

December 2021

# Tecan

## Market profile

Country	Switzerland
Sector	Life Science & Diagnostics
Market cap (CHF million)	6'963
52-week high / low (CHF)	602 / 356.11
Price per share (CHF)	550

## Key metrics (CHF)

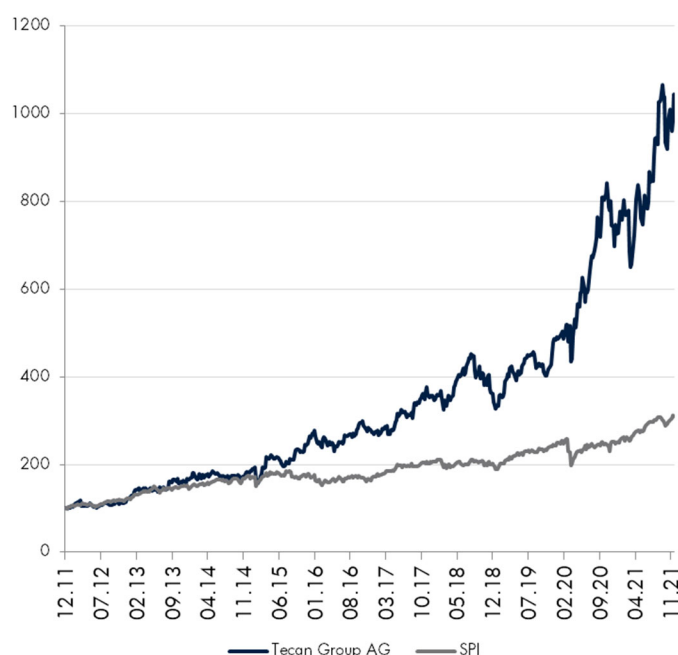
	2020	2021e	2022e
EPS	8.6	12.3	12.4
PE	44.4	44.9	44.5
P/Book	8.13	5.82	5.43
Dividend yield	0.51%	0.51%	0.55%

## Executive summary

Tecan is a supplier of high-quality laboratory instruments and automation solutions, in particular for pharmaceutical and biotech companies as well as for clinical diagnostics. Tecan's products pave the way for quicker, more precise and reproducible results in laboratories. Tecan's focus is primarily on the Western world (Europe and North America). It serves many small life sciences clients as well as several very important OEM clients such as Agilent, Abbott, Quest Diagnostics and Thermo Fischer. The respective instruments and relevant software solutions are often modularized, offering attractive combination options for clients, but also scalability and easier upgrades for Tecan. The company benefits from strong secular trends such as population ageing, high levels of investment in healthcare, the development of targeted pharmaceuticals and of genetic testing.

Evolution of stock price with respect to benchmark (rebased)

Source: IAM



## Investment case

Tecan enjoys a good reputation with its laboratory automation solutions. With the acquisition of Paramit, Tecan has entered the OEM sector of medical devices, especially for surgeries, and has thus significantly broadened its addressable market. Even after the Paramit acquisition, the balance sheet remains very solid, allowing scope for further bolt-on acquisitions in adjacent fields. Due to a strong increase in test volumes related to Covid-19, Tecan has benefited from a significant improvement in demand for instruments and consumables since 2020. However, with test volumes likely to decline in 2022 and many nations now having extensive testing capabilities, Tecan may face a reduction of its sales growth. Nevertheless, longer term, Tecan will still benefit from the structural growth drivers of an ageing population and automation needs of the pharma/biotech industry.

## Company description and history

Tecan was founded in 1980 by four engineers in the Swiss village of Hombrechtikon, with the aim to develop measurement, analysis and laboratory automation devices. The first offices were located in a renovated farmhouse, the family home of CEO and founder, Heinz Abplanalp. The vision of Tecan's management is to empower laboratories around the world with state of the art technology, products and support. The company aims to shape the future of automated workflows in life sciences and clinical diagnostics through unrivaled expertise, products and customer support. In less than four decades Tecan has grown from a Swiss family business to a market leader in laboratory automation. The company enables customers in the life science research and diagnostics sectors to put seminal discoveries into practices in their daily business thanks to laboratory instruments and comprehensive automation solutions – from basic science to prevention, diagnosis and treatment of diseases. Tecan also offers solutions for various applied markets such as forensics, environmental and crop research, the food and cosmetic industry as well as environmental and veterinary applications. Automation solutions include instruments, software packages, numerous configurable

modules, special application know-how as well as consulting.

