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Earnings Call

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Presentation

Operator

Hello, everyone, and welcome to Revvity's Third Quarter 2024 Earnings Conference Call. My name is Lydia, and I will be your operator today. [Operator Instructions]

I'll now hand you over to Steve Willoughby, Head of Investor Relations, to begin. Please go ahead.

Stephen Barr Willoughby

Senior VP of Investor Relations & Head of ESG

Thank you, operator. Good morning, everyone, and welcome to Revvity's Third Quarter 2024 Earnings Conference Call. On the call with me today are Prahlad Singh, our President and Chief Executive Officer; and Max Krakowiak, our Senior Vice President and Chief Financial Officer.

I'd like to remind you of the safe harbor statements outlined in our press release issued earlier this morning and also those in our SEC filings. Statements or comments made on this call may be forward-looking statements, which may include, but may not be limited to, financial projections or other statements of the company's plans, objectives, expectations or intentions. The company's actual results may differ significantly from those projected or suggested due to a variety of factors, which are discussed in detail in our SEC filings.

Any forward-looking statements made today represent our views as of today. We disclaim any obligation to update these forward-looking statements in the future, even if our estimates change. So you should not rely on any of today's statements as representing our views as of any date after today. During this call, we will be referring to certain non-GAAP financial measures. A reconciliation of the measures we plan to use during this call to the most directly comparable GAAP measures is available as an attachment to our earnings press release.

I'll now turn it over to our President and Chief Executive Officer, Prahlad Singh. Prahlad?

Prahlad R. Singh

CEO, President & Director

Thank you, Steve, and good morning, everyone. Revvity's strong execution was again on display during the third quarter, which enabled our total revenue, adjusted operating margin and adjusted EPS to each come in better than we had anticipated. Our strong execution led to our adjusted operating margins increasing by 80 basis points year-over-year to 28.3% in the quarter, which shows the positive impact our productivity initiatives are having on our cost base and incrementals.

We also had another great quarter from a cash perspective as well. We generated \$135 million of free cash flow in the quarter, resulting in 100% conversion to our adjusted net income so far this year. Given our strong cash performance, we remained aggressive with our share repurchase program and returned over 100% of our cash flow in the quarter to shareholders via buybacks and dividends.

As we look ahead to the final quarter of the year, we expect our diagnostic businesses to continue to perform at a very strong level, and we are continuing to experience positive momentum in our life science reagents and software businesses.

In addition, given that as of September we lapped the 1-year anniversary of the most significant pharma industry pressures seen in many years, we remain optimistic that market trends are continuing to stabilize and that the worst of the headwinds are likely behind us. However, since we have yet to see a more material conversion of our funnel into orders, we are now factoring in a more subdued end-of-year spending environment for instrumentation from our pharma customers as compared to our previous expectations.

This is in part due to the continued delays with instrument purchasing in China as stimulus has still not yet begun to meaningfully flow, resulting in customers remaining on the sidelines while they wait to see if

they will receive any of these funds. We expect this change to result in our fourth quarter total company organic growth to be in the range of 3% to 5%. This brings our full year organic growth outlook to now being in the range of 0% to 1%, modestly below our previous assumptions.

While the rate of recovery is not progressing quite as quickly as we had anticipated, I'd note our updated outlook continues to remain several hundred basis points above the market. Additionally, I'm proud to share that our strong operational execution enables us to again raise our adjusted earnings per share guidance for the full year. While Max will provide more details in a bit, we are now looking for our adjusted earnings per share for the full year to be in a new range of \$4.83 to \$4.87.

As I first shared last quarter, based on the feedback from our customers, including those I met with last month while I was in China, we continue to feel demand in our key pharma biotech markets is making measured progress towards more normalized levels. I expect that this path towards normalization will continue over the coming months and likely persist as we move into the next year.

Given that we continue to remain very optimistic about our future performance and what it will mean for our company, we plan to remain active with our share repurchase activity for the rest of this year. Our Board recently approved a new \$1 billion share repurchase authorization over the next 2 years, replacing what was left on our prior authorization.

The new authorization and its larger size speak to both our strong cash flow performance and balance sheet stability while also recognizing the significant potential we still have in front of us from an investor awareness and understanding perspective.

During my recent visit to China, I was able to meet with our teams, customers and key government partners while also inaugurating our new Revvity innovation center in Taichung. It was a motivating visit for me personally as I was able to see how in just our first year teams have significantly embraced Revvity's collaborative culture. Their passion was overflowing as it pertains to our key focus areas as a company from both a commercial and scientific perspective.

I can also share that despite geopolitical headlines, from our perspective, the environment in China remains positively dynamic. I came away from the trip feeling optimistic about the future of our business in the region and with increased confidence that the measures the government has recently enacted should translate into improved market conditions for our industry as we head into the next year.

During the quarter, we also continued our focus on innovation with the successful launch of several new products that utilize cutting-edge technologies and help address emerging areas of medical investment. For instance, we recently introduced PhenoLOGIC AI, a new AI-driven offering for our high-content screening instruments.

This solution builds on our existing Signals Image Artist software platform taking image analysis to the next level. It uses pretrained AI models to enable the analysis of bright-field images, allowing for fast and robust identification of cellular structures resulting in enhanced live cell data with the ability to increase functional data for screening samples.

With this solution now launched, we will also be more able to rapidly deploy additional AI algorithms for our instrument platforms in the future. It was also exciting to see several different teams from across the company come together to quickly develop, launch and begin to commercialize another new AI-based offering in our Diagnostics business.

