a better understanding of our core operating results and future prospects, consistent with how Management measures and forecasts the Company's performance, especially when comparing such results to previous periods or forecasts. So with that I'm now going to turn the call over to Marc.

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

Thanks, Ken. Hello everyone, and thank you for joining us on short notice. We're excited to tell you about our acquisition of One Lambda, because it strengthens our leadership in specialty diagnostics, which you know is an important growth platform for Thermo Fisher. It's right in line with our M&A criteria, and I'll cover that in a moment.

One Lambda is a global leader in transplant diagnostics. It's perfectly aligned with our specialty diagnostics strategy to enhance our leadership with strong technology platforms that generate high margins and create opportunities for long-term growth. One Lambda's technologies complement our existing immunosuppressant assays, which are used to monitor the level of drugs in transplant patients. This transaction also creates an opportunity for us to leverage our extensive commercial infrastructure in emerging markets to accelerate growth. The purchase price is \$925 million, and we believe this is an attractive price for a great asset that will be an excellent contributor to our growth. This transaction will be immediately accretive to our adjusted EPS and we expect it to generate a solid return, which will create value for our shareholders.

As I mentioned, One Lambda meets all three of our M&A criteria, which you've heard me talk about many times before. It strengthens our strategic position, expands our offering for our customers, and creates value for our shareholders. We believe that the acquisition of One Lambda and our new \$500 million stock buyback authorization, which we also announced today, demonstrate the strength of our capital deployment strategy, and our ongoing commitment to creating shareholder value.

Turning to slide 4. Let me tell you a little more about why we believe this transaction gives us the opportunity to create value. Dr. Paul Terasaki, a preeminent researcher in the field of transplantation, founded One Lambda in 1984. During the past three decades, the Company has focused on new developments in human leukocyte antigen science, better known as HLA science, to improve the quality of life for transplant patients and their families. Dr. Terasaki and his team have built a Company that's now at the forefront of transplant diagnostics.

One Lambda generated \$182 million in revenue in 2011, with the majority coming from high-margin reagents. The business serves customers at virtually all the major transplant centers in the United States including testing labs, and transplant surgeons and clinicians, as well as a select number of countries outside the US. The headquarters is in Canoga Park, California and we look forward to welcoming the One Lambda's 300-plus employees to our team.

Turning to the pie chart in the upper right of the slide, there are two major categories of transplant testing; one is HLA typing, the other is antibody detection. HLA typing, which represents a little less than 50% of One Lambda's revenue, is used primarily to determine the compatibility of donors and recipients before a transplant. Antibody detection tests make up approximately 50% of their revenue. These are used before and after transplantation to detect the presence of certain antibodies that can lead to transplant rejection. Serology-based tests represent the remaining 7% of One Lambda's total revenue. Looking at the lower pie chart, more than 50% of One Lambda's revenue is generated in the United States, with relatively little coming from emerging markets, where transplants are actually becoming more prevalent. With our global commercial infrastructure, we see this as an exciting opportunity to introduce One Lambda's existing product line in these high-growth regions.

Turning to slide 5. This transaction significantly increases our presence in the transplant diagnostics market, where One Lambda has the leading position, and where we believe there are attractive long-term growth prospects. It's a \$480 million market, and growing in the mid- to high-single digits. Growth in transplant diagnostics is being driven by increasing global demand for transplant procedures and post-transplant patient monitoring. The science of transplantation has made significant and steady advances, and it's clear that the diagnostics performed, both pre- and post-transplant have contributed greatly to improved patient outcomes. These techniques have demonstrated clear value in terms of improving the quality of life for patients, and lowering the overall cost of care, leading to increased utilization.

Likewise, demand for post-transplant antibody detection is also growing, as new scientific evidence continues to show that this significantly improves graft survival. The availability of new diagnostic tests and new drug therapy that can remove the life-threatening antibodies creates a very compelling future opportunity in companion diagnostics. As the leader in transplant diagnostics, One Lambda is uniquely-positioned to benefit from these trends. The One Lambda portfolio, combined with our existing immunosuppressant drug monitoring products puts us in a position to offer leading technologies used across the transplant-testing workflow, from HLA tissue typing to antibody monitoring, post-transplant. Our goal for these combined capabilities is to lower the rates of transplant rejection and ensure better outcomes for patients.