## Group structure

Tecan operates through two divisions: Life Science Business and Partnering Business (OEM business) that complement each other. Through this structure, Tecan can offer the complete spectrum for different customer groups, from benchtop devices for basic research to sample-to-result solutions for in-vitro diagnostics companies. This puts Tecan in a unique position to combine insights from basic research with the requirements for solutions for routine in vitro diagnostics.

## Life Science Business

In the Life Science Business segment, Tecan distributes its branded products through its own market organization and distributors in more than 70 countries worldwide. Most of these customers work in the field of life science research and applied markets. Over one-third of sales in this segment are usually generated from customers in the diagnostics market, for example large reference labs. The diagnostic market is strictly regulated by national supervisory authorities, and each automation solution is

Fig. 1: Group's structure

Source: Tecan



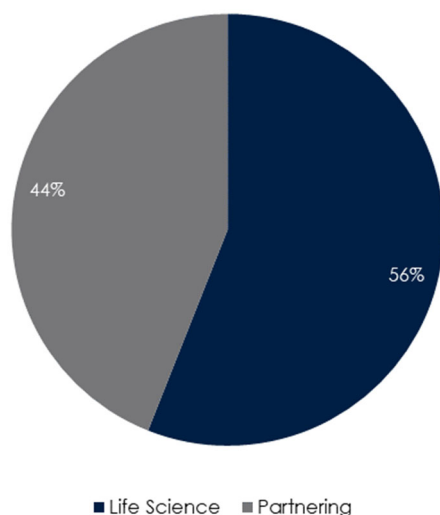
used within a clearly defined area of application.

Key application areas for the Life Science Business are:

- Genomics
- Protein analysis, particularly workflows of mass spectrometry
- Cell and tissue analysis

Fig.2: Revenue by business segments

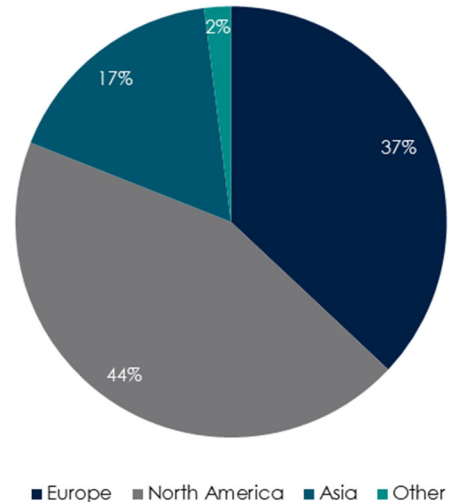
Source: Tecan



Within the Life Science Business, the largest instrument group is the scalable liquid handling platforms, which are used to pipette fluids with optimum precision and automate laborious and repetitive manual procedures. Tecan is the global market leader in this segment. The company also provides a wide range of bioanalytical instruments such as microplate readers and washers, which allow reactions to be monitored or specific analytes to be measured. Tecan works with numerous partner companies to integrate their test procedures or devices to provide comprehensive workflow solutions. Tecan's offering includes instruments, special software packages and application expertise as well as consulting, services and consumables. In the three core application areas, Tecan increasingly offers complete solutions.

Fig.3: Revenue by regions

Source: Tecan



## Life Science Business Strategy

The corporate strategy pursues three vectors to ensure sustainable, profitable growth.

### 1) Expanding the core business

The goal is to further increase Tecan's market leading position and gain market share through launching new products and expanding geographically. A continuous stream of innovations and market launches of new instrument platforms and variants thereof set the basis for future growth on the instrument side as well as for recurring revenues generated from services, consumables and reagents.

### 2) Building up further pillars in the instrument market

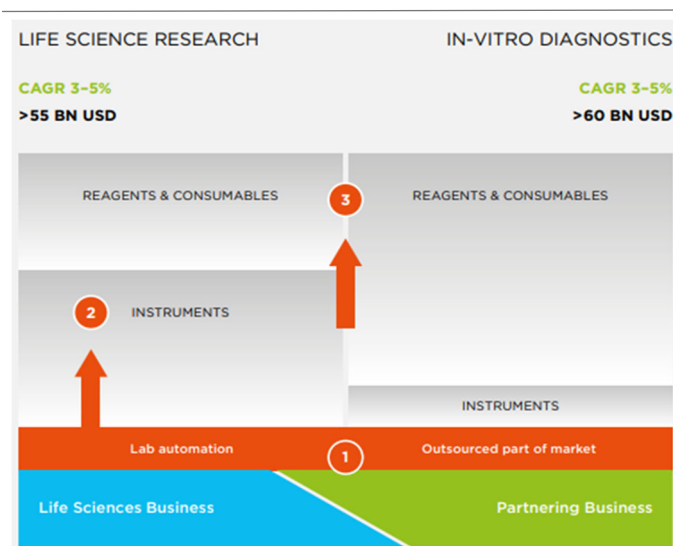
This applies to areas beyond conventional, open and flexible robotics solutions for liquid handling and microplate readers. In adjacent markets, Tecan sees opportunities to extend its traditional core business to grow faster than the overall markets for life science research instruments. This potential can be accessed both organically and through acquisitions.