The new Revvity transcribed AI service, which was introduced at a key newborn screening conference a few weeks ago provides clinical labs a new way to highly automate what is currently a time-consuming task of transcribing handwritten patient information from individual samples. This novel product, which leverages both AI and optical character recognition, increases workflow speed by approximately 40%, even when including the time required for data verification.

This is just another small example of how we can quickly capitalize on opportunities as a team to better serve our customers and enable us to maintain our industry-leading market positions.

Also in our Diagnostics business, a few weeks ago, our EUROIMMUN team launched a new genotyping solution in Europe to help better assess a patient's risk for possible side effects of new therapies coming to market to treat Alzheimer's disease. We expect the market opportunity for this APOE gene-focused assay to increase significantly as anti-amyloid therapies become more widely available in Europe in the future.

Building off our response to the pandemic, a big focus for us has been working to better strategically partner with key government collaborators. This focus was recently highlighted in an important announcement from the U.S. government agency, BARDA, who late last month awarded us a contract of over \$9 million to be used towards furthering the development of a novel diagnostics platform.

While it will likely be several more years before this platform is ready for commercialization, receiving a contract of this size from such an important U.S. federal government agency is a testament to both our strong relationships and the level of novel science that is taking place within the company. We are excited to share more with you about our future innovations and the company overall at our upcoming Investor Day on November 21 which will be hosted at our San Diego campus. We have a great day planned for you to better understand what makes Revvity so unique, why we have such a high degree of confidence in financial performance differentiation and how we are capitalizing on the opportunities in front of us through strong collaboration across the business resulting in our ability to bring meaningful new offerings to the market.

I hope you can join us in person out in California later this month. In addition to visiting us at our Investor Day, I also hope you can come meet with us in the future at a brand-new corporate headquarters in the Boston area, just down the road from our old offices. We celebrated the grand opening of the modern and high-tech space just 3 weeks ago. It perfectly embodies our commitment to embracing technology and collaboration and was designed to inspire and energize our teams while also being financially accretive to our bottom line.

I look forward to welcoming more of you to experience this state of the art facility in person. We have been making great progress as a company since becoming Revvity. But I also think it is paramount that what we do and the way we do it contributes positively to both our employees and the societies in which we live. These contributions were highlighted in our recently published 2024 impact report.

I'm proud to share that our Scope 1 and 2 emissions were down 7% in 2023, while our facility in Colorado recently won a pollution reduction award from the EPA. Also highlighted in the report was how we continue to have a strong and diverse leadership team with robust governance programs in a high degree of overall employee satisfaction. What we do at Revvity is positively impacting the world every day. But our focus on how we accomplish this work is also very important. So it's great to see these efforts on display in this key annual publication.

Overall, we had a good third quarter across the board. Our markets are making measured progress on the path to normalization with some categories further along that path than others, and we continue to diligently execute on those items that are more fully within our control at an extremely high level. I look forward to connecting with many of you either in person or virtually at our upcoming Investor Day in a few weeks where I'm excited to share more with you about Revvity.

With that, I will now turn the call over to Max.

Maxwell Krakowiak
Senior VP & CFO

Thanks, Prahlad, and good morning, everyone. As Prahlad mentioned, we performed well in the third quarter, and we're again able to exceed our earnings expectation for the quarter. I was also extremely pleased to see our focus on cash generation continued as our free cash flow conversion to adjusted net income remains 100% year-to-date, which is truly outstanding performance.

Pharma/biotech demand continue to remain stable with year-over-year growth returning for our life sciences reagents, while instruments continues to remain under pressure, particularly in China and was down more than we had anticipated overall.

This was offset by strong performance in our diagnostics businesses across both reproductive health and immunodiagnostics. As we look ahead, we continue to feel that the worst is likely behind us in the markets which have been under pressure over the last 2 years as the demand recovery is continuing its path towards more normalized growth rates in the future.

Our Diagnostics and Software businesses continue to perform at a very high level, given their strong underlying market trends, significant innovation and consistently strong commercial execution. As we had suggested a quarter ago, we became more active with our buyback activity in the quarter, which we anticipate will likely continue, given our strong balance sheet and cash flow performance this year.

Our future remains extremely bright, and we believe being more aggressive with our repurchases in the near term will provide significant returns for our shareholders. Now turning to the specifics of our third quarter performance.

Overall, the company generated total adjusted revenues of \$684 million in the quarter resulting in 2% growth in organic revenue, which was in line with our expectations. FX was neutral to growth, and we again had no incremental contribution from acquisitions.

As it relates to our P&L, we generated 28.3% adjusted operating margins in the quarter, which was up significantly versus third quarter 2023 and roughly 30 basis points above our expectations. We were again able to keep our operating expenses relatively flat sequentially on a dollar basis, resulting in strong incrementals.

I continue to be impressed by the impact our team's actions are having on our expense structure, which I believe should allow us to expand margins at an industry-leading rate as industry demand continues to recover.

Looking below the line, our adjusted net interest and other expense was \$7 million in the quarter as we are benefiting from our strong cash inflows and the favorable interest environment against our fixed rate debt. Our adjusted tax rate was 15.3% in the quarter, which was lower than our expectations due to the favorable impact of our recent tax planning initiatives.

With an average diluted share count of 123 million for the quarter, this resulted in adjusted EPS in the third quarter of \$1.28, which was \$0.16 above our expectations.