Slide 6 gives you an overview of how One Lambda fits into our specialty diagnostics segment. On a pro forma basis, annual revenues for this segment will be \$3 billion. The combination will expand Thermo Fisher's depth of capabilities in specialty diagnostics, and will immediately enhance our current platform to create value for our customers. From a market perspective, One Lambda gives us a much larger presence in a very specialized segment. It also presents us with the opportunity to grow the business by leveraging our commercial infrastructure outside the United States, particularly in emerging markets, where the number of transplant procedures is steadily increasing. From a technology perspective, I've already highlighted the complementary nature of One Lambda's products with our existing immunosuppressant monitoring assays, and how this combination completes the transplant-testing workflow.

In terms of customers, One Lambda has very deep, long-standing relationships, and we intend to leverage these relationships to expand our share of wallet with those customers as well. I also want to mention that we've agreed to continue to collaborate with the Terasaki Foundation Laboratory, which supports the great progress being made in HLA science, specifically in the area of post-transplant monitoring. So with that as an overview, I'd like to now turn the call over to Pete to discuss the financial details of this transaction in greater detail. Pete?

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**Pete Wilver** - *Thermo Fisher Scientific Inc - SVP and CFO*

Thanks, Marc. Good morning, everyone. I'd like to start by saying that I share Marc's enthusiasm for today's announcement, and the opportunities it presents for value creation.

Turning to slide 7, not only are the benefits clear from a technology and market perspective, but One Lambda also has a solid financial track record that we're confident we can build upon once the business is part of Thermo Fisher. The transaction is expected to be immediately accretive to adjusted EPS at the time of close, and add \$0.09 to \$0.11 to our adjusted EPS in 2013. We plan to update our 2012 guidance for the acquisition, when we get closer to completing it. We also expect One Lambda to generate revenue and cost synergies that would add a total of \$15 million to our 2015 adjusted operating income. This number is net of approximately \$10 million of investments we plan to make in the business, so the actual growth synergies add up to about \$25 million. The revenue synergies come from the opportunity we have to leverage our global infrastructure and commercial presence, as Marc mentioned, and the cost synergies come primarily from eliminating private Company costs and implementing PPI.

Our acquisition of One Lambda also creates some nice tax benefits. We expect to benefit from greater tax efficiencies by leveraging our global structure, something we've been able to achieve on a number of our previous acquisitions. We'll also be making a 338(h)(10) election, which we expect will generate an annual cash tax savings of approximately \$19 million for 15 years. That translates to approximately \$190 million of net present value for us.

From a valuation perspective, the implied 2011 EBITDA purchase price multiple is 10.9 times. If you include the 338(h)(10) tax election, the transaction has an implied 2011 EBITDA purchase price multiple of only 8.7 times. We believe this opportunity falls right in line with our capital deployment strategy, and we expect that the transaction return on invested capital will exceed our weighted average cost of capital in 2015. We intend to fund the transaction, as well as our new \$500 million buyback authorization with cash and new debt. With this new debt, we expect to have a pro forma leverage ratio of between 2.5 and 3 times total debt to our 12 month trailing adjusted EBITDA by the end of the year. Our business generates a lot of cash flow, so I'm comfortable that we'll continue to maintain good flexibility on our balance sheet.

Turning to slide 8, I'd like you to think about the transaction in the context of our larger capital deployment strategy. In addition to the One Lambda acquisition, and the others that we've completed in the past year or so, we've also sold a few businesses that are not aligned with our long-term growth strategy. We sold Athena Diagnostics and Lancaster Labs in 2011 and we're now in the process of selling our laboratory workstations



business. In terms of returning capital, we've been aggressive in buying back our shares. We repurchased \$400 million of our shares during the first half of this year and have \$250 million remaining under our previous authorization through November.

As I mentioned, we just announced a new repurchase authorization for an additional \$500 million through year-end, so we now have a total of \$750 million available for buybacks in the second half of the year. You'll also recall that we announced our first shareholder dividend in February, which was paid out in April, so we feel very good about our track record of returning capital to shareholders as well as our investments for future growth. Now, I'd like to turn the call back over to Marc.

