Eurofins reports strong organic growth (over 6%) in Q3 2019

28 October 2019

- Q3 2019 revenues increased 22.3% year-on-year to EUR 1,167m vs. EUR 955m in Q3 2018. Over the first nine months of 2019, total revenues grew 23.6% to EUR 3,335m vs. EUR 2,698m during the same period last year.
- Strong organic growth[1] of 6.4% reported in Q3 2019. Excluding Boston Heart Diagnostics ("BHD"), organic growth was 7.3% in Q3 2019. Due to the lack of comparability of the revenues for the month of June as a result of the June 2nd cyber-attack on Eurofins servers, like for like organic growth for the first nine months of 2019 unfortunately cannot be determined.
- Eurofins teams have worked very hard in Q3 2019 to fully recover from the June 2nd cyber-attack and to further harden our IT systems. Operations are now generally back to normal with occasional interferences of new security tools at some companies. Back office and collection activities were last resume and are now essentially restored. Eurofins teams are still working hard to further optimize and strengthen all IT operations and expect to have all things fully back to normal by year end. As can be judged today, the estimated impact of the loss of revenue and profit and the additional expenses resulting from the June 2nd cyber-attack, as can be derived by different interpolation estimates, is confirmed to be of the same magnitude as mentioned in our half-year report published on August 29th, i.e. ca. EUR 62m on revenues and ca. EUR 51.5m on EBITAS[5] and EBITDA[4]. Those numbers are of course only estimates. The net financial impact (after insurance compensation) is expected to be much lower, as business interruption insurance coverage for this criminal cyber-attack has been confirmed and a first payment received. Eurofins insurance coverage exceeds the estimates mentioned above but efforts to determine and agree on exact damages will be on going for a while.

Comment from the CEO, Dr. Gilles Martin:

"Q3 2019 was a very positive quarter for Eurofins as the Group demonstrated prompt recovery following the June cyber-attack and delivered strong organic growth. This is concrete evidence of our positioning in attractive end markets as well as our ability to leverage our scale as we approach the end of our 2016-2020 strategic investment plan to build a one-of-a-kind global network of state-of-the-art laboratories and bespoke IT solutions aimed at offering a unique outstanding level of service to our customers. We remain confident on our ability to achieve our objectives for this and next year. By the end of 2020, this exceptional investment phase started in 2016 will largely be completed and Eurofins clients should benefit from further improved levels of service from a more efficient network of Eurofins laboratories. This should enable the group to start significantly improving cash flow generation and return on investment from 2021 onwards."

Table 1: Q3 2019 Organic Growth Calculation and Revenue Reconciliation

	EURm (unless otherwise stated)
Q3 2018 reported revenues	**954.6**
+ 2018 acquisitions – Q3 revenue part not consolidated in Q3 2018 at Q3 2018 FX rates	95.0
- Q3 2018 revenues of discontinued activities / disposals[8]	-0.5
= Q3 2018 pro-forma revenues (at Q3 2018 FX rates)	1,049.1
+ Q3 2019 FX impact on Q3 2018 pro-forma revenues	20.6
= Q3 2018 pro-forma revenues (at Q3 2019 FX rates) (a)	**1,069.7**
Q3 2019 organic scope* revenues (at Q3 2019 FX rates) (b)	**1,138.2**
Q3 2019 organic growth rate (b/a-1)	**6.4%**
2019 acquisitions – Q3 revenue part consolidated in Q3 2019 at Q3 2019 FX rates	28.8
Q3 2019 reported revenues	**1,167.0**

** Organic scope consists of all companies that were part of the Group as at 01/01/2019. This corresponds to the 2018 pro-forma scope.*

The Group reported 6.4% organic growth in Q3 2019 as it promptly recovered from the June cyber-attack, and 7.5% excluding Boston Heart Diagnostics' and Eurofins Forensics UK which only restarted its operations at the end of July 2019. Adjusted for calendar working days' effect, organic growth stood at 5.1% in Q3 2019, in line with the Group's annual objective, 6% excluding Boston Heart Diagnostics and 6.2% also excluding Eurofins Forensics UK.

Table 2: Geographical Revenue Breakdown

(EUR m)	Q3 2019	*As % of total*	Q3 2018	*As % of total*	*Growth %*
France	216.0	18.5%	188.1	19.7%	14.8%
Germany	120.6	10.3%	110.8	11.6%	8.8%
Benelux	72.7	6.2%	61.9	6.5%	17.5%
Nordic Countries	62.4	5.3%	58.7	6.1%	6.4%
UK & Ireland	67.0	5.7%	62.3	6.5%	7.5%
Total Western Europe	538.7	46.2%	481.8	50.5%	11.8%
North America	441.0	37.8%	322.5	33.8%	36.7%
Rest of the World	187.3	16.0%	150.3	15.7%	24.6%
Total	1,167.0	100%	954.6	100%	22.3%

Western Europe remains the largest region for Eurofins, representing c.46% of total Group revenues in Q3 2019, with France generating 18.5% of total Group revenues, ahead of Germany which accounted for 10% of total Group revenues, whilst Benelux, the UK & Ireland, and the Nordic countries each contributed ca.5-6% to Q3 2019 revenues. North America generated c.38% of total Group revenues and the Rest of the World the remaining 16%.