Moving beyond the P&L. We had another strong quarter from a cash perspective as we generated free cash flow of \$135 million in the quarter. This brings the free cash flow generated year-to-date to \$427 million, resulting in a 100% conversion of our adjusted net income. Cash remains a bright spot as we continue to leverage AI-based tools and fine-tuning internal processes that allow us to appropriately manage working capital.

Considering this strong year-to-date performance, we now expect free cash flow generation to be approximately \$550 million resulting in approximately \$700 million of total cash inflows when accounting for the additional cash payments already received related to our recent divestiture.

As for capital deployment, as I mentioned, we remained active in the third quarter by repurchasing \$154 million worth of shares. Through October, our total spend on buybacks is over \$200 million. Given our intention to continue to remain active with the buyback, we also recently received a new \$1 billion repurchase authorization from our Board, which replaced what was left on our previous authorization and provides us the flexibility to remain aggressive with our share repurchases. We finished the quarter with a net debt to adjusted EBITDA leverage ratio of 2.1x after retiring roughly \$700 million of debt that came due in mid-September.

Our balance sheet is strongly positioned with 100% fixed rate debt with a weighted average interest rate of 2.6% and maturity out another 7.5 years. As we evaluate capital deployment, we will continue to remain flexible in order to capitalize on the highest return opportunities while maintaining our investment-grade credit rating.

I will now provide some commentary on our third quarter business trends, which is also included in the quarterly slide presentation on our Investor Relations website. The 2% growth in organic revenue in the quarter was comprised of a 3% decline in our Life Sciences segment and 5% growth in Diagnostics.

Geographically, we grew in the low single digits in both the Americas and Europe, while Asia was flattish with China declining low single digits. From a segment perspective, our Life Sciences business generated adjusted revenue of \$301 million in the quarter. This was down 2% on a reported basis and 3% on an organic basis.

From a customer perspective, sales to both pharma/biotech customers and academic and government customers declined in the low single digits in the quarter. Our life science reagents grew in the mid-single digits in the quarter and were up modestly sequentially on a dollar basis, in line with our expectations.

Our Life Science instruments revenue declined in the low teens year-over-year, which, as mentioned, was worse than anticipated. Our Signals software business declined in the mid-single digits as it faced known headwinds relating to the timing of renewals.

We continue to expect very strong performance for the Signals business in the fourth quarter, resulting in expected organic growth for the full year to still be in the low double digits overall.

In our Diagnostics segment, we generated \$383 million of adjusted revenue in the quarter, which was up 6% on a reported basis and 5% on an organic basis. From a business perspective, our Immunodiagnostics business grew in the mid-single digits organically during the quarter, in line with our expectations. The business continues to perform well with high single- to low double-digit growth across all regions on a year-to-date basis.

Our Reproductive Health business grew in the high single digits organically in the quarter. Newborn screening continued to perform well and grew in the low double-digits in the quarter globally, which is driven by outstanding operational and commercial execution given the continued headwinds from global birth rates.

As we had anticipated, we saw a sequential and year-over-year improvement in the quarter related to the Year of the Dragon with improved results in both our prenatal and newborn businesses in the region.

Finally, our Applied Genomics business declined in the low single digits in the quarter, which resulted in its total revenues being up mid-single digits sequentially. After over 2 years of fairly consistent double-digit declines, the modest decline in the third quarter was another promising sign that this business had now stabilized.

We expect its year-over-year performance to again improve here in the fourth quarter as this business now appears to be solidly headed on the right path toward recovery. As it pertains to China specifically, our revenue in the country declined in the low single-digits year-over-year overall, which was modestly below our flat expectation. This consisted of an approximately flat performance for Diagnostics and a high single-digit decline in Life Sciences.

Within Life Sciences, we saw a strong growth in reagents, offset by a double-digit decline for instrumentation, as customers continue to delay their capital equipment purchases ahead of stimulus arriving. Based on recent feedback from our teams, we remain confident that stimulus will eventually positively impact customer behavior in the region, but we continue to believe this is largely going to have an impact in 2025 and beyond.

In regards to our outlook for the fourth quarter, we are seeing strong performance across most of our businesses outside of those where pharma/biotech customer activity is continuing to gradually improve. Given that we are not seeing these customers return to more normal spending patterns as of yet, we are now assuming that the typical end-of-year pickup in demand for capital equipment continues to remain lower than it has historically been.

This is resulting in our organic growth outlook for the fourth quarter now being in the range of 3% to 5%, which brings our updated full year outlook for organic growth to approximately 0% to 1%. With updated

currency assumptions given the weaker dollar over the last few months, this brings our expected full year 2024 revenue to be in the range of \$2.75 billion to \$2.77 billion.

Despite a modestly lower overall revenue outlook, it is great to see that we are able to continue to have very strong margin performance and reiterate our outlook for our adjusted operating margins to be in a range of 28% to 28.5% this year. This translates to our adjusted operating margins in the fourth quarter expected to be a little over 30%.

As I highlighted earlier, we are making good progress on our cash generation and interest expense management, allowing us to now expect our net interest expense and other to be approximately \$43 million for the year, down from our prior estimate of approximately \$50 million.

We are also making good progress on our tax planning initiatives. We now expect this progress to result in our full year adjusted tax rate to be approximately 19%, down from our prior 20% outlook. With our strong operating margin outlook and good execution on below-the-line items, we are raising our full year 2024 adjusted earnings per share guidance to a new range of \$4.83 to \$4.87.

As I've already touched on, we expect this increased earnings outlook and our strong working capital performance to result in our free cash flow to now be approximately \$550 million, up quite significantly from our outlook coming into this year.

