A Discussion On Recent Lab Market Trends

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Important Disclosures can be found in Appendix
Cleveland Research Overview

• **Cleveland Research Company**
  – Equity research firm started in June 2006
  – Cover 4 industries, 15 analysts
  – 70+ employees

• **Stock Market Research**
  – We do in-depth financial research on publicly traded companies
  – Our clients include the 125 largest institutional investors such as Fidelity, Alliance Bernstein, and T. Rowe Price.

• **What Sets us Apart?**
  – We go to greater lengths than most of our peers to find out what’s new and what is changing with the companies we cover.
  – We spend a large amount of time talking with customers, suppliers, distributors, and competitors.
  – Our clients find this differentiated and highly value-added compared to other firms
What Else Do We Do?

• Provide Research & Consulting to Industry Participants

• Entering 3rd Year of Market Research Consulting
  – Came About Due to Desire from Industry Players
Topics To Be Covered

• Recent Industrial & Environmental Lab Trends
• Themes & Changes With Major Lab Suppliers
• Key New Products From Suppliers
• Other Industry Themes
RECENT INDUSTRIAL & ENVIRONMENTAL LAB TRENDS
Demographics of Survey Participants

- Typically 60-80 Labs Per Quarter
- Type Of Lab
  - ~40% Industrial, ~40% Environmental
  - ~80% Are Independent Labs
- 60-75% Of Labs Employee 100 People Or Less

Source: ACIL
Demographics of Survey Participants

- 50-55% of Labs Are ACIL Members
- Why Does This Matter To You?
  - These Labs Are Your Peers And Provide A Base Of Comparison For Your Business

**Industrial Lab Research**
3Q13 - Labs Who Are ACIL Members

- **Yes**: 55%
- **No**: 45%

Source: ACIL
Lab Testing Volumes Have Slowed

Industrial Lab Research
Test Volume Growth Yr/Yr

Industrial Lab Research
Net % Of Labs Seeing Better Than Expected Volume Growth

Source: ACIL
Per Test Pricing Remains Positive

Industrial Lab Research
Net Prices Per Test Yr/Yr

Source: ACIL
However Revenue Growth Has Slowed

Industrial Lab Research
Revenue Growth Yr/Yr

3Q11 4Q11 1Q12 2Q12 3Q12 4Q12 1Q13 2Q13 3Q13
-1% 3.8% 2.7% 1.3% 1.8% 1.1% 0.4% 1.3% 1.8% 3.8%
-3% 3.1% 4.7% 3.8% 2.7% 1.3% 1.8% 1.1% 0.4% 3.1%

Industrial Lab Research
Revenue Compared to Expectations

3Q11 4Q11 1Q12 2Q12 3Q12 4Q12 1Q13 2Q13 3Q13
-22% -21% -9% -7% -26% 3% 15% 14% -7%
-30% -20% -10% 0% 10% 20% 30% 40% 50%

Source: ACIL
WHAT HAS THE IMPACT BEEN ON LAB BUDGETS?
Lab Equipment Spending Slowing

Industrial Lab Research
Lab Equipment Spending Yr/Yr

Source: ACIL
Consumable Spend Remains Weak

Industrial Lab Research
Lab Consumables Spending Yr/Yr

Source: ACIL
Sequestration Has Also Hurt Some Labs

Industrial Lab Research Impact From Sequestration

~30% Of Labs Have Been Hurt By Sequestration

Source: ACIL
Equipment Budgets Have Tapered

Industrial Lab Research
Current Year Equipment Budget

Source: ACIL
And So Have Consumable Budgets

Industrial Lab Research
Current Year Consumable Budget

Source: ACIL
RESEARCH OUTSIDE OF ACIL LABS HAS ALSO SEEN DEMAND SOFTEN
Industrial Distributors Sales Have Softened

Private Industrial Distributor Monthly Sales Growth

Net Percentage of Distributors Exceeding Plan

Source: Cleveland Research surveys
Industrial Distributors Sales Have Been Below Forecast

Private Industrial Distributor Monthly Sales Versus Plan Trends

Net Percentage of Distributors Exceeding Plan

Source: Cleveland Research surveys
Demand Expected To Remain Similar Through Year End

Private Industrial Distributor Survey
Sales Outlook For Remainder Of Year

Source: Cleveland Research surveys
THEMES & CHANGES WITH MAJOR LAB SUPPLIERS
Lab Distributor Market Share

Industrial Lab Research
Primary Lab Consumable Supplier

Fisher Scientific  VWR  Other

Source: ACIL
Update On ThermoFisher

Fisher Has Been Taking Share...

