

Eurofins shows strong improvement in cash flow generation for 2009 and increased underlying profits

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Eurofins has started 2010 with a lean, fit-for-purpose business that is now in position to capitalize on the hard work that was carried out throughout the Group during 2008 and 2009. The past year's results showed that in spite of the global recession underlying profitability is improving and particularly that Eurofins is capable of strong cash generation. This is a trend that the Group expects to continue once it has completed its five-year investment programme to bring all of its laboratories up to Eurofins' high standards, 90% of which has now been achieved. This is ahead of schedule due to a planned acceleration of the programme during the second half of 2009, although as a consequence the Group incurred a significant amount of one-off/reorganisation costs, which it would either not have spent at all or which were brought forward from future years. However, Eurofins is now able to focus on serving its customers around the world with the confidence that its offering and internal structure is now best-in-class.

Highlighted facts and figures of 2009 for Eurofins are as follows:

- Sales increased to €640.1m in 2009 from €632.8m in 2008
- "Clean" EBITDA* of €92m (excluding one-off/reorganisation costs) vs. €90m in 2008, with a better margin of 14.4% (2008 14.3%)
- "Clean" EBITAS** outperformed 2008 in the second half of the year by 16%, despite underperforming 2008 by 40% in the first six months
- In 2010 the Group will transfer almost all the remaining Under Development business, excluding start ups, into the Up to Standards perimeter, which will have a proforma revenue base of €610m, based on reported 2009 results, and a "clean" EBITDA of €102m
- Net Working Capital reduced by €1.1m (2009 €33.2m, 2008 €34.3m) despite sales growth
- Reduction in Net Debt in Q4 by €18.7m to €183.7m from €202.4m at end of Q3
- Net cash flow from operating activities up 7%, to €64.3m in 2009 (2008 €60.0m)
- Net cash used in investing activities decreased by 23%
- Positive Free Cash Flow*** of €1.4m, an improvement of 115% from -€9.4m in 2008
- On a "clean" basis, excluding the one-off/reorganisation cash payments, this was even more impressive: Free Cash Flow improved by 963% to €17.4m (2008 €1.6m)
- Managed reduction of FTEs in most of the Group's mature markets (Benelux, France, North America, UK) and total headcount reduction in Q4 (from 8,174 to 8,100) but continued strong growth in FTE in investment markets.

Table 1: Results Summary

€m	2009	2008
Revenues	640.1	632.8
"Clean" EBITDA	92.4	90.7
EBITDA	58.9	79.6
EBITAS	20.2	45.0
Net profit attributable to equity holders	-11.2	17.7
EPS attributable to equity holders (€)	-1.36	0.69

Total Assets	659.3	734.0
Shareholders Equity	203.0	219.1
Net Debt****	183.7	158.1
Net cash provided from operating activities	64.3	60.0
Cash and cash equivalents	54.4	131.7

In 2009 external market developments had a significant impact on Eurofins' progress towards its objectives. Reported revenues increased to €640.1m in 2009 from €632.8m in 2008. Overall organic growth for the full year was under 2%. In general Eurofins' business remained strong, particularly in Food & Feed testing where the Group's increasing ability to provide multi-site services is proving attractive with bigger global customers. However, as described in the press release dated 29 January 2010ⁱ, 2009 amounts to a lost year towards reaching a revenue goal of €1 billion. This was mainly due to the following combination of factors:

- negative developments in some markets (primarily some environment and preclinical testing areas);
- the discontinuation or sale of certain activities (e.g. BSE testing in cows is no longer required or considerably reduced in most European countries);
- the fall of the British Pound and Swedish Krona compared to the Euro; and
- a high degree of prudence on acquisitions.