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

Thank you, Pete. As we wrap up before Q&A, let me summarize the key points of the call, and why we believe the acquisition of One Lambda makes perfect sense from a market, technology, customer, and financial perspective. With One Lambda, we're acquiring a global leader in the attractive transplant diagnostics market, consistent with our strategy to enhance our leadership in specialty in vitro diagnostics. One Lambda is a technology leader, and provides high-margin reagents in the two major categories of transplant testing. It strengthens our strategic position in specialty diagnostics and expands our offering for our customers, and from a financial perspective, the transaction is expected to generate a strong return, which will create shareholder value. We look forward to reporting on our progress as we execute the transaction, and begin a smooth and successful integration. Now, let me turn the call back to Ken so we can open up the line for questions.

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**Ken Apicerno** - *Thermo Fisher Scientific Inc - VP of IR*

Okay. Operator, we're going to open it up for Q&A. And for those on the line, please note that we'll be taking questions about today's announcement only. So go ahead.

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## QUESTIONS AND ANSWERS

**Operator**

Thank you. The floor is now opened for questions.

(Operator Instructions)

Our first question comes from the line of Daniel Brennan with Morgan Stanley.

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**Aaron Gorin** - *Morgan Stanley - Analyst*

This is Aaron Gorin in for Dan today. My question is, can you discuss the competitive dynamics in the market in terms of, you mentioned mid to upper single digit growth. Can you talk about the segments, if one of them is growing differently, and also what the share trends have been like and who are the major competitors? Thanks.

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

Thanks for the question. In terms of the share trends, One Lambda really created the market, and has over the recent years, continued to gain share. Other players in this market would be, Tepnel would play in a little bit, Abbott would play a little bit as well, but One Lambda has, in our estimation in excess of 50% market share.



**Operator**

Your next question comes from the line of Tycho Peterson with JPMorgan.

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**Ramesh Donthamsetty** - *JPMorgan - Analyst*

This is Ramesh Donthamsetty in for Tycho. Just first, could you tell us a little bit about, if at all, the relationship with Luminex may change under this acquisition.

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

Sure. So Luminex is an instrument provider to One Lambda, and that contract transfers with the acquisition, so Luminex has been a very good partner to One Lambda, and will continue to be a good partner to One Lambda and Thermo Fisher going forward.

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**Ramesh Donthamsetty** - *JPMorgan - Analyst*

In terms of the international distribution, I think One Lambda mostly has distributors in predominantly everywhere except United States. Can you talk a little bit about the plans of leveraging your distribution capabilities?

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

Sure. One Lambda has some very strong distribution partners in select markets, and we will look forward to collaborating with them, as well as leveraging our very deep commercial strength around the world.

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**Ramesh Donthamsetty** - *JPMorgan - Analyst*

Just the last thing, just a follow-up on the competitive question. Within sort of higher-resolution typing, are there certain things that One Lambda or that you need to do going forward? Obviously with the advent of sequencing entering the space in certain sort of stem cell laboratories, are there certain things that you feel you need to do to continue to invest in that business to make it more competitive in the long run? Thank you very much.

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

You're welcome. Those are good questions. When you look at the technology here, about 80% of the revenue from One Lambda comes from solid organ transplants. And when you look at that technology, we serve that very, very well with the current generations of technology. When you look, about 20% of the revenue comes from, in the area of bone marrow and stem cell applications, and long-term, we'll see a need for sequencing for some medical utility purposes, and it's not a big part of the revenue, but it's out there as a potential need.

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**Ramesh Donthamsetty** - *JPMorgan - Analyst*

Thank you.

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

You're welcome.

**Operator**

Your next question comes from the line of Amit Bhalla with Citi.

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**Amit Bhalla** - Citigroup - Analyst

Marc, I wanted to just to see if you could elaborate on this, 1,400 customers that One Lambda has today. What percentage of those are you selling diagnostic products to, or some of your higher margin instruments to today? Then I have a follow-up on some of the financials.

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**Marc Casper** - Thermo Fisher Scientific Inc - President, CEO

Sure. So it's a good question. When we look at the customer base, we serve some of those customers because of the immunosuppressant assays that we sell. But we see a share gain opportunity very directly there, and because these labs buy a lot of other products and One Lambda is the anchor product, if you will, on the transplant diagnostic side, we see that as an opportunity to pick up share across the broad category of other things that those customers would be testing for, so we see that as a nice revenue synergy over time.