By segment, the Group continued to deliver robust growth across all geographies except the UK, which continued to be negatively impacted by the June cyber-attack in July as Eurofins Forensics UK had not received the green light from authorities for restarting.

In Western Europe, Eurofins' BioPharma Testing services continued to perform very well, with a double digit organic growth in Q3 2019 thanks to sustained, above market, growth overall. Food Testing services also continued to perform well with organic growth in line with Group average. Environment testing activities posted a strong performance in Q3 2019 with an organic growth above Group average. The Genomics business saw negative organic growth as it was one of the most heavily disrupted activity by the June cyber-attack, leading some customers to switch suppliers. The business is working to regain these over the next few quarters with a range of superior new product launches. In France, Clinical Diagnostics continued to perform in line with management's expectations with a positive organic growth even if below Group average. In North America, Eurofins' BioPharma Testing services continued to perform very well, with a double digit organic growth in Q3 2019 as strategic outsourcing remains strong in the biopharmaceutical industry. In particular, the group continues to see strong and increasing demand in the biologics and gene/cell therapy markets, as it benefits from a strong and comprehensive service offering for these therapies both in the U.S. and Europe. We are also seeing commercial leverage and benefit from the cross selling of services across the business lines, for example between our GMP testing and product development services. The business is also benefiting from the increased capacity that is now on line following several facility expansions that were completed in the last 12 months. Food Testing services were also very strong in North America with a strong double digit organic growth and well above industry rates thanks to the successful greenfield start-ups of our national food microbiology laboratory network. Large national clients are starting to find our network to be advantageous to their supply chains and their production plants. Clinical Diagnostics organic growth was below Group average, as the division continued to be negatively impacted by Boston Heart Diagnostics, which suffered from lower year-over-year testing volumes, along with lower reimbursement for the volume received from patients' third party payers for advanced preventive cardiology testing.

Eurofins delivered double-digit organic growth in the Rest of the World, driven by strong performance in Food Testing services in China and Vietnam, Environment Testing services in Japan and South Korea, and Food & Environment Testing services in Singapore and Taiwan. All these markets continue to benefit from the recent investments made in expanding and upgrading laboratories, hiring and training talented staff and improving turnaround times.

On Wednesday 16th October, a report containing many inaccurate, incomplete, irrelevant and misleading statements together with sarcastic and defamatory comments was issued by a party that stands to gain if Eurofins' share price falls. Eurofins stands firmly behind the reliability of its Group published financial statements in all material aspects. It does not appear worthy of the readers time to discuss all typos and meaningless and insignificant matters that the reports' author seems to show great pride having spotted and voluntarily or involuntarily misinterpreted while scrutinizing 14 years of filings by hundreds of Eurofins subsidiaries. We addresses below the main alleged concerns raised in that biased publication. Eurofins shared this disparaging report with regulatory authorities and its auditors and is considering further actions with its advisors.

Liquidity

Over the last two years Eurofins has significantly improved its financing strategy. As opposed to carrying a lot of cash received from bonds on its balance sheet like the Group did until 2017, Eurofins is now using medium-term (typically five year term) committed bank lines of credit to fund part of its funding needs. This is a much more cost effective approach, especially considering European banks now charge interest to hold large Euro balances for their clients. As of 30th June 2019, on top of the amount of credit lines used to back up the outstanding commercial paper (EUR 320.5m) and the amount used via short-term drawings on its bank credit lines (EUR 410m), Eurofins had access to more than EUR 500m of undrawn and available bank credit lines, with an average remaining life greater than three years. The latter remains the case today. Eurofins liquidity is thus largely sufficient to execute on the Group's growth plans for 2019 and 2020 and should significantly improve from 2021 onwards after the end of Eurofins 2015-2020 investment programme to build a leading laboratories network in its markets.

Group Legal Structure

Eurofins structure fosters entrepreneurship through the use of small, agile companies. One managing director/president is in charge of each entity. Operating companies are generally focused on one single market and activity while support functions (accounting, treasury, finance reporting and financial controlling) are handled by teams in the National Service Centres (NSCs) which are independent of the leaders of operating companies, and are reporting to the Group CFO. It is Eurofins belief that the benefits of empowering business leaders and their teams to act as real entrepreneurs which speeds up decision making and responsiveness to clients' needs far outweigh the cost of managing a larger number of legal entities and that strict independent financial supervision by the NSCs balances potential risks of this operational freedom.