### 3) Expansion of recurring sales

Tecan is increasingly seeking to provide comprehensive solutions in the areas of specialty diagnostics and life science research as part of the Life Science Business, including the reagents or functional consumables used during specific applications. This range of solutions open up new markets for Tecan, without competing with the typical in-vitro diagnostic customers in Tecan's Partnering Business.

Fig.4: Strategic framework

Source: Tecan



### Partnering Business (OEM business)

Tecan not only provides end customers with automation solutions but is also a leading developer and manufacturer of OEM instruments and components which partner companies sell under their own name. Tecan has been operating its OEM business since the company was founded 40 years ago. The share of this business segment in the total sales was 44% in 2020.

In the Partnering Business, Tecan manages corporate customers, who are mainly diagnostics companies, centrally via Key Account Management. In the component business, marketed under the Tecan Cavro brand, the company supports instrument manufacturers with essential components where they want to develop an instrument themselves. By contrast, in the instrument business, marketed under the Tecan Synergence brand, Tecan

takes over the development of the entire system, which it then manufactures under contract. In the Partnering Business, Tecan benefits from diagnostics and other life science companies outsourcing instrument development, either entirely or for specific parts, to specialists like itself. This enables these companies to focus on developing diagnostic or research-related tests. This trend has accelerated in recent years, especially in the development of instruments that automate novel applications such as gene sequencing or other molecular-diagnostic technologies. By outsourcing instrument development, customers are able, among other things, to shorten the time to launch while also gaining access to Tecan's innovative technologies.

### Partnering Business Strategy

The corporate strategy pursues three vectors to ensure sustainable profitable growth. Tecan's specific strategies allow it to drive forward customer projects with the respective business models of the business segments.

#### 1) Expanding the core business

Tecan is a partner of choice for automation systems and components for many companies in the in-vitro diagnostic industry. Tecan supports these partners with development, the associated ramp-up in serial production to full lifecycle management.

Key application areas for the Partnering Business are:

- Genomics workflow (Molecular Diagnostic, Next-Generation Sequencing)
- Protein analysis, particularly workflows of mass spectrometry and immunoassays
- Cell analysis (e.g. flow cytometry)
- Tissue analysis (e.g. advanced staining)
- Blood typing for transfusion medicine

Tecan has a broad base of OEM customers and is continuously increasing the number of development and supply agreements. As in the Life Science Business segment, there is also significant market potential for Tecan in the

Partnering Business in China. Sales have increased disproportionately in this region in recent years. Local device manufacturers are increasingly integrating Tecan components in various areas of application to ensure the necessary instrument quality and reliability.

## 2) Building up further pillars in the instrument market

In the Partnering Business Segment, Tecan mainly supplies diagnostics companies with instruments and components. Further pillars in the instrument market for life science research are therefore more of a focus in the Life Science Business segment at present.

## 3) Expansion of recurring revenues

In the last few years, sales from services, spare parts and consumables increased significantly. As in the Life Science Business, the disposable pipette tip business saw a substantial increase in demand due to COVID-19 testing. Tecan offers OEM customers a range of services after the product is launched via its global service infrastructure. The company can install instruments directly at the end customer's location, provide a helpdesk facility, train the OEM customer's service team and even handle the complete service portfolio for devices itself. In addition, Tecan maximizes instrument operation time by providing

a global spare parts service. OEM customers in the diagnostics market may benefit from Tecan's high-quality consumables such as certified pipette tips, which are an important component of validated workflow solution.

## Financial analysis

### Revenues

The evolution of sales has been spectacular in 2020 as the company benefited from a surge in COVID-19 related demand. Several of Tecan's instruments can be applied to PCR tests to identify Covid-19 infections. Furthermore, Tecan also offers the consumables and reagents needed to perform PCR tests. That said Tecan had only one year of negative growth in sales over the last decade. The pipeline of products is very strong and even if 2021 will suffer from a difficult comparison with the strong figures of 2020, the underlying business is very robust.

