# Eurofins delivers solid half year 2014 results

**28 August 2014**

- Revenues in H1 2014 were EUR 644m, representing an increase of 12.8% (15.5% at constant currencies) on organic growth of over 6.5%. Excluding acquisitions in significant restructuring, organic growth was over 8.5%.
- Adjusted EBITDA rose 17.1% to EUR 109m, with adjusted EBITDA margin expanding 60bp as profitability of mature businesses continues to ramp-up.
- EBITDA margin of the mature businesses expanded to 19.2% during the first half, despite the inclusion of start-up businesses that have only recently become profitable.
- Net profit stable at EUR 23m despite one-off costs and significantly higher financial expense due to higher gross debt in anticipation of acquisitions for the remainder of 2014.
- Earnings per share attributable to equity shareholders up 95.8% in H1 2014.
- 12 acquisitions with total annualized revenues in excess of EUR 150m completed year to date.
- Leverage ratio of 2.07x net debt to adjusted EBITDA despite multiple acquisitions and intense investments in the Group's laboratory network.

**Comments from the CEO, Dr. Gilles Martin:**

"The results in the first half of the year confirm that trends across our businesses continue to be positive, allowing us to make good progress towards our objectives for 2014 and 2017 despite economic challenges in some of our markets. Revenue growth at Eurofins continues to be strong and I am encouraged by the organic growth achieved by the Group in the first half of the year of over 8.5%, excluding acquisitions in significant restructuring.

The expansion in our adjusted EBITDA margin despite the lower profitability of some of the recently-acquired or newer businesses demonstrate the continued strengthening of the profitability of our mature operations, and the operating leverage we have built into our network. In addition, we are optimistic that a significant portion of our restructuring programmes has now been addressed, which should gradually unlock further profit expansion. Overall, acquisitions made in 2014 thus far are highly profitable and should not require significant restructuring.

I am positive that Eurofins should be able to continue to perform well in its existing markets, as well as in its newer activities. I remain confident that the Group should be able to achieve revenues of EUR 1.4bn and adjusted EBITDA of EUR 250m (at constant 2013 exchange rates) for the full year 2014, and allow us to stay on track for our 2017 objectives. Going forward, I am positive that our investments to ensure that we have the best laboratory network to serve our clients, in addition to our expansion into new market segments such as specialized genetic-based diagnostic-testing and discovery pharmacology, should provide us strong competitive advantage and sustainable growth in the coming years."

## Business Review

The following figures are extracts from the Consolidated Financial Statements and should be read in conjunction with the Consolidated Financial Statements and the Notes.

### Table 1: Half Year 2014 Results Summary

| | **H1 2014** | | | **H1 2013** | | | **+/- % Adjusted Results** |
|---|---|---|---|---|---|---|---|
| *EUR m (unless stated otherwise)* | **Adjusted[1] Results** | Separately disclosed items[2] | *Statutory Results* | Adjusted Results | Separately disclosed items | *Statutory Results* | |
| Revenues | **643.5** | | *643.5* | **570.3** | | *570.3* | *12.8%* |
| EBITDA[3] | **109.0** | -18.0 | *91.0* | **93.1** | -14.8 | *78.2* | *17.1%* |
| EBITDA Margin (%) | **16.9%** | | | **16.3%** | | | *60 bp* |
| EBITAS[4] | **76.3** | -23.0 | *53.2* | **66.2** | -19.4 | *46.8* | *15.2%* |
| Net Profit[5] | **48.9** | -26.3 | *22.6* | **45.2** | -22.7 | *22.5* | *8.28%* |
| Basic EPS[6] (EUR) | **3.24** | -1.75 | *1.50* | **3.02** | -1.52 | *1.51* | *7.3%* |
| | | | | | | | |
| Capex | | | **56.9** | | | **43.0** | *32.4%* |
| Operating Cash Flow[7] | | | **47.4** | | | **54.7** | *-13.3%* |
| Net Debt[8] | | | **485.7** | | | **381.5** | *27.3%* |
| Leverage Ratio (Net debt/adjusted EBITDA) | | | **2.07x** | | | **1.94x** | *NA* |