• Fisher Strategy Started Changing 1/1/2012
• Thermo Fisher Has Been Net Gainer in Contracts Past 18 Months
• VWR Suffering Internal Disruptions
• Gain Greater Share of Wallet
• Recent Acquisitions Have Also Helped This Strategy
...And It Shows In VWR’s Results

VWR Funding, Inc.
Internal Growth Rates vs. TMO Lab Products Business

VWR Wins Several Large Pharma Contracts

TMO Wins Pfizer Contract

Source: Company Reports
Life Technologies + Thermo Fisher = ?

- LIFE = 23% of Combined Company
- Will Shift to Be More Consumable/Recurring Revenue Going Forward
- Integration of ThermoFisher Products on Life’s Website & Vice Versa
- Impact on Competitors of Life Deal
- Sigma Aldrich Also Tried To Buy Life
  - What are the Implications?
Sigma Aldrich Update

• Seeing Pharma Consolidation Headwinds Lift
• Aggressive Pricing on Solvents
• Sales Force Re-Org at Start of Year
• New Focus on Dealers as Partners
• Hitech Bulk Business (LED’s) Has Been A Drag
Sigma Aldrich Outlook

• Potentially Looking for Big Acquisition Since Missed on Life Technologies

• Potential for New Competition
Agilent Update

• Research Suggests Have Been Aggressive On Equipment Prices For Past 18-24 Months
• Likely To Launch New Mass Spec Technology In Next 6 Months
• Refocusing Of Business On Life Sciences
• Focus On Margin Improvements, New Products
• Service Offering Struggled To Find Traction In Environmental Labs Due To Small Lab Size
Agilent Outlook

• Exit of High End NMR & Implications
• Increased Pricing Aggression on Analytical Equipment
• Company Announced Intention To Split Up Business In 2014
KEY NEW PRODUCTS INVESTORS ARE PAYING ATTENTION TO
Agilent Has A New GC In 2013

• 7890B GC
  – Launched In February 2013
  – Pairs With New 7000 System
  – Last Major GC/MS Platform Launch Was ~6 Years Ago
PerkinElmer Launching Into GC/MS

- **AxION iQT GC/MS/MS**
  - Launched At 2013 ASMS
  - Can Be Paired With Any GC
  - $200k vs. Competition $300-$400k
  - Benchtop, Small Footprint
  - High End TOF With Ease Of Use
  - Expected To Be ~$20mm In 2014 Sales
  - Shipping In Late 2013
Thermo Fisher Has Had Several Mass Spec Launches In Past 18 Months

• ASMS 2013
  – Tribrid Fusion
  – TSQ Endura
  – TSQ Quantiva

• ASMS 2012
  – GC/MS TSQ 8000
  – Exactive Plus Orbitrap
Food Safety Modernization Act....Finally

• Passed House Originally In 2009
• Signed Into Law January 2011
• Required Higher Standards For Imported Food
  – Ability For FDA To Make Food Recalls
  – Authorizes More Regular Inspections
• Originally Set For Implementation In July 2012
  – In August Judge Ruled That Bill Can No Longer Be Delayed, Regulations Beginning To Be Implemented
Will Amazon Be Impactful?

• Advantages
  – Provide Availability of Products for Customers too Small for Fisher/VWR
  – Possibly Entering Chemical Distribution
  – Great Analytics for Vendors, Payment Terms

• Disadvantages
  – Can’t Provide Service Levels of Fisher & VWR
  – Limited on Chemical SKU’s Offered
  – No Distinctive Price Benefit for Customers……Yet
Will Amazon Be Impactful?

Cleveland Research Company
Amazonsupply Lab Related SKU's (in thousands)

117% Growth Since May 2012

Source: Cleveland Research
Will Amazon Be Impactful?

Life Science Industry
Product Offering Breadth - # of Products

Source: Cleveland Research, Company Reports
Hasn’t Gained Significant Traction Yet

Industrial Lab Research
Labs Currently Ordering From AmazonSupply

Source: ACIL
How Will Industry Look In 1-2 Years?

• VWR & Merck KgAA Changes in 2014
• Will Gov’t Spending Comeback?
• Impact From Thermo/LIFE Deal
Questions & Answers

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Appendix

- **Disclosures:** We, Steve Willoughby, Mike Henry, and Adam Doehrel certify that the views expressed in the research report(s) accurately reflect my personal views about the subject security(s). Further we certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report(s).

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