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**Amit Bhalla** - Citigroup - Analyst

On the financial side, Pete, can you just elaborate on the tax efficiency or the tax benefit of this 338(h)(10) election, and can you talk about synergies in the near term? I know you talk about synergies and operating income benefits out in 2015, but what are you looking at in the near term, 2013, 2014? Thanks.

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**Pete Wilver** - Thermo Fisher Scientific Inc - SVP and CFO

So in terms of the 338(h)(10) election, so that's an \$19 million benefit that we get because we get full basis in the asset and we actually get to deduct the amortization, so that's a cash tax benefit as well as a GAAP tax benefit. It's not included in the adjusted earnings per share numbers that we gave for 2013. And then in terms of the synergies, we get the cost synergies relatively quickly, because a lot of it is related to private Company costs. And then the revenue synergies build up over time. So think in terms of a third, a third, a third in terms of building up to that \$15 million net number over the three years.

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**Amit Bhalla** - Citigroup - Analyst

Okay. Great. That's all. Thanks.

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**Operator**

Your next question comes from the line of Doug Schenkel with Cowen & Company.

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**Doug Schenkel** - Cowen and Company - Analyst

First question, One Lambda's revenue has been growing above the rate of its markets, at least in many of its key areas over the last few years, at least from what we can tell. How much of this is share capture versus a conversion to new technologies, specifically moving folks over to things like molecular, where they may be able to basically capture more revenue per test?

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

When you look at the growth, One Lambda's growth obviously is going to often approximate the market growth in a given year, they're not exactly on, Doug, because there is share gain. There's clearly been some increase in the years past because of the shift to a higher-value, higher-priced technology and when we characterize the market growth going forward, we say it's mid to high single digits going forward. If you look back historically, obviously, it's been growing faster than that. We capture that into our thinking about the historical technology conversion that's going on.

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**Doug Schenkel** - *Cowen and Company - Analyst*

I guess kind of what I was getting at is beyond the market growth, is part of the expectation that One Lambda will grow at these levels, driven by the fact that you are going to be moving folks from one technology to another technology that exists within One Lambda, that would allow you to get more revenue per test, is that a key assumption?

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

Not a major assumption going forward, no.

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**Doug Schenkel** - *Cowen and Company - Analyst*

Okay. And then a very specific question. As we've talked about, One Lambda is a partner with Luminex, which means One Lambda buys beads and other consumables from Luminex, and also pays a royalty to Luminex. One Lambda's spend to Luminex increased 87% last year. Something to the outside world hasn't really made sense there, largely because One Lambda hasn't disclosed a lot as a private Company. There have been questions about whether there are new products that they've been focused on, which has driven them to increase their spend at those levels, or whether this is simply or largely a function of them building inventory. Could you elaborate a little bit there? To the extent that the increase in spend was primarily driven by an inventory build, could you talk about how that factors into your synergy targets?

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

Sure. So a lot of those questions are probably going to be best for Luminex, because it's probably much more material to Luminex than it is to us in any of this nuance. But at a high level, we're not assuming synergies associated with Luminex. They're a good partner and a good supplier to this business, but when you think about the synergy aspects of it, we're not assuming synergies are coming from that. And then historically, I think it's a blend of new technologies, a little bit of inventory build, but I don't know all the specifics of why historical growth with their supplier is up a lot in one year versus another.

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**Doug Schenkel** - *Cowen and Company - Analyst*

But that's not a key dynamic that's factored into the cost synergies that you've assumed in your model?

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

Not a factor at all.

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**Doug Schenkel** - *Cowen and Company - Analyst*

Okay. And then I guess last one, it was expected that your debt to EBITDA multiple would get down close to 2 by year end 2012, I think just doing some of the math here especially factoring in the additional buyback, seems like you'll be pulling down some additional debt to finance this. Tell



me if that's right or wrong. But if it's right, I think this deal pushes your debt to EBITDA back closer to 3 times at year end. If that is the case, is it safe to assume that this will probably put you on the sidelines for M&A of this size or bigger for at least the time being, until that debt to EBITDA comes down a little bit more?

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**Pete Wilver** - *Thermo Fisher Scientific Inc - SVP and CFO*

When we report Q2 numbers, you'll see that we've continued to pay down our commercial paper. We'll be issuing another \$1.3 billion of senior notes, that's the expectation, to fund the acquisition and the buyback. When we get to year-end, on a pro forma basis we'll be closer to 2.5 than we will be to 3 barring any other capital deployment, other than what we've already announced.