*Note: Definition of the terms used can be found at the end of this press release*

### Revenues

Revenues in the second quarter grew 12.8% to EUR 339.1m (15.2% increase at constant currencies), with organic growth of 7.5% excluding acquisitions in significant restructuring during the quarter. This puts revenues for the first half of 2014 at EUR 643.5m, representing a 12.8% increase over the same period in 2013, of which over 6.5% was organic. Excluding acquisitions in significant restructuring, organic growth stood at over 8.5% in the first half of the year. Currency translation had a negative impact of 2.3%. Revenue growth in H1 2014 was 15.5% at constant currencies.

On the whole, underlying growth trends remain positive across businesses and geographies, with variations driven to a large extent by various stages of progress of the Group’s different optimization programmes. The continued strengthening in the food testing business is underpinned both by increasing market volumes, and Eurofins’ ability to gain market share due to its large past investments in this area. Increased market share and volumes also drove strong growth in pharma products testing. The Group’s performance in Discovery Services is distorted by the ongoing restructuring and integration programme currently being implemented to optimize the business following the acquisition of the two leading global players in this market segment. Finally, the impact of the move of the US Central Lab operations to Lancaster, which has just been finalized, is still evident in the results of this year. Eurofins’ environmental testing performance is still influenced by the IPL restructuring, and to some extent, the slower economic activity in certain parts of Europe.

### Table 2: Geographical Revenue Breakdown

| **(EUR m)** | H1 2014 | *As % of total* | H1 2013 | *As % of total* |
|---|---|---|---|---|
| Benelux | 70.2 | 10.9% | 45.0 | 7.9% |
| UK & Ireland | 35.0 | 5.4% | 30.2 | 5.3% |
| France | 109.6 | 17.0% | 101.1 | 17.7% |
| Germany | 112.4 | 17.5% | 97.5 | 17.1% |
| North America | 146.1 | 22.7% | 134.1 | 23.5% |
| Nordic Countries | 76.5 | 11.9% | 76.4 | 13.4% |
| Other (including Emerging Markets) | 93.7 | 14.6% | 86.0 | 15.1% |
| **Total** | **643.5** | **100%** | **570.3** | **100%** |

The bioanalytical testing market remains buoyant in the US, which accounts for 23% of the Group's total revenues. Market tailwinds, and the Group's own growing scale support growth in food testing. In view of this, Eurofins is ramping up its presence in the domestic food testing market with 4 new laboratories, and a large Southern hub in New Orleans with double the existing capacity to support the increasing volumes. In pharmaceutical testing, the steady growth in traditional pharma products testing, increased volumes on the back of developments in new markets, and market share gains mitigated the temporary slowdown in our Central Laboratory business, which is affected by its site relocation. Eurofins also continues to ramp-up its environmental testing footprint in the US, which was further boosted by the acquisition of Calscience and UL's water testing business in H1 2014.

Our leading position in Germany, boosted by further market share gains and outsourcing activities, has allowed us to generate double-digit organic growth in H1 2014, demonstrating our ability to grow even in a mature market. In France, continued growth in food testing from market share gains and contract wins such as the recently-signed 3-year agreement with Burger King to provide the fast-food chain the most advanced Food Safety control program in the country, in addition to positive trends in other areas of environmental testing, mitigated the impact of the ongoing IPL restructuring during the period.

Organic growth generated by the Group's activities in the Benelux region in H1 2014 was above our objective, as we leverage our leading footprint following the acquisition of BLGG last year. The Group's businesses in the UK also recorded good organic growth in H1 2014, despite the strong comparable results in the previous year, which included the impact of the horsemeat scandal. Solid trends in the Nordic region, which accounts for 12% of Group revenues, mitigated the negative currency impact during the period.