### Profitability

The group has maintained a good EBIT margin at an average of 14.7% over the last 12 years. This is especially remarkable as in the meantime, the gross margin has been under pressure. However, 2020 was an ex-

Fig.5: Expansion of recurring revenues

Source: Tecan

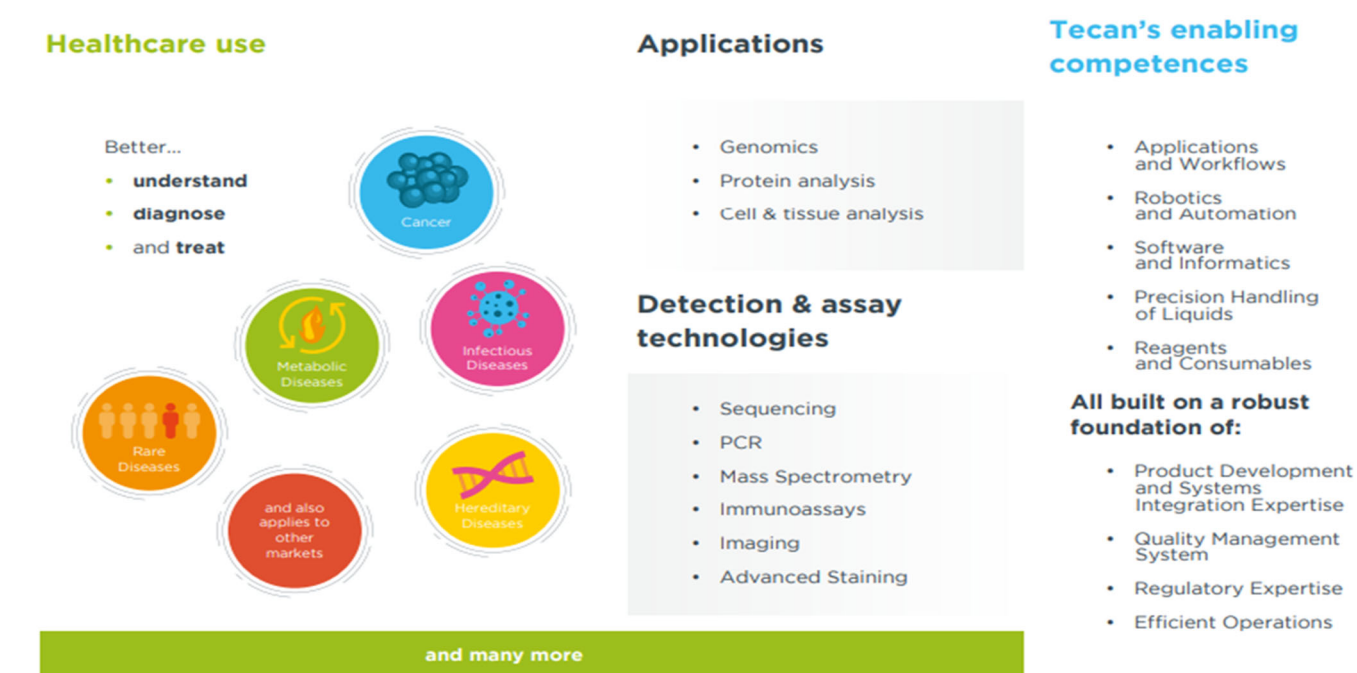
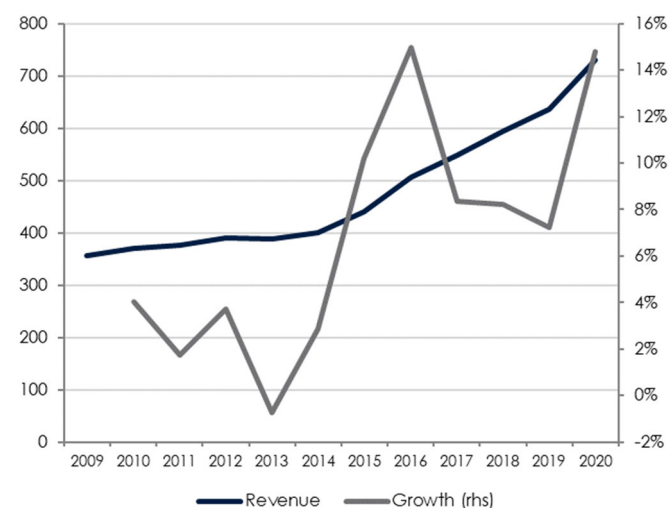