In addition to this internally generated cash, we also have received another approximately \$150 million in cash so far this year related to our recent divestiture. Overall, we had a strong third quarter and are executing well as our diagnostics and software businesses are performing very well, and our Life Science businesses continue to gradually improve.

We are expanding margins year-over-year this year and generating significant amounts of cash, which we are accretively putting to use, allowing us to raise our adjusted earnings guidance for the year.

I look forward to many of you joining us in a few weeks out in San Diego, so that you can learn more about Revvity, what makes us unique and why we are so excited about our future and its potential. With that, operator, we would now like to open up the call for questions.

Question and Answer

Operator

[Operator Instructions] Our first question today comes from Mike Ryskin with Bank of America.

Michael Leonidovich Ryskin

BofA Securities, Research Division

Great. Congrats on the quarter, guys. Max, maybe first one for you. You just touched on it a little bit there in terms of the moving pieces in the quarter and how that impacted your 4Q outlook. I just want to clarify a couple of things. You touched on instruments a couple of times, you touched on pharma and biotech.

You touched on China. Could you break those down a little bit? Maybe deconvolute for us, what changed in the quarter and how that's driving your new view? Just sort of like how much of it is instruments in China versus instruments globally, pharma and biotech in China versus pharma and biotech globally? Just want to get a clearer picture of what changed and what's really behind the increased caution for 4Q?

Maxwell Krakowiak

Senior VP & CFO

Yes. So as we looked at our full year outlook as a result of the third quarter performance and the expectation for the fourth quarter really the change in our organic growth assumption of going from the 2% to the 0% to 1% range is all driven by the instrumentation assumption. So it was the weaker -- slightly weaker performance in the third quarter and then a reduced outlook on the return to the sort of normal seasonality in the fourth quarter.

So that is really the fundamental driving change. I would say, as you look at the pharma biotech dynamic, that is the majority of where our instrumentation is sold to. So that is the biggest end market. And I think as you look at it globally, China was definitely a bigger piece than we had anticipated. As we mentioned, customers are pausing as they wait for stimulus. U.S. and Europe, I would say, were relatively in line to maybe slightly lower than our expectations, but the U.S. is definitely probably the one market that continues, I would say, to return to normal faster than the other regions.

Michael Leonidovich Ryskin

BofA Securities, Research Division

Okay. That's helpful. And then for my follow-up, I know you don't typically guide to 2025 at this point, but maybe I'll just ask it a sort of a framing question. A couple of your counterparts have given some early commentary on 2025, just given it's still a very fluid environment. You're exiting this year at about 4% organic for the fourth quarter.

Your LRP is 6% to 8%. Just given everything you said about China and instruments, it doesn't seem like 2025 is going to be a normal year. Is 4% to 5%, maybe 4%, kind of where you're exiting in the fourth quarter, is that a good starting off point for us to think about next year for organic growth? And where are the puts and takes to that?

Prahlad R. Singh

CEO, President & Director

Mike, this is Prahlad. Let me help with that question. We'll provide guidance on 2025 at our 4Q call. I will say that, it appears that the worst is behind us, and demand has started to recover. What we just really need to see is what is the rate of recovery and how quickly it normalizes. Our plan is to take the next couple of months to have the best read as possible at the time. And I really feel that strongly that normalization will likely take us into the first quarter of -- or the first half of 2025.

Operator

Our next question comes from Vijay Kumar with Evercore ISI.

Vijay Muniyappa Kumar

Evercore ISI Institutional Equities, Research Division

Prahlad, maybe my first one on what happened in the quarter phasing, where it looks like Instruments, Applied Genomics was the major delta. Was -- did things worsen as the quarter progressed, or was this more perhaps the lack of recovery towards the end of the quarter? And what is Q4 assuming for Instrumentation and Applied Genomics? Is the guide here conservative enough in your mind?

Prahlad R. Singh

CEO, President & Director

Yes, Vijay. As we said in our prepared remarks, Vijay, the fact is that we are seeing sequential improvement quarter-over-quarter, which is a very good sign that we see continued stabilization. And then as I said to Mike's question, we really feel that the worst is behind us.

But the fact is that the path to normalization may take a little longer than previously expected, which is primarily the reason for us lowering our instrument expectations for 4Q '24. Specifically, as Max mentioned, the instruments in China were worse because of the pause or the delay in the expectation from our customers as to when the stimulus funding come is when they will release it, which we now see into the first half of 2025 or more into the first -- going into the first quarter of 2025.

So I would say that's the way I would calibrate. I don't think things are not going worse. Things continue to sequentially get better. It's probably the path to it is more, I would say, gradual than as we would have expected an uplift coming into the fourth quarter.

Max, anything to add there?

Maxwell Krakowiak

Senior VP & CFO

No.

Vijay Muniyappa Kumar

Evercore ISI Institutional Equities, Research Division

Understood. And maybe for a follow-up here. I think share repo stood out with a new authorization. Your 150 million repo implies the average price of around current levels, \$120-ish. The -- I guess, given where the stock is right now, how should we be thinking about the pacing? Will revenue be more opportunistic around share repurchases in the near term? And -- sorry, just to clarify on -- is Applied Genomics and instrumentation expected to grow in Q4? I know some of the comps get easier. Just if you could clarify that.

Maxwell Krakowiak

Senior VP & CFO

Yes. I can clarify on the numbers before Prahlad can jump in on the share repurchasing, Vijay. So from a numbers perspective, in the fourth quarter, we now expect Instrumentation on the Life Sciences side to be declining mid-single digits. And for our Applied Genomics business, we anticipate roughly flat levels to what we saw here in the third quarter.