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**Doug Schenkel** - *Cowen and Company - Analyst*

Okay. Thanks for taking the questions.

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**Operator**

Your next question comes from the line of Jon Groberg with Macquarie.

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**Jonathan Groberg** - *Macquarie Research Equities - Analyst*

Two questions from me. The first is, can you just describe was this a competitive process? And just kind of looking at the multiple, relative to more recent transactions that you have done and others have done, it's obviously much lower, can you maybe talk a little about the process of acquiring One Lambda, and maybe why it is that you think you won, if it was a competitive bid?

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

Sure. So thanks for the question. This is a business that we've had dialogue ongoing since 2008, from recollection, and has been continual dialogue over the years. So it's a business that we've known, talked to, thought about. They certainly did a market check in terms of what partners were potentially available to them. But I think that ultimately, working that relationship for four or five years helps you create the right dynamic, and we feel very good about the valuation on this transaction. We think it's a great opportunity to strengthen our strategic position, improve the offering from a customer perspective, and clearly create a lot of shareholder value here.

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**Jonathan Groberg** - *Macquarie Research Equities - Analyst*

Okay. Maybe just as a follow-up, I know people have been talking about competition but Gen-Probe bought one of their competitors earlier. I'm just curious, some of maybe the valuation you got or some of the outlook associated with this business, is it fair to say it's kind of uncertain at this time? How important is the technology transition that you anticipate happens, and how long does that take? Maybe you could describe a little more detail kind of what your assumption is for that over the next five years.

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

I think when you break the businesses into its two components, I think the 80% of the business around solid organ transplantation, there's not a lot of technology shifts that are going on, and we don't anticipate significant shifts because the other technologies that are out there do not provide new medically relevant information. So on the bone marrow side over time, there will be other technologies that are possibilities, and we've assumed that, like most diagnostics, there is an adoption but it typically is very slow. And our thinking is at some point years into the future we



may OEM some new technologies, beyond just what we do currently, but it's not a requirement in terms of how we thought about from the deal economics here.

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**Jonathan Groberg** - *Macquarie Research Equities - Analyst*

One last one, thinking about this whole market, is One Lambda -- I know you have other HLA-type products in house -- but is it the type of business as you move into more of the blood typing business, are there -- you need to bulk up around this particular product offering in terms of other things that you do, or is it, given what you have internally, is that enough in order to have the scale and the size in this particular market? Thanks.

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

This is a business with good scale. You don't need to buy other things. You don't need to get into blood typing or infectious disease diagnostics or any other things that might look something similar. This is an incredibly specialized business, of which we participate in immunosuppressant drug monitoring, and they participated really in the specific preparation for the transplantation. We're kind of big on the post transplantation monitoring. This does not require us to take other acquisition actions in the future.

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**Jonathan Groberg** - *Macquarie Research Equities - Analyst*

Okay. Thanks.

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**Operator**

Your next question comes from the line of Peter Lawson with Mizuho Securities.

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**Eric Criscuolo** - *Mizuho Securities USA - Analyst*

This is Eric Criscuolo filling in for Peter. Just on the growth side of things, can you maybe talk about how the geographies have been growing for One Lambda?

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

Yes, from a geographic perspective, Brazil and emerging markets are small, but the fastest-growing part of the business historically, and the US has been mid to high single digit growth.

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**Eric Criscuolo** - *Mizuho Securities USA - Analyst*

And Europe, is that flat or --?

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

Europe is up but I think pretty similar to what the US has been.

**Eric Criscuolo** - *Mizuho Securities USA - Analyst*

Great. Thank you. And then on the emerging markets, is there anything in the medical practices that has to change before you see significant penetration in those markets, or is the foundation in place where you could just come in with your distribution and supply chains and start taking share in those markets?

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

The foundation exists in terms of the medical practice. Transplantation is a specialty that you can think of that the knowledge base is global. It's obviously a very specialized field, so the role of diagnostics is very important to the medical work flow, if you will. So this is really us just getting the right commercial infrastructure in place to tap into those growing needs for transplantation.

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**Eric Criscuolo** - *Mizuho Securities USA - Analyst*

Great. Thank you very much.

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**Operator**

Your next question comes from the line of Isaac Ro with Goldman Sachs.