The benefit of Eurofins' expanding scale and footprint is reflected in the solid growth generated by its businesses in emerging markets and the Asia-Pacific region, now making up over 10% of Group revenues. In particular, the Group's small but rapidly-growing activities in China and Brazil continue to ramp-up and gain market share, as reflected in double-digit organic growth. The growth in these markets mitigated the significant negative currency impact in H1 2014.

**Acquisitions & Infrastructure**

As of 30 June 2014, Eurofins completed 9 acquisitions with combined annual revenues in excess of EUR 80m to further strengthen its leadership in existing markets, or enter new geographies or market segments. Notably, in February, Eurofins acquired KBBL, gaining access to the complex but attractive meat testing market in The Netherlands, and further consolidating the Group's leading market position in the Benelux region. The acquisition of Maintpartner Group in March provides Eurofins entry into the fastest-growing port in the Baltic Sea region, whilst the Omegam acquisition reinforces our leadership in the environmental testing market, and strengthens the Group's service offering to cover the full spectrum of water analysis in the Benelux. In April, Eurofins further strengthened its leading presence in the early stage discovery solutions market with the acquisition of DDS Millipore in the US. The acquisition of UL's water-testing business, completed in May, consolidates the Group's market leadership for drinking water analysis in the US. Also in May, Eurofins expanded its footprint and extended its current activities to a leading position in the Spanish food testing market with the acquisition of Applus Agrofood Testing. In June, Eurofins further reinforced its environmental testing footprint in the US with the acquisition of Calscience, the largest independent full-service environmental testing laboratory on the West Coast. Total acquisition spend was EUR 72.1m.

Eurofins is currently engaged in several site rationalization projects that involve constructing new laboratories in growth markets, or consolidating several small sites into fewer but larger industrialized sites, or simply moving some businesses into our large campuses to maximize synergies and optimize efficiencies across our businesses. Between 2014 and 2016, the Group plans 100,000m$^2$ of additional modern laboratory surface.

In the US, Eurofins finalized the move of its US Central Laboratory activities from Washington DC to its large campus in Lancaster, PA. The new site should increase efficiencies as the Central Lab operations can leverage the multiple pharma competencies at the Group's US flagship laboratory. Operations are expected to gradually normalize during the remainder of the year.

Eurofins is also in the process of integrating its discovery services business (Cerep, Panlabs and DDS Millipore), which includes site rationalization. Finally in the US, Eurofins is currently setting up four new laboratories in different cities to support the growth in food testing activities. In addition, the Group has finalized the move of its southern US food testing hub into a brand new site with double the capacity at the University of New Orleans campus in Louisiana.

In Europe, Eurofins is in the final stages of the construction of a large site in Vejen, Denmark, where 5 small and mid-sized laboratories will be combined. In Benelux, the Group is in the process of evaluating the combination of several small laboratories into 2 large sites in The Netherlands and Belgium. In Germany, we are shifting several multi-building or multi-location laboratories into our large, single-site campus in Hamburg. In Sweden, Eurofins is combining 2 laboratories into 1 larger site in Uppsala.

**Profitability**

Group adjusted EBITDA rose 17.1% to EUR 109m, implying a 16.9% margin, a 60bp expansion compared to H1 2013, despite the inclusion of newly-profitable start-ups and recent acquisitions that are not yet at Group profitability level, and the impact of the horsemeat testing peak in H1 2013.

The mature businesses of the Group, i.e. excluding start-ups and acquisitions in significant restructuring, achieved an adjusted EBITDA margin of 19.2% on EUR 568.4m of revenues in the first six months. In H1 2013, the Group's mature businesses had generated EBITDA margin of 18.6% on revenues of EUR 500.3m. The margin expansion of the mature businesses in H1 2014 is notable given that the companies that have recently been upgraded to the mature perimeter (start-ups and acquisitions made over the past two years that are no longer in restructuring) are still diluting the margin of that perimeter.

The transfer of some companies into the mature perimeter following the completion of their restructuring, along with the similar upgrade of the start-ups, means that despite some acquisitions that require varying degrees of investments or restructuring in the past two years, the revenue contribution of the "start-ups and acquisitions in significant restructuring" perimeter was reduced from 12.3% in H1 2013 to 11.7% in the H1 2014.