Prahlad R. Singh

CEO, President & Director

Thanks, Max. On the share repo, Vijay, as I said in our prepared remarks, we continue and the Board continues to be very optimistic about our future performance and what it will mean for our company. And we plan to remain active with our purchasing activity on the share side. As you mentioned, the Board recently approved a \$1 billion repurchase authorization for the next 2 years.

The new authorization and in its size should speak to ourselves about the confidence both, and then what you saw with our strong cash flow performance and the balance sheet stability, but also more importantly,

recognizing the potential that we have in front of us and from an investor awareness and understanding perspective.

Operator

Our next question comes from Dan Leonard with UBS.

Daniel Louis Leonard

UBS Investment Bank, Research Division

I want to make sure I better understand the trends in reproductive health that I think it was a low double-digit growth rate in newborn screening. How much of that was China compared to growth worldwide? And what does that look like in the year of the snake as opposed to the dragon?

Prahlad R. Singh

CEO, President & Director

Yes. Let me start with the horoscope part first. The year of the dragon definitely helped. But it was -- we have started seeing improvements in birth, but we haven't seen it to the level, for example, when the last year of the dragon happened, which was -- whenever it was, this is more subdued than that.

And we expect the improvement or the increase in births to China to continue. The government has taken a lot of measures and continues to be very diligent and it's something of extreme focus for them. So we do expect it to gradually improve, but not going back to what it was the last time this happened.

And the next year is the year of the snake, which is considered the smaller drag. And so we expect that to be -- we expect that to be on a positive trend.

Maxwell Krakowiak

Senior VP & CFO

Yes. And I would just say, as we look at the new reproductive health performance overall, to your point, Dan, it is driven by the strong performance in our newborn business globally growing low-double digits. China grew in the high-single digits in the quarter. So the rest of the globe grew a little bit faster than that.

I think it's a combination of 2 things. One, we continue to see traction on our commercial initiatives around geographic and menu expansion for our reagent portfolio. And then secondly, there were some, I would say, higher-level instrument placements in the period as some customers refresh their budgets based on their fiscal calendar.

Daniel Louis Leonard

UBS Investment Bank, Research Division

Okay. And just to stick with China Diagnostics for a moment. Can you comment on Immunodiagnostics performance in China and what is the outlook there? A couple of the peers have flagged incremental headwinds.

Maxwell Krakowiak

Senior VP & CFO

Yes. So we look at the China Immunodiagnostics performance was right in line with expectations. The Q4 assumption has not changed that business. For the full year, we anticipate that business to be growing roughly around mid-single digits in China. And so I think for that, it's kind of steady as she goes.

Again, I think we've mentioned that our immunodiagnostics business in China is not like the other diagnostics players, so I would caution referencing their commentary and linking it directly to our business.

Operator

Next in queue, we have Andrew Cooper with Raymond James.

Andrew Harris Cooper

Raymond James & Associates, Inc., Research Division

Maybe just a quick one. Last quarter, we spent a little bit of time talking about some of the innovation in TB in terms of the additional automations. Would love just sort of an update there, how that's trended through the quarter and kind of where we are in terms of U.S. launch, hopefully, with that updated automation? And then I have a follow-up as well.

Prahlad R. Singh

CEO, President & Director

Andrew, on the TB, we expect the launch now to be more in a first quarter of 2025. So it did get pushed out from what we expected it to be in the fourth quarter with some questions that we are going back responding to and be more of a 1Q 2025 launch.

Andrew Harris Cooper

Raymond James & Associates, Inc., Research Division

Okay. Helpful. And then I'm sure we'll talk more in a few weeks about it, but just given the size of the repo authorization over the next 2 years, should we be reading anything into how you think about M&A and capital deployment from that? And maybe just in addition to that, what are you seeing in the M&A pipeline in terms of seller behavior? Any changes in terms of activity in the environment or anything you could call out there would be great.

Prahlad R. Singh

CEO, President & Director

Yes, it's a very good question. Look, and as I have said this before and I'll say it again, we will continue to remain active and diligent on building a strong pipeline on the M&A. It's just that the targets that we are looking at and the valuation expectations, I don't think have changed a whole lot. And then I think from our perspective, we see a lot more value right now within our own valuation, and we want to make sure that we take advantage of that opportunity.

Operator

The next question comes from Luke Sergott with Barclays.

Luke England Sergott

Barclays Bank PLC, Research Division

I just want to dig in here on the drug discovery side. A lot of mixed signals coming here from various CROs and then from the other tools players, especially when we have the midyear cuts and pipeline rationalization is continuing, especially on large pharma. So could you guys just give us a view of how you guys are seeing any impacts there to the quarter and to the updated outlook, Reagents came in a lot better than we expected. Just kind of want to understand the puts and takes there.

Maxwell Krakowiak

Senior VP & CFO

Yes. I think we've covered it broadly in the script as well as some of these initial Q&A, but really the change in the market versus what our anticipation was coming into the third quarter is really related to, I would say, just the instruments normalization not happening as quickly as we had anticipated. Things are definitely not getting worse, but it is a slower rate of recovery.

I think as you look at the other areas of our business that are exposed to sort of the preclinical drug discovery areas. Reagents performed well in the period, again, returning to mid-single digits growth. It was relatively in line with our expectations. And as we look at the fourth quarter, we're expecting a similar volume level from our reagents business. I think also on the software side, our software business continues to perform well. We anticipate that business finishing the year growing low double digits for the full year, and we're excited about the potential of that business over the next 2 to 3 years.