Consequently the Group took the opportunity to shift its focus to internal development and to complete its "homework" of bringing acquired laboratories up to Group standards ahead of schedule. By the end of 2009 this programme had essentially been finalised or, where this was impossible (due to the need for new buildings for example), the associated reorganisation has been planned in detail and wherever possible the related costs provisioned in 2009. So, as noted above, although underlying profitability increased (the Group's "clean" EBITDA was €92m in 2009 vs. €90m in 2008 in spite of soft markets in some areas, due to the global recession), the main effect of this accelerated programme was that in the second half of the year and in particular in the fourth quarter a number of one-off/reorganisation costs were incurred, totalling €33m at EBITDA level and €40m before operating profit. Unfortunately this means that Eurofins reported a net loss attributable to equity holders of -€11.2m (2008 €17.7m net profit) and EPS attributable to equity holders of -€1.36 (2008 €0.69).

The areas where the bulk of the one-off/reorganisation costs were spent include:

- consolidation and disposal of a number of sites in Scandinavia, including the disposal of the Labnett business in Norway, the sale of which was forced by the Norwegian competition authorities;
- the closure cost of Eurofins' Netherlands Oosterhout Environment testing site, now being consolidated into the expanded and modernised Barneveld site, as a result of overlapping and superfluous tests;
- the discontinuation of the Viralliance business in Kalamazoo, USA as a result of disputes regarding certain of its intellectual property assets. Eurofins is involved in legal proceedings with BioAlliance S.A., the seller of that business, for non-disclosure of purported IP infringements but as of today no certainty exists as to the recoverability of these damages;
- closure/consolidation cost of sites serving industries which were severely affected by the recession in Germany;
- other smaller site consolidation costs throughout Europe, closure of non-core activities associated with recent acquisitions and the programme to bring all Group laboratories up to standards.

The split of these one-off/reorganization costs by geography is approximately as follows: Scandinavia €6m, Benelux €5m, USA €6m, Germany €8m, UK €6m and Others €9m.

The two reporting perimeters performed as follows:

- Up to Standards revenues increased to €513m in 2009 (vs. €501m in 2008). 2009 “clean” EBITDA of €97.1m was almost flat against €100.2m in 2008. Both revenues and EBITDA results reflect the fact that the weaker environmental and early stage pharma activities also affected up to standard businesses and so consolidation of some laboratories in this perimeter was carried out in the second half of 2009. Post one-off/reorganisation charges, EBITAS was €51m in 2009 (2008 €74m).
- In Under Development revenues were €127.3m (2008 €132m), as many of the discontinued activities were in this perimeter. “Clean” EBITDA showed major improvement: 2009 -€4.8m, 2008 -€9.7m. Post one-off/reorganisation charges, EBITAS was -€30.5m in 2009 compared to -€28.7m in 2008.

Table 2: Results by Perimeter: Up to Standards & Under Development

€ million	Up-to-Standards		Under Development		Group	
	2009	2008	2009	2008	2009	2008
Revenues	513	500	127	132	640	632.8
"clean" EBITDA	97	100	-5	-10	92	90
margin	18.9%	20.0%	-3.8%	-7.3%	14.4%	14.3%
One/off reorganisation costs	-17	0	-16	-10	-33	-10
EBITDA	80	100	-21	-20	59	80
EBITAS	51	74	-31	-29	20	45

The main success for Eurofins in this area was that the majority of the Group's business units should become Up to Standard in 2010 (IT systems integrated, management in place, consolidation of small, inefficient sites into large, modern state-of-the-art laboratories). As a result for 2010 the scope of the perimeters is an Up to Standards perimeter representing €610m of 2009 revenues and Under Development containing the remainder (€30m of 2009 sales). In both perimeters there is an element of revenues that have been discontinued in 2009 but going forward almost all Under Development revenues should represent start up businesses. On a proforma basis this new Under Development scope contributed an EBITDA loss of €10m in 2009.