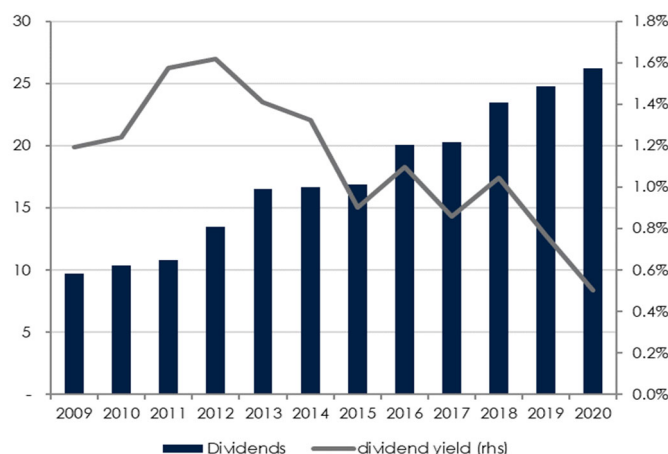
Fig.6: Evolution of company's revenue  
Source: Tecan



traordinary year and Tecan is among those companies which benefited from the Covid-19 pandemic, both in terms of volumes and pricing power. We acknowledge that sales of consumables could continue to benefit from a pandemic which appear to be longer lasting than anticipated, but we doubt the sale of hardware and automation solution will increase at the same pace as Tecan's client are now fully equipped.

2020 there would be some room to increase the dividend. However, Tecan is a growth company and prefers to invest in growth opportunities as exemplified by the Paramit acquisition announced in June 2021.

Fig.8: Evolution of dividends  
Source: Tecan



### Strong balance sheet

The company's balance sheet is still very strong after the acquisition of Parmit for CHF 920 million. The company raised CHF 250 million through a four-year bond yielding 0.05% and rated BBB+ by CS and ZKB. In addition, Tecan issues 650 thousand shares, representing approximately 5.4% of the company's currently registered share capital. As a result, the 2021 proforma debt to equity ratio will decrease to 5.3% from 7.3% in 2020.

Fig.9: Debt to equity ratio  
Source: Tecan

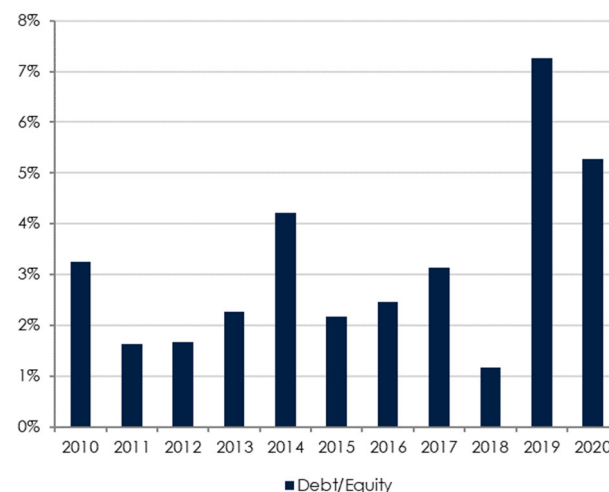
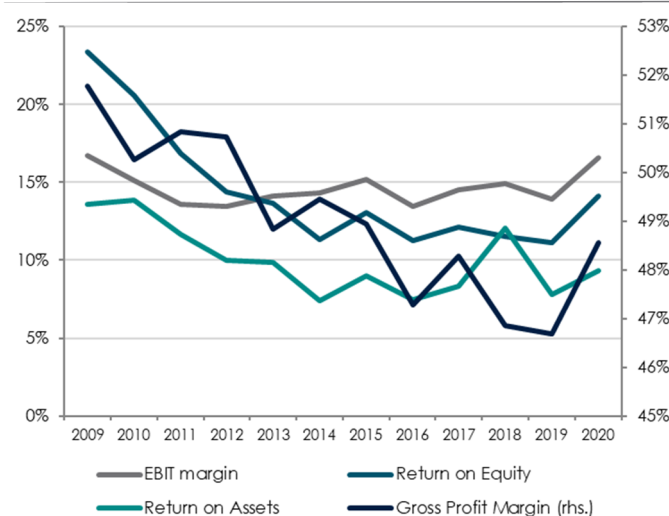


Fig.7: EBIT margin, RoE, RoA, Gross profit margin  
Source: Tecan



### Capital distribution

Tecan has always increased its dividend (if only slightly) over the last 12 years. With a payout ratio of 25% in



## ESG considerations

### Tecan's vision and purpose

The company's systems, components, consumables and reagents help people working in clinical diagnostics, basic and translational research and drug discovery bring their science to life. Tecan hereby has a unique position to bridge from research to diagnostic settings.