Luke England Sergott*Barclays Bank PLC, Research Division*

Great. And then I guess, when you guys think about the China stimulus, I didn't think you guys had much stimulus baked into the prior guide. And so now that you're -- when you're talking about the instrument weakness, particularly in China, around the stimulus kind of resulting in the guide down, give us an update like what happened there? And more longer term, how do you guys view this stimulus flowing through and how your funnel is building there.

Prahlad R. Singh*CEO, President & Director*

Luke, you're right. Our expectations were not much, but actually, the performance came out worse in the sense that customers who we expected to buy irrespective of the stimulus also have taken a pause to see if they are able to get funding, and that's where we saw worse performance in China vis-a-vis the stimulus.

Operator

The next question comes from Dan Brennan with TD Cowen.

Daniel Gregory Brennan*TD Cowen, Research Division*

Great. Sorry to go back to the fourth quarter, but I just want to fully understand what's changed. If I can just on to some quick math. So if instruments were 12% of revenues and I believe previously, you were thinking a nice recovery in 4Q, maybe the mid-teens that would get you to your total company growth rate, which is around 10%. And now if you're saying instruments are down 5%, I would assume those changes to the other parts of the business. Otherwise, I would need instruments to be down 30% to get to your new guidance of 4%. So can you just maybe walk through beyond instruments kind of what else maybe might have changed in terms of the applied guide for the fourth quarter?

Maxwell Krakowiak*Senior VP & CFO*

Dan, I think the other piece you've got to factor into is the Applied Genomics business as well, if you're just looking at the Life Sciences instrumentation piece of the overall business. The other piece I would mention as well is look, as you look at the second half guide, as I mentioned, really the only thing that has fundamentally changed is our assumptions on the Life Sciences instruments and Applied Genomics. The rest of the business is in line with our expectations and for what we had set out for the second half of the year.

Daniel Gregory Brennan*TD Cowen, Research Division*

Okay. That's fine. We can cover maybe offline, too, as well, Max. And then maybe just a high-level one, the elections tomorrow. Just wondering like if Trump is elected, how he might think about possible implications, who knows what ultimately will pass, but he's talking about super high tariffs on imports from China, similarly, 20% tariffs on Rest of the World and who knows what kind of reaction China would have.

But I mean we have a predicate a little bit going back to the last time he was President. So Prahlad I know you were just over in China, just how we think about the possible impacts and any kind of planning strategies you could make to mitigate some of this?

Prahlad R. Singh*CEO, President & Director*

Dan, the last thing I want to do is speculate on elections at our quarterly earnings call. The results will be what the results will be. From our perspective, as a company and as most of our peers and the whole

industry, we all prepared for all scenarios. I think it would be best to see what the results of the elections are. And we have an investors call coming up in 3 quarter.

Long term, from China's perspective, as you know very well, Dan, what we have done is we have -- our strategy has been in China, for China. And that has worked during all the election cycles, and we're very confident in the ability to continue to execute for our customers in China from China.

Operator

The next question comes from Puneet Souda with Leerink Partners.

Puneet Souda

Leerink Partners LLC, Research Division

The reagents business was up mid-single digits, and I'm sure we're going to get more details on that at the Investor Day. But just can you elaborate what's sort of behind that from the BioLegend customers? Peers are still down in the RUO antibodies business. So obviously, this is better versus the peers. But just you talked about North America and Europe being positive, but biopharma and academic were both down low-single digits. So I'm just trying to parse out what's happening in the reagents business and maybe what customers or applications are where you're seeing the traction or is it just largely comps?

Prahlad R. Singh

CEO, President & Director

No, I think it's continued sequential improvement as you look at it through quarter-by-quarter. And then I think that speaks to somewhat on the diversity of our portfolio on the reagent side. Obviously, you mentioned BioLegend, but sRNA from Dharmacon, our HTRF, our ELISA kits, the whole portfolio continues to do very well globally.

So I think it's not just one segment that I would call out that outperformed our overall reagents business in pharma and biotech, continues to perform to our expectations. And I would say that speaks to the strength and the diversity. And it relates to pharma programs, whether it's around GLP-1s or others where we continue to see traction with that portfolio.

Puneet Souda

Leerink Partners LLC, Research Division

Got it. And then in China, just wondering given the challenges sort of you're seeing with the instrumentation and your recent visit there, what's your sense and the level of confidence about instrumentation purchases if stimulus was to come through? And again, the timing of that hasn't been super clear, but just wondering if you can elaborate more there on the instrumentation side in China?

Prahlad R. Singh

CEO, President & Director

Sure. We've continue to remain very optimistic on the stimulus program and overall on the pipeline and the portfolio that we have. The number of proposals that the team is working on day in and day night in submitting on the stimulus programs gives us a strong degree of confidence irrespective of the yield that we would get out of the stimulus.

So look, the government is serious about ensuring that the economic activity takes an uplift. They are strongly supportive of the life sciences and diagnostic tools sector, and that behooves well for us and our peer group. So I would say the way I would assess this and calibrate it is that yes, it did not happen in 4Q of 2024 and it's more of a 2025 activity, but at the same time, it also gives you a sense of seriousness and diligence that both the government and those that are applying for these loans are putting in place. So we expect this to be a driver for growth in 2025.

Operator

Next, we have Dan Arias with Stifel.