Table 3: 2009 results presented under new 2010 scope

€ million	Up to Standards new 2010 scope	Under Development new 2010 scope	Group 2009
Revenues	610	30	640
"clean" EBITDA	102	-10	92
One/off reorganisation costs			-33
EBITDA			59

In 2009 Eurofins showed strong progress regarding cash flow generation, even after including the high one-off/reorganisation costs. Net cash flow from operating activities increased by over 7% compared to 2008, with contributions from a lower cash tax paid (2009 €9.5m, 2008 €12.0m), tight control over Net Working Capital which was 4.8% of revenues, and a higher depreciation charge following the recent years of investment (up 29% from 2008). Furthermore, Eurofins generated a positive Free Cash Flow during the year of €1.4m (2008 -€9.4m): Net cash from operating activities minus Net cash in investing activities, excluding acquisitions, and including interest and hybrid payments. Effectively the business is now self-financing (before acquisitions) while still investing massively. In fact, cash flow was even better excluding the one-off/reorganisation charges: “clean” free cash flow was €17.4m, up from €1.6m in 2008, on a like-for-like basis. The breakdown in cash of the €40m one-off/reorganisation costs booked in 2009 is

approximately €16m in 2009, then €14m to be paid out over the next few years and the remaining €10m of one-off/reorganisation cost is a non-cash charge for items such as write offs for goodwill and leasehold improvements in consolidated laboratories. Approximately €9m of the €14m should be paid in 2010. During 2009 the Group reduced capital expenditure towards a more normal, pre-modernisation programme, level (2009 €45.6m, 2008 €54.8m) and continued to maintain a low level of acquisitions, including substantial amounts of payments for historic acquisitions.

The Group's financing situation therefore remains comfortable. Net Debt at 31 December was €183.7m (31.12.2008 €158.1m) and the covenant ratios were 0.9x Net debt/equity and 2.0x Net debt/'clean' EBITDA (compared to limits of 1.5x and 3.5x respectively). Apart from the repayment of the first tranche of the OBSAR in March 2011 (€39m) there is no need to repay any significant amounts of debt in the next couple of years. Eurofins has a high degree of flexibility concerning the financing of the OBSAR payments with cash flow generation expected to get even better in the next few years and with overhead capacity in the credit lines.

Outlook

The finalisation of the restructuring and consolidation plan means that Eurofins starts 2010 with a service offering and cost base that is much more competitive. The Group's management is convinced that the markets in which it operates will still enjoy strong growth over the mid-term as they are fuelled by the converging mega-trends of health protection, globalisation, biotechnology development (scientific development and innovation) and outsourcing. In the short term however it is very difficult to predict exactly when markets will start to pick up.

2010 should also see the completion of those projects that were not finished in 2009 and, as can be assessed today, should only require minimal further one-off costs of less than €10m. In addition, the last five sites of the five-year modernisation programme are expected to start operating during 2010, namely in Cologne (Germany), Barneveld (The Netherlands), Des Moines (USA), Shanghai (China) and Birmingham (UK). In fact Cologne, Barneveld and Shanghai have already done so.

The Group also remains committed to those 17 new businesses already started in high-growth countries such as China, Brazil and India, as well as in North America and Eastern Europe. This is focused in specialised lines of business where Eurofins is a market leader in Western Europe and as a result of clients requesting global coverage. Management estimates that its operations in China (3 wholly owned sites), India, Brazil, Singapore and Eastern Europe in particular will start contributing meaningfully to its overall growth from 2011.

Both the modernised Up to Standards laboratory network and the start ups will be made even more competitive by the completion of the One IT programme, whereby state-of-the-art standardised IT solutions and a new client web interface will be deployed throughout the Group. This will enable customers to benefit from the services offered by the entire Eurofins network and help the Eurofins sales and production teams to carry out customer requests as fast as possible, in the most efficient way.

In summary:

- Eurofins' management is not going to give any guidance in 2010 as timing of the market pick up is difficult to predict, although positive growth is still expected towards the back-end of the year. As usual the first quarter is the Group's weakest quarter of the year.
- The revenue objective of €1 billion is pushed back to 2013, dependent to a large extent on M&A activity. In 2010 this is still expected to be at a low level and selective.
- The objective of the Up to Standards perimeter has always been to reach a 15% operating profit margin. The newly brought-up-to-standard laboratories, representing approximately €100m of revenues and €5m of EBITDA in 2009, are now in a position to work towards that in the next few years and should start to show increasing levels of profitability in 2010.