Tecan's purpose is threefold:

1) Understand and fight disease.

Accelerate discovery of disease mechanisms and development of novel treatments.

2) Further impact

Drive translation of research insights into compliant clinical solutions at scale.

3) Broaden access

Provide labs globally with efficient and effective diagnostic solutions.

### Responsibility for climate protection

Concrete quantitative reduction targets for CO<sub>2</sub> emissions have been set for the first time in 2019. In an initial step, Tecan is looking to reduce by at least one third the absolute direct and indirect (scope 1 and 2) emissions from 2020 to 2022. As a company, Tecan is aiming to become climate-neutral over the medium term. To do this, Tecan is working on a series of measures and evaluating whether, how and when the company can achieve and implement this aim. Tecan has participated in the annual Carbon Disclosure Project (CDP) for several years, allowing its results to be made publicly available.

### Employees' diversity, inclusion and well being

Tecan has a very cosmopolitan workforce comprising employees from 50 countries and is increasingly present in all global regions. The basis for working with Tecan is an open, diverse and integrated culture that focuses on dealing with one another respectfully, with the same

rights and opportunities for all employees. To guarantee this, strict personnel policies were established that are binding at all of the group's companies around the world. To support the advancement of female managers, Tecan became a member of WeAdvance in 2020. WeAdvance is a network of over 100 companies in Switzerland with a mission to actively increase the promotion of women in management positions at Swiss companies. In 2020 Tecan also introduced a diversity mentoring program. The purpose of the program is to embrace, support and empower diversity.

### Governance

All the members of the Board of Directors are non-executive members and none of the Board members was formerly a member of the Management Board of Tecan Group during the year under review or the three preceding periods. The Board is composed of a minimum of one and a maximum of seven members, who are elected for a term of one year. Re-election is permitted. The Chairman of the Board is elected by the General Meeting. In 2021 the Board consists of seven members, including two women. The Board has established three committees: the audit, compensation and nomination & governance committees.

The Management Board is responsible to implement the strategy approved by the Board of Directors. The Management Board consists of nine people, including two women.

### Investment case

Tecan enjoys a good reputation with its laboratory automation solutions. The Life Sciences segment addresses end-customers and the Partnering segment targets OEM clients. Tecan now also generates around 45% of its sales from services and recurring sales from consumables. With the acquisition of Paramit, Tecan has entered the OEM sector of medical devices, especially for surgeries, and has thus significantly broadened its addressable market. However, as the direct overlaps with Paramit are quite limited, the integration is subject to certain risks. Even after the Paramit acquisition, the balance sheet remains very solid, allowing scope for further bolt-on acquisitions in adjacent fields. Due to a strong in-

crease in test volumes related to Covid-19, Tecan has benefited from a significant improvement in demand for instruments and consumables since 2020. However, with test volumes likely to decline in 2022 and many nations now having extensive testing capabilities, Tecan may face a reduction of its sales growth. Nevertheless, longer term, Tecan will still benefit from the structural growth drivers of an ageing population and automation needs of the pharma/biotech industry.

## SWOT analysis

### Strengths

Tecan has an excellent reputation as high-quality automation solutions and laboratory instruments.

Conservative, experienced top management.

Strong balance sheet and good cash flow generation.

### Weaknesses

The business is still strongly focused on the US / Western Europe.

The instrument business can be somewhat cyclical, as it is

partly dependent on investment budgets.

### Opportunities

The business benefits from strong structural growth trends, reinforced by ongoing pressures to reduce costs in the healthcare system.

The services and consumables business is increasingly gaining importance and is highly profitable

External growth to expand in Asian markets.

The Paramit acquisition significantly broadens the addressable market for Tecan.

### Threats

New products developments do not meet sufficient client demand, or no longer allow sufficient differentiation from the competition.

Covid-19 temporarily provided a strong boost for Tecan, but it is questionable how much of the sales of instruments and consumables will be sustained over the long term.

Fig.10: Tecan's structural growth drivers

Source: Tecan