Inorganic growth is part of Eurofins' strategy to build scale, acquire new customers and/or technology, and expand its footprint. Companies acquired are often too diversified and are therefore often split post-acquisition, or some of their activities transferred to other Eurofins legal entities to achieve the desired Eurofins structure, aligned with Eurofins' hub and spoke model. This process can last several years as sometimes new sites must be built or existing sites expanded to fit the most efficient structure or activities must grow to a sufficient size to justify a separate legal entity.

Intercompany Transactions and Reorganisations

As explained above, when a company is acquired, it comes with its existing sites and legal structure which generally doesn't fit Eurofins' streamlined hub and spoke model. Oftentimes, the acquisition includes multiple activities and some of them need to be transferred into the right business lines and entities within the Eurofins Group post acquisition. In some cases, this can only be achieved over time. As long as Eurofins is too small in one country/market, some companies carry out multiple activities until each activity is large enough to cover the cost of operating a legal entity.

If the transfer of a part of a business from a company takes place more than a year after the acquisition, Eurofins typically must conduct a revaluation to comply with local fiscal rules (the selling company must sell assets at fair value - which may come with a profit or a loss for the seller compared to the original book value of assets to be transferred). For this, valuation formulas are applied, generally based mainly on EBITDA which are reviewed by local auditors. Those transactions are part of an internal reorganisation and given that the buying and selling companies are both fully consolidated in the Group accounts, any resulting profit or loss generated locally is eliminated at Group level and doesn't have any impact on Eurofins Group's consolidated financial statements. Any profit or loss made by the seller is not reflected either at the seller's parent level since the parent isn't a party to the transaction.

Local vs. Group Impairments and other accounting observations

Impairments at a local company's level when they are required are not automatically reflected in the Group's consolidated accounts for a number of reasons, the main ones being discussed below.

Local statutory accounts are prepared according to local GAAP (applicable legislation) whereas Group consolidated accounts are prepared in accordance with IFRS standards (applicable legislation) and these accounting rules may differ.

Impairment tests for the purpose of preparing the local statutory accounts are done for each local company according to the relevant local materiality threshold. Impairment tests for the purpose of preparing the Group consolidated accounts are done at a higher level, so called cash generating units (defined in accordance with IFRS and reviewed by auditors). Therefore the applicable legislation, materiality thresholds and scopes (within which activities may have been transferred as part of reorganisations to align with Eurofins standard structure), may differ and lead to different results between local statutory accounts and consolidated financial accounts.

Some sites are sometimes closed after reorganizations and the company who owned them liquidated. Others are sometimes renamed and reused for other purposes to save the cost and time required for creating new companies. Companies tender their statutory audit work from time to time and local auditors may change as a result. Dividends up streaming up the corporate structure including with the use of intercompany loans are standard practice in any group, etc. It is of course difficult to understand every transaction within a large group or its purpose from an outside review of filings of individual subsidiaries only. This is why group consolidated accounts and their auditors exist. It is hard to comprehend why all these matters are worthy of being mentioned in a report over multiple pages, unless it is the intention of the author to give normal transactions a negative appearance by lacing their description with disparaging comments.

Related Party Transactions

Eurofins already mentioned in its 2018 Annual Report that related party transactions are conducted at arm's length and described the work of the independent Corporate Governance Committee of its board that oversees them. The allegation that the rent paid by the company Bioservice Scientific Laboratories ("BSL") in Germany to a related party real estate company would imply 'avaricious (sic)' rental yields and return on equity for the landlord is entirely false as it is based on wrong assumptions. The rent amount paid by BSL to a related party real estate company mentioned and used to calculate these erroneous figures in this defamatory report includes rent paid to other non-related parties for two other buildings. The annual rent paid by BSL (including indexation since 2012) for the building rented from a related party in 2014 was EUR 494,000 corresponding to 11.9 EUR/m^2/ month for a 3,467 m^2 mixed office and laboratories building in Planegg near Munich.

Cash flow

Eurofins communicated consistently that its 2016-2020 plan to build a world class global infrastructure in its attractive markets enjoying secular high growth profiles implies significant Capex and costs for reorganization of acquired companies as well as funding of operational losses of more than 100 startup laboratories until they reach a critical size. Developing bespoke IT solutions to make Eurofins fully digital and able its customers to benefit from the resulting efficiencies and from the large amount of data it generates is also very costly. Taking this into account it should be no surprise to anyone who followed the company's publications for a while or visited the group's new campuses that free cash flow reflects these investments. Eurofins is now nearing the end of this investment phase and is starting to see its benefits on speed, quality, efficiency and reliability of service in the countries and laboratories where this has been completed already for over a year and initial inefficiencies are ironed out. Eurofins is confident that as investments reduce and bear their fruits more broadly from 2021 cash flow should increase significantly. Due to seasonality, profits and cash flow are always lower in H1 than in H2. In addition, H1 2019 was also significantly affected by the criminal cyber-attack that hit many Eurofins laboratories on June 2nd 2019 and led to much reduced revenues and profits in June and H1 than would be normally the case.