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**Isaac Ro** - *Goldman Sachs - Analyst*

First off would be, just I think you touched on market share dynamics. Wondering if you could comment on where you think market penetration is for this platform, given your ability to take a lot of the business direct with your distribution over time.

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

From our perspective, the business is well-penetrated in the US market, and our thinking is that because of the strength of those customer relationships, we'll be able to increase the penetration of Thermo Fisher share into the One Lambda customers in the US. Outside the United States, primarily there's a significant share gain opportunity, as well as the potential for good market growth, and there it's leveraging Thermo Fisher's strength to help One Lambda grow more quickly.

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**Isaac Ro** - *Goldman Sachs - Analyst*

Just a follow-up on the numbers. If the deal were to close today, could you ballpark what the borrowing costs would be on the new debt?

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**Pete Wilver** - *Thermo Fisher Scientific Inc - SVP and CFO*

In terms of percentage?

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**Isaac Ro** - *Goldman Sachs - Analyst*

Yes.

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**Pete Wilver** - *Thermo Fisher Scientific Inc - SVP and CFO*

Somewhere between 2.5% to 3% average, going out a little bit longer on the curve just because of the attractive rates right now.

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**Isaac Ro** - *Goldman Sachs - Analyst*

That's all from me. Thanks a bunch.

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**Operator**

Your next question comes from the line of Sung Ji Nam with Cantor Fitzgerald.

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**Sung Ji Nam** - *Cantor Fitzgerald - Analyst*

Just two quick ones. Did you mention what the split is between cash and debt for the transaction?

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**Pete Wilver** - *Thermo Fisher Scientific Inc - SVP and CFO*

We're borrowing \$1.3 billion to fund both the acquisition and the buyback. So you can say it's almost 100% debt.

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**Sung Ji Nam** - *Cantor Fitzgerald - Analyst*

Okay. And then going back to the HLA market, it sounds like as recently as last year, I think there's some projections out there that it's growing in the double digits, so was curious as to, in terms of your market growth projections, is that being conservative, or has there been a significant slowdown within the -- I guess within the HLA market in the recent -- in the last year or so?

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

Yes, we've looked at a lot of different market surveys out there. There's not a really great source of information historically. And when we look at the primary research we did in diligence, we think the mid to high single digits is a good projection. So it's not saying that we think the future is less bright than the past. It's just a matter of what we think is a reasonable set of assumptions going forward.

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**Sung Ji Nam** - *Cantor Fitzgerald - Analyst*

Great. Thank you.

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**Operator**

Your next question comes from the line of Dan Leonard with Leerink Swann.

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**Dan Leonard** - *Leerink Swann & Company - Analyst*

Could you offer some insight into the profitability trend at One Lambda over the past few years? Have margins been increasing, decreasing, staying flat?

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**Pete Wilver** - *Thermo Fisher Scientific Inc - SVP and CFO*

Margins have been pretty consistent over the last few years. As we said in our assumptions here, we're assuming we're going to make some investments in the business as well as garner some synergies. So going forward, probably a little bit less profitable in the near term with profitability returning to historical levels after a few years.

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**Dan Leonard** - *Leerink Swann & Company - Analyst*

Okay. Thank you. And then my follow-up, Pete, did I hear correctly at the beginning that any potential change to guidance from the share repurchase would be addressed at a later call?

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**Pete Wilver** - *Thermo Fisher Scientific Inc - SVP and CFO*

Yes. We'll update our guidance on our Q2 earnings call.

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**Dan Leonard** - *Leerink Swann & Company - Analyst*

Thank you.

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**Operator**

Your next question comes from the line of Derik De Bruin with Bank of America.

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**Derik De Bruin** - *BofA Merrill Lynch - Analyst*

A lot of my questions have been answered, so I'll fish around the periphery. So you have about \$250 million remaining on your existing share buyback. How much did you buy back during Q2?

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**Pete Wilver** - *Thermo Fisher Scientific Inc - SVP and CFO*

\$100 million.

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**Derik De Bruin** - *BofA Merrill Lynch - Analyst*

\$100 million during Q2, great. And what's been the sales CAGR at One Lambda? Pick a time period, say, over the last five years. Is it in that kind of high single digit growth rate?

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

Yes. Depending on the year, it's been high single digits. There's been years there's been double-digit growth, low double-digit growth if you go back historically.