- In 2010 Eurofins plans to allocate about €10m of its EBIT to the start-ups and they will be reported in the Under Development perimeter. This is in addition to the one-off/reorganisation costs (expected to be about €10m). Finally the base level of revenues will have decreased due to activities that were discontinued in 2009.
- Capital expenditure of approximately €50m has been budgeted in 2010 for the modernisation projects, start ups and One IT programme. No major debt repayment is necessary in 2010.

Eurofins is building a Group with strong competitive advantages. Many of Eurofins' business units still experienced strong profitability and growth in 2009. Eurofins is also a very different and much younger business than its larger peers, focused only on laboratories and investing in a global network that will give it unique coverage. This takes time and money but Eurofins is convinced that by making Eurofins' global service offering even more unique in many ways, it will be selected by an increasing range of clients. The investments carried out since 2005 and those planned for 2010 should contribute to reinforcing difficult-to-duplicate barriers-to-entry in Eurofins' key areas of activity. By being a first-mover in doing so on a global basis, Eurofins should be well positioned for the long term.

The above non-GAAP measurements are defined by Eurofins as follows:

- * EBITDA – Earnings before Interest, Tax, Depreciation and Amortisation
“clean” EBITDA – EBITDA excluding/before one-off/reorganisation costs (€33m in 2009, €11m in 2008)
- ** EBITAS – Earnings before Interest, Tax, Amortisation of intangible assets related to acquisitions and impairment of goodwill and non-cash accounting charge for Stock options
“clean” EBITAS – EBITAS excluding/before one-off/reorganisation costs (€33m in 2009, €11m in 2008)
- *** Free Cash Flow – net cash flow provided by operating activities less net cash used in investing activities, excluding acquisition payments and including interest payments, including the hybrid dividend
“clean” Free Cash Flow – Free Cash Flow excluding/before one-off/reorganisation cash charges (€16m in 2009, €11m in 2008)
- **** Net Debt – short and long term borrowings less cash and cash equivalents

ⁱ 29 January 2010 – “Eurofins finalises its accelerated programme to bring all laboratories up to Group standards”

Full disclosure, including consolidated financial statements and related notes, can be found in the Annual Report 2009.

The Annual Report 2009 can be found on the Eurofins website at the following location:

<http://www.eurofins.com/en/investor-relations/reports--presentations.aspx>

Eurofins' reporting calendar for the year can be found on the Group's website:

<http://www.eurofins.com/en/investor-relations/corporate-timetable.aspx>

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Notes for the editor:

Eurofins – a global leader in bio-analysis

Eurofins Scientific is a life sciences company operating internationally to provide a comprehensive range of analytical testing services to clients from a wide range of industries including the pharmaceutical, food and environmental sectors.

With 8,000 staff in more than 150 laboratories across 30 countries, Eurofins offers a portfolio of over 40,000 reliable analytical methods for evaluating the authenticity, origin, safety, identity, composition and purity of biological substances and products. The Group is committed to providing its customers with high quality services, accurate results in time and, if requested, expert advice by its highly qualified staff.

The Eurofins Group is the world leader in food testing and one of the global market leaders in pharmaceuticals and environmental testing. It intends to pursue its dynamic growth strategy and expand both its technology portfolio and its geographic reach. Through R&D and acquisitions, the Group draws on the latest developments in the field of biotechnology to offer its clients unique analytical solutions and the most comprehensive range of testing methods.

As one of the most innovative and quality oriented international players in its industry, Eurofins is ideally positioned to support its clients' increasingly stringent quality and safety standards and the demands of regulatory authorities around the world.

The shares of Eurofins Scientific are listed on the NYSE Euronext Paris (ISIN FR0000038259) and Frankfurt (WKN 910 251) Stock Exchanges (Reuters EUFI.PA, Bloomberg ERF FP).

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