Separately disclosed items were EUR -18.0m at EBITDA level in the first six months compared to EUR -14.8m for the same period in the previous year. The increase is essentially due to continued losses and restructuring costs in IPL, as well as the temporary impact of the multiple site rationalizations as explained in the preceding section.

Net finance costs in H1 2014 stood at EUR 14.6m, an increase of 45.9% compared to H1 2013. The significant increase is due mainly to higher gross debt following the issuance of the Eurobonds towards the end of 2013. Income tax expense was broadly stable compared to the previous year.

Adjusted net profit for the Group in H1 2014 stood at EUR 48.9m, representing growth of 8.3%, despite the significant increase in financial costs compared to H1 2013. The 95.8% increase in earnings per share (EPS) attributable to equity shareholders (a EUR 0.56 uplift) reflects the lower hybrid cost following the issuance in January 2013 of the new hybrid bond bearing a lower coupon, in addition to the positive comparable effect from the one-off impact of the tender for the original hybrid bond at a premium in 2013.

**Cash Flow & Financing**

Total assets for the Group stood at EUR 1,698m at the end of June 2014, compared to EUR 1,497m at the end of December 2013. Net debt at the end of June 2014 stood at EUR 485.7m, an increase of 25.6% compared to the end of December 2013. Despite the increase in net debt, Eurofins' leverage ratio remains well below its debt covenant limit at 2.07x net debt/adjusted EBITDA (versus its limit of 3.5x).

Net working capital (NWC) increased to 7.4% of revenues as of 30 June 2014, versus 4.5% at the end of December 2013, and 7.0% in June 2013. The growth in revenues and seasonal timing of payments, as well as small changes in the business mix and the resulting increase in NWC, led to a temporary cash flow compression.

As communicated earlier, and in line with previous annual trends, the Group's objective is to manage NWC closer to 5% of revenues, according to its annual target, and significantly increasing Free Cash Flow for the rest of 2014.

Profit before taxes was stable at EUR 31.8m. Due to the seasonal increase in NWC, operating cash flow shows a decline of 13.3% to EUR 47.4m. In H1 2014, capital expenditures were EUR 56.9m, an increase of 32.4% compared to H1 2013. The increase in capex is mainly due to the timing of projects ahead of expected business activities in 2014, as the Group executes its plans for EUR 500m in capital expenditures in the five-year period 2013-2017 to ensure the best and most efficient network comprising the largest and most modern laboratories in the industry to serve its clients. Therefore, the one-off costs related to the Group's restructuring and consolidation programmes, the short-term increase in NWC and the network investments, resulted in a Free Cash Outflow[9] of EUR 16.1m.

Management is optimistic that the temporary operating losses and restructuring costs included in the separately disclosed items should from now on gradually decrease. In addition, management believes that the Group should be able to manage NWC closer to its annual target of 5% of sales by year end. Therefore, with the expected further strengthening in operating results, the Group should be able to deliver improved Free Cash Flow for the remainder of 2014.

**Post-closing events**

The Group concluded further transactions shortly after the close of H1 2014. On 1 July, Eurofins completed the acquisition of ViraCor IBT in the US, strengthening our central laboratory and genetic testing portfolio, and expanding our network of competence centers into the specialty diagnostic testing market. The Group also completed the acquisition of Anatech, one of the leading environmental testing service providers in Brazil.

As announced on 11 July 2014, Eurofins successfully extended the size of its existing hybrid bond originally issued in January 2013 by EUR 150m*, bringing the overall size of Eurofins' Hybrid capital up to EUR 300m.

* Nominal value. In cash terms, the transaction raised EUR 169m (EUR 164.2m in gross proceeds plus EUR 4.8m on accrued coupon).

1 Adjusted results - reflect the ongoing performance of the mature and recurring activities excluding "separately disclosed items[2]".