Other allegations in the report appear to be mainly spinning erroneous, out-dated or immaterial facts or inconsequential typos, to create a negative impression around Eurofins which the publishing third party expects to profit of at the expense of Eurofins shareholders. It is Eurofins belief that all transactions mentioned in the report are properly accounted for in Eurofins Group consolidated accounts and were done with the best interest of the company and all its shareholders in mind.

[1] Organic growth for a given period (Q1, Q2, Q3, Half Year, Nine Months or Full Year) - non-IFRS measure calculating the growth in revenues during that period between 2 successive years for the same scope of businesses using the same exchange rates (of year Y) but excluding discontinued operations[8].
For the purpose of organic growth calculation for year Y, the relevant scope used is the scope of businesses that have been consolidated in the Group's income statement of the previous financial year (Y-1). Revenue contribution from companies acquired in the course of Y-1 but not consolidated for the full year are adjusted as if they had been consolidated as from 1st January Y-1. All revenues from businesses acquired since 1st January Y are excluded from the calculation.

[2] Adjusted - reflect the ongoing performance of the mature[7] and recurring activities excluding "separately disclosed items[3]".

[3] 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, share-based payment charge[6], impairment of goodwill, amortisation of acquired intangible assets, negative goodwill, loss/gain on disposal and transaction costs related to acquisitions as well as income from reversal of such costs and from unused amounts due for business acquisitions, net finance costs related to borrowing and investing excess cash and one-off financial effects (net of finance income) and the related tax effects.

[4] EBITDA – Earnings before interest, taxes, depreciation and amortisation, share-based payment charge, impairment of goodwill, amortisation of acquired intangible assets, negative goodwill, loss/gain on disposal and transaction costs related to acquisitions as well as income from reversal of such costs and from unused amounts due for business acquisitions.

[5] EBITAS – EBITDA less depreciation and amortisation.

[6] Share-based payment charge and acquisition-related expenses, net – Share-based payment charge, impairment of goodwill, amortisation of acquired intangible assets, loss/gain on disposal, 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.

[7] Mature scope: excludes start-ups and acquisitions in significant restructuring. A business will generally be considered mature when: i) The Group's systems, structure and processes have been deployed; ii) It has been audited, accredited and qualified and used by the relevant regulatory bodies and the targeted client base; iii) It no longer requires above-average annual capital expenditures, exceptional restructuring or abnormally large costs with respect to their current revenues for deploying new Group IT systems. The list of entities classified as mature is

reviewed at the beginning of each year and is relevant for the whole year. In FY 2018, 93% of total Group revenues were included in the mature scope up from 91% in FY 2017.

8 Discontinued activities / disposals: discontinued operations are a component of the Group's core business or product lines that has been disposed of, or liquidated; or a specific business unit or a branch of a business unit that has been shut down or terminated, and is reported separately from continued operations. Disposals correspond to the sale by Eurofins of business assets to a third party. For more information, please refer to Note 3.19 of the Consolidated Financial Statements for the year ended 31 December 2018.

Conference Call

Eurofins will hold a conference call with analysts and investors today at 15:00 pm CET to discuss the results and performance of Eurofins, as well as its outlook, followed by questions and answers (Q&A).

No need to dial in. From any device, click the link below (becomes active 15 minutes prior to start time), then simply enter your details and phone number to have the system call you:

Click here to Join Call >>

If you want to ask a question during the Q&A session please join the conference call using the dial-in numbers below:

Access code for all countries: **85378205#**

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France +33 1720 400 35

For more information, please visit www.eurofins.com or contact:

Investor Relations
Eurofins Scientific
Phone: +32 2 766 1620
E-mail: ir@eurofins.com

Notes for the editor:

Eurofins – a global leader in bio-analysis

Eurofins Scientific through its subsidiaries (hereinafter sometimes "Eurofins" or "the Group") believes it is a scientific leader in food, environment, pharmaceutical and cosmetics products testing and in agroscience CRO services. It is also one of the global independent market leaders in certain testing and laboratory services for genomics, discovery pharmacology, forensics, CDMO, advanced material sciences and for supporting clinical studies. In addition, Eurofins is one of the leading global emerging players in specialty clinical diagnostic testing. With about 45,000 staff in more than 800 laboratories across 47 countries, Eurofins offers a portfolio of over 200,000 analytical methods for evaluating the safety, identity, composition, authenticity, origin and purity of biological substances and products, as well as for innovative clinical diagnostic. The Group objective is to provide 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 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 judgment of Eurofins Scientific's 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.