Daniel Anthony Arias

Stifel, Nicolaus & Company, Incorporated, Research Division

Prahlad, I wanted to actually take the opposite side of that China question there. Just based on your visit, what are you hearing from customers and your sales teams when it comes to 2025 demand outside the stimulus dynamic and outside of the instrument dynamic? I mean I know it can be hard to separate out the government health component, but I'm just curious about overall sentiment on reagents, budgets, et cetera, specifically as it relates to the next 12 months or the next 14 months more than the multiyear? I know everybody still feels okay about the multiyear outlook.

Prahlad R. Singh

CEO, President & Director

That's a great question, Dan. I mean, as I said just 2 weeks ago, I spent a week in China meeting with government officials, customers. We have a strong KOL and advisory board, and we spent 4 hours with them going through market trends, end markets, what's happening and most importantly, with our team. I will say this unequivocally, the sentiment remains strong, especially in our sector.

There's a lot of optimism. There is a clarity on the government side to infuse elements that help to ensure that the economic recovery continues to be robust. And more importantly, our customers are telling that the products that we have put in place, the pipeline that we have coming out both on the diagnostic and the life sciences side are something that is relevant for the market and will gain traction.

So I think at a high level, what I will leave you with is that our strategy for -- in China for China is working and is one that we will continue to deploy. We -- as I mentioned in my prepared remarks, we just launched the Revvity Innovation Center in Taichung. It's a facility where we now have a fully contiguous competency and capability around early discovery, development, manufacturing, and we've put all these elements in place over the last several years to ensure that irrespective of the installation that the market has to -- if the market has to go through, our team in China is fully enabled to execute on its own.

Daniel Anthony Arias

Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. And Max, just really quickly, do you have a regional forecast for China for 4Q?

Maxwell Krakowiak

Senior VP & CFO

Yes, I think as we look at the fourth quarter for China, we anticipate it growing in the mid-single digits, that's predominantly driven by our diagnostics performance in the fourth quarter. As we had previously mentioned that we do expect Diagnostics to perform well in the fourth quarter. We also have a little bit of easier comps. We're not really assuming any change in the market environment on the life sciences side.

Operator

The next question comes from Matt Sykes with Goldman Sachs.

Matthew Carlisle Sykes

Goldman Sachs Group, Inc., Research Division

Prahlad, maybe a high-level question for you first. Given that you launched the transformation of this business into an increasingly weaker environment, we haven't really been able to see sort of the power of that transformation. We know that the recurring revenue is significantly higher than it had been in the past.

But as you think about going into a recovery and the operating leverage this new business has, is that why some of the recovery that we're seeing could be more gradual just because of that level of recurring revenue or do you feel like the operating leverage is still there in this business with a smaller portion of instruments, but still there? Just kind of how are you thinking about what revenue looks like into a recovery as we think about '25.

Prahlad R. Singh*CEO, President & Director*

I think maybe just to take a step back. Yes, I fully appreciate that the market conditions have been weak, when we launched Revvity in the midst of that. But I do want to make sure that we sort of don't lose sight of the fact that despite, I would say, anemic organic growth, we've increased our operating margin 80 basis points year-over-year in the quarter. And that shows -- I mean, if you look at our cost basis, incrementals, our strong cash flow performance, this is all because of the strategic aspects that we put into the place, and it is a direct result of that. And if we are able to execute, Matt, at such a strong level in an anemic market environment, imagine what the strength of the portfolio will be when the markets turn around.

And in regards to the market, I will say that if you look at the Reagents portfolio performance in the quarter, it is starting to show signs of stabilization and improvement. And as I have said earlier, the reagents are the first peek into the recovery. And that's why I keep going back to the fact and saying that we have started seeing stabilization. We feel that the worst is over. I think, obviously, the instruments are a big swing factor, and that's the impact that we are seeing. But overall, we see that reagents essentially coming back to what we hope in 2025.

Matthew Carlisle Sykes*Goldman Sachs Group, Inc., Research Division*

Got it. And Max, just drilling a little bit more on the Life Sciences side on the margins. You mentioned that margins were pressured, obviously, due to lower volumes, but also investments. Can you maybe talk about what some of those investments are? And in terms of how we should think about Q4 and beyond were those investments start to trail off a little bit as we continue the volume recovery to get a bigger level of margin expansion?

Maxwell Krakowiak*Senior VP & CFO*

Yes. Matt, in terms of the investments on the Life Sciences side, a couple of the more strategic areas of investments of us have been, one, around the GMP facility, which we've talked about and those that will be out in San Diego with us for the Investor Day will get a chance to see it, which will be exciting.

I think the second piece is around e-commerce and getting to one platform for us as a company. And then the third one is really around our Signals portfolio. We've launched a couple of products in the first half of this year. We continue to have a road map with additional launches here over the next couple of years.

And so that business will continue to be in a heavy investment cycle. As I step back again and maybe just reiterating some of the comments Prahlad mentioned in terms of our overall operating margin. We're maintaining our full year '24 operating margin despite cutting our organic growth here from 2% to now the 0% to 1% range.

So I mean, you could read into that and argue that if we had held the organic growth guidance, we would have already been at the upper end of our operating margin, if not above it. And I think that gives you a little bit of insight into, one, the execution the team is having on our productivity initiatives and driving our integration synergies, but also the power and potential of our incrementals in the business, once we return to a more normalized market environment.

Operator

Our next question comes from Brandon Couillard with Wells Fargo.

Brandon Couillard*Wells Fargo Securities, LLC, Research Division*

Two questions for you, Max. I'll squeeze them both in here. You talked about tax planning initiatives and the effective rate continues to trend below target. Do you think 19% is a good assumption going forward? And then secondly, free cash flow conversion obviously has been solid year-to-date. Do you still

think there's more juice to squeeze from working capital as you move into '25? Can you maintain 100% conversion next year?