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**Derik De Bruin** - *BofA Merrill Lynch - Analyst*

You said gross margin is obviously higher. Can you put a specific number on that?

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**Pete Wilver** - *Thermo Fisher Scientific Inc - SVP and CFO*

For this size of business, I don't want to give specific numbers out, but it's definitely higher than the average. It's comparable to our other diagnostic assets.

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**Derik De Bruin** - *BofA Merrill Lynch - Analyst*

Okay. And I guess how big is your immunosuppressive drug testing business?

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

It's part of a \$300 million business. It's obviously the minority of that \$300 million business that it's part of, but all of our drug monitoring businesses is of that scale, so that's the way to frame it up.

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**Derik De Bruin** - *BofA Merrill Lynch - Analyst*

Okay. Great. Thanks.

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**Operator**

Your next question comes from the line of Tim Evans with Wells Fargo.

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**Tim Evans** - *Wells Fargo Securities - Analyst*

I was just wondering what this does to your outlook for increasing ROIC by 70 to 100 basis points per year. Does this set that back at all?

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

So we took a look at that, obviously, when we talked about our forward look at the analyst meeting at the 70 to 100 basis points, that didn't include new acquisitions and divestitures. However, when you pro forma this in really over that period, it affects the number by about 10 basis points, so it's very immaterial change to the number and we would stay within that range with this acquisition.

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**Tim Evans** - *Wells Fargo Securities - Analyst*

Okay. Great. And then just one follow-up. Can you disclose what you expect this to do to your depreciation run rate?

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

It's a very small number, a couple of million dollars.

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**Tim Evans** - *Wells Fargo Securities - Analyst*

Okay. Great. All right. Thank you.

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**Operator**

Your next question comes from the line of Nandita Koshal with Barclays Capital.

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**Nandita Koshal** - *Barclays Capital - Analyst*

Good morning. Thanks for taking the question. Could you give us a sense for how the market splits between US and developed markets versus emerging markets? Just trying to get a sense for what that opportunity looks like today.

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

Today the US is well over half of the global market, but we see particularly China having a very rapid growth in transplantation activities. So we see the growth rates much faster outside the United States.

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**Nandita Koshal** - *Barclays Capital - Analyst*

Okay. Marc, some of those more prominent emerging market opportunities, could you talk to us about the products that are offered in those markets, are they specifically tailored, are they different from the products that One Lambda sells in developed markets? And what does the pricing and reimbursement environment look like in those target emerging markets?

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

The products are the same, in terms of the technology, so you don't have to go through different products. When you think about reimbursements, and when we looked at profitability by geography, other than the fact they go through distribution channels, so there's some margin capture by distributors today, the fundamental economics aren't particularly different by geography. When you think about transplantation, it is a very, very costly set of medical procedures, of which diagnostics is a very, very tiny proportion of the total. One Lambda has been able to carve out a very attractive business globally.

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**Nandita Koshal** - *Barclays Capital - Analyst*

My last one. The \$10 million in additional investments over the next few years, could you give us a sense for where they're going, and then if there are any prominent pieces within that? Thank you.

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**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

Sure. We want to be able to scale up the operations. We want to be able to make some select investments in technology development as well. So really making sure that this industry leader continues to scale very effectively for a very bright future. That's where the \$10 million of investments are. I think it's one of those things where you have a great business and we want to make sure it's got a really great outlook.

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**Nandita Koshal** - *Barclays Capital - Analyst*

Thanks, Marc.

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**Operator**

This concludes the question-and-answer session. I would now like to turn the call back over to Mr. Marc Casper for any closing remarks.

**Marc Casper** - *Thermo Fisher Scientific Inc - President, CEO*

So thank you for joining us this morning. We're very excited by One Lambda, and what it will bring to our specialty diagnostics customers and their patients. And the growth opportunities it will bring to Thermo Fisher, as well. The acquisition, as well as our new stock buyback are excellent examples of how we're effectively deploying our capital to create shareholder value. Thank you for listening today, and for your support of Thermo Fisher Scientific. Have a good day.

**Operator**

Ladies and gentlemen, this concludes the conference call. A replay of today's conference may be accessed by webcast, or by dialing 800-585-8367 from the United States, and 404-537-3406 from outside the US. The conference ID number is 97432945. The replay and webcast will be available through July 27. Thank you. You may now disconnect.

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