2 Separately disclosed items - includes one-off costs from integration, reorganisation, discontinued operations and other non-recurring income and costs, temporary losses and other costs related to network expansion, start-ups and new acquisitions undergoing significant restructuring, non-cash accounting charges for stock options, impairment of goodwill, amortisation of acquired intangible assets, negative goodwill and transaction costs related to acquisitions as well as income from reversal of such costs and from unused amounts due for business acquisitions and the related tax effects.

### Table 3: Separately disclosed items

| H1 2014 Separately disclosed items: | H1 2014 | H1 2013 |
|---|---|---|
| One-off costs from integrations, reorganizations and discontinued operations, and other non-recurring costs | 8.8 | 4.5 |
| Temporary losses and other costs related to network expansion, start-ups and new acquisitions in significant restructuring | 9.2 | 10.4 |
| *EBITDA impact* | *18.0* | *14.8* |
| Depreciation costs specific to start-ups and new acquisitions in significant restructuring | 5.0 | 4.5 |
| *EBITAS impact* | *23.0* | *19.4* |
| Amortisation of acquired intangible assets related to acquisitions, goodwill impairment, negative goodwill, revaluation of amounts due from business acquisitions, transaction costs related to acquisitions, and non-cash accounting charges for stock options | 7.1 | 5.3 |
| Tax effect from the adjustment of all separately disclosed items | -3.7 | -1.7 |
| Non-controlling interests on separately disclosed items | -0.1 | -0.3 |
| Total impact on Net Profit attributable to equity holders | 26.3 | 22.7 |
| Impact on EPS | 1.75 | 1.52 |

3 EBITDA - Earnings before interest, taxes, depreciation and amortisation, non-cash accounting charges for stock options, impairment of goodwill, amortisation of acquired intangible assets, negative goodwill and transaction costs related to acquisitions as well as income from unused amounts due for business acquisitions.

4 EBITAS - Earnings before interest, taxes, non-cash accounting charges for stock options, impairment of goodwill, amortisation of acquired intangible assets, negative goodwill, and transaction costs related to acquisitions as well as income from unused amounts due for business acquisitions.

5 Net Profit - Net profit for equity holders after non-controlling interests but before payment to Hybrid holders.

6 Basic EPS - earnings per share before payment of dividends to hybrid bond holders.

7 Operating Cash Flow - net cash provided by operating activities after tax.

8 Net Debt - long and short-term borrowings less cash and cash equivalents.

9 Free Cash (Out)Flow - Net Operating Cash Flow, less cash used in investing activities (but excluding acquisition payments) and interest.

The First Half Year Report 2014 can be found on the Eurofins website at the following location:
http://www.eurofins.com/en/investor-relations/reports-presentations.aspx

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**Notes for the editor**

**Eurofins - a global leader in bio-analysis**

Eurofins Scientific is the world leader in food and pharmaceutical products testing. It is also number one in the world in the field of environmental laboratory services and one of the global market leaders in agroscience, genomics, discovery pharmacology and central laboratory services.

With over 16,000 staff in more than 200 laboratories across 36 countries, Eurofins offers a portfolio of over 100,000 reliable analytical methods for evaluating the safety, identity, composition, authenticity, origin and purity of biological substances and products. The Group provides its customers with high-quality services, accurate results on time and expert advice by its highly qualified staff.

Eurofins is committed to pursuing its dynamic growth strategy by expanding 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 and analytical chemistry 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 expanding demands of regulatory authorities around the world.

The shares of Eurofins Scientific are listed on the NYSE Euronext Paris Stock Exchange (ISIN FR0000038259, Reuters EUFI.PA, Bloomberg ERF FP).

**Important disclaimer**

This press release contains forward-looking statements and estimates that involve risks and uncertainties. The forward-looking statements and estimates contained herein represent the judgement of Eurofins Scientific' management as of the date of this release. These forward-looking statements are not guarantees for future performance, and the forward-looking events discussed in this release may not occur. Eurofins Scientific disclaims any intent or obligation to update any of these forward-looking statements and estimates. All statements and estimates are made based on the information available to the Company's management as of the date of publication, but no guarantee can be made as to their validity.