Maxwell Krakowiak

Senior VP & CFO

Yes. So first, I'll start with the tax planning question. So again, we have revamped our tax team coming into this year, and I think we've seen the fruits and the benefits of that team and their execution. We have now lowered our full year expectation to 19%. I would say that most of those benefits we've received this year are structural in nature. And so we have essentially lowered our tax rates going forward. So that has been encouraging progress year-to-date.

I would say on the second one from a free cash flow conversion, again, this year has been incredibly strong performance. I do think there is still room to go from a working capital improvement standpoint, although the team has made tremendous progress this year with the increased focus as well as improving some of our operating processes and leveraging more digital capabilities. As we look into outer years, we've already kind of gone up that this business should be normally running at greater than 85% free cash flow conversion. We've also mentioned that we're going to continue to have a step-up in CapEx, which is offsetting or we're basically self-funding some of that step-up in CapEx with the improved working capital performance is probably the best way to think about it.

Operator

The next question comes from Patrick Donnelly with Citi.

Patrick Bernard Donnelly

Citigroup Inc., Research Division

Max, maybe a follow-up on some of the margin conversation a minute ago. I guess when you think about just high-level moving pieces into next year, I mean, obviously, the growth should hopefully come back a bit. Yes, I would think the mix, particularly for reagents pick up a little bit. I know that the higher margin business for you guys would be beneficial. Can you just talk about high-level tailwinds, headwinds on the margin piece?

Other companies have talked about things like incentive comp coming back. So would love to just talk about that high-level bridge and make sure we think about it appropriately.

Maxwell Krakowiak

Senior VP & CFO

Yes. Patrick. Again, I think we're going to reserve official 2025 commentary until our Q4 call. I think as you look at some of the dynamics that will play out next year. One is that I think really just the biggest assumption on what market environment we're going to look into. I think we've been out there and mentioned that if we are growing in line with a normalized market environment, we've talked about 75 basis points of operating margin expansion.

If it's a little bit lower than that, something in the 2% to 3% overall market range, we'd probably be closer to 50 bps operating margin expansion. And so I think we've already kind of put those framing comments out there. I wouldn't say there's anything I would have to call out in terms of a known headwind for us next year. I think we've already sort of normalized our cost bases as we headed into this year.

Patrick Bernard Donnelly

Citigroup Inc., Research Division

Okay. That's helpful. And then maybe just a follow-up on some of the reagents' conversations earlier. We've got a bunch of questions as the quarter went about things like the preclinical side. I think we've touched on that a little bit. Can you just talk about your exposure on that front and what you're seeing from that customer base? And just the right way to think about what the recovery path in reagent looks like again? Nice to see it back to the mid-single-digit growth here, just trying to think about the go

forward, just given some of the noise, particularly from the early-stage customers, what your exposure is there would be helpful?

Prahlad R. Singh
CEO, President & Director

Let me help with that one, Patrick. I mean, as you know, majority of our reagents are in the preclinical side of the business, given that our focus is on discovery and early discovery with pharma/biotech. So to your point, I think that's why it's a lot more encouraging to see that business coming back to growth and the reagents starting to perform.

I mean, as I mentioned earlier to, I think, it was Luke's question, we've seen broad-based recovery across our different business lines on the reagents side. So it's not that I could highlight one product line or one business line and say that has done well. And I think that is why that is what we feel encouraging about the portfolio there that whether it's ELISA, HTRF, BioLegend, Dharmacon, all of these product lines have done well.

Operator

Our final question today comes from Jack Meehan with Metron Research.

Jack Meehan
Nephron Research LLC

I was wondering if you could unpack the low double-digit newborn growth in the quarter. What are you seeing in terms of prenatal in China and that -- just how that's folding into the expectations for newborn screening?

Maxwell Krakowiak
Senior VP & CFO

Yes. So I think, again, as we look at the reproductive health performance in the quarter, Jack, I would say strong performance really globally. Newborn screening global, again, was up low double digits growth. I think as you look at prenatal, it was also a strong performance in the period. I think part of that, again, I had mentioned some of that was CapEx related in some instrument places, but then also there were pockets of actual underlying reagent growth, an increase in screening, that China was one of those geographies that also had the increase in screening, which again is linking to our expectations around the newborn business in China for the fourth quarter.

Jack Meehan
Nephron Research LLC

Got it. And then can you give us an update how did revenue mix perform? And I know you're not giving 2025 thoughts now, but maybe just any color on how the pipeline is shaping up there?

Maxwell Krakowiak
Senior VP & CFO

I think the -- I'll start with the pipeline. The pipeline continues to be extremely robust. I think it's something that we're incredibly excited about over the next couple of years. I think as we look at the performance of the business, Jack, this is -- last year, it was down 40% almost. I think for this year, we've returned to positive growth. I think it's been relatively consistent over the course of the year, has a little bit of tailwind to reproductive health overall, but it's definitely not driving the strong performance.

Operator

We have no further questions. So I'll hand back to Steve Willoughby for any closing comments.

Stephen Barr Willoughby
Senior VP of Investor Relations & Head of ESG

Thank you, Lydia, and thank you, everyone, for your time this morning. We look forward to seeing everyone in a few weeks on November 21 either virtually or hopefully, out in person in San Diego. Have a good day.

Operator

This concludes our call. Thank you for joining. You may now disconnect your lines.

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