BRYAN, GARNIER & CO

INDEPENDENT RESEARCH

27th May 2016

Business services

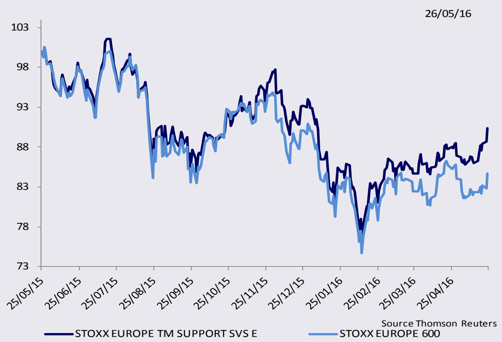
Worth being selective

Business services

BUREAU VERITAS		**NEUTRAL**	**FV EUR22**
Bloomberg	BVI FP	Reuters	BVI.PA
Price	EUR19.165	High/Low	21.795/16.075
Market cap.	EUR8,471m	Enterprise Val	EUR10,256m
PE (2016e)	18.7x	EV/EBIT (2016e)	13.0x

SGS SA		**BUY**	**FV CHF2400 2150**
Bloomberg	SGS VX	Reuters	SGS.VX
Price	CHF2136	High/Low	2178/1626
Market Cap.	CHF16,708m	Enterprise Val	CHF17,219m
PE (2016e)	24.0x	EV/EBIT (2016e)	17.5x

EUROFINS		**SELL**	**FV EUR340**
	coverage Initiated		
Bloomberg	ERF FP	Reuters	EUFI.PA
Price	EUR345.6499	High/Low	359.8/253
Market Cap.	EUR5,317m	Enterprise Val	EUR6,543m
PE (2016e)	28.1x	EV/EBIT (2016e)	20.2x



Although the TIC market's medium/long-term outlook remains very positive, the short-term is a bit more challenging since no longer underpinned by the super cycle in commodities. Between the two main leaders, we confirm our hierarchy anticipating short-term outperformance from SGS (Buy) with a FV upgraded to CHF2,400 vs. Bureau Veritas (Neutral). Regarding Eurofins, the valuation reflects the strong operating performance and ambitious management but leaves no room for disappointment. At the current share price (not far from all-time high) we recommend taking profits and are initiating coverage with a Sell recommendation based on a FV of EUR340.

- **The fundamentals remain positive.** The huge TIC market is estimated at EUR200bn, o/w EUR80bn is addressable. As estimated by MarketsandMarkets, the outsourced market should grow by a 5% CAGR over 2015-2020 supported by structural drivers i.e. globalization which requires standards, scandals in sanitary and outsourcing potential notably in Greater China. Market consolidation is continuing with significant M&A activity by the leading companies.

- **Short-term more challenging for the two leaders ….** Mainly due to the weakness of commodity-related activities and no new short-term growth drivers to bridge the situation, growth is currently under pressure. This is the case for the two leaders with nevertheless a much better operating performance at **SGS** (lfl growth at least 2.5% in H1e) compared to **Bureau Veritas** (-0.6% in Q1).
- **…while Eurofins continues to report strong performance.** With no presence in commodities, Eurofins is the only one of the four major quoted companies which hasn't been impacted. In fact, Q1 revenue was up over 10% after a strong Q4 and Q3 2015 and we are anticipating 8% in 2016.
- **Valuation historically high.** All the companies are trading at high multiples based on strong long-term organic growth, positive M&A impacts and margin resilience (17.5x 2016e EV/EBIT for SGS, 13x for BVI and 20.2x for Eurofins). Taking into account each operator's short term challenges and perspectives, we confirm our Buy recommendation on **SGS** with a FV upgraded to CHF2,400 and our Neutral on **BVI** with EUR22. We initiate **Eurofins** at Sell with a FV of EUR340 due to the high valuation (justified) which leaves no room for disappointment concerning lfls and the EBITDA margin improvement; and a potential capital increase that cannot be ruled out.

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1. A sector meeting a wide range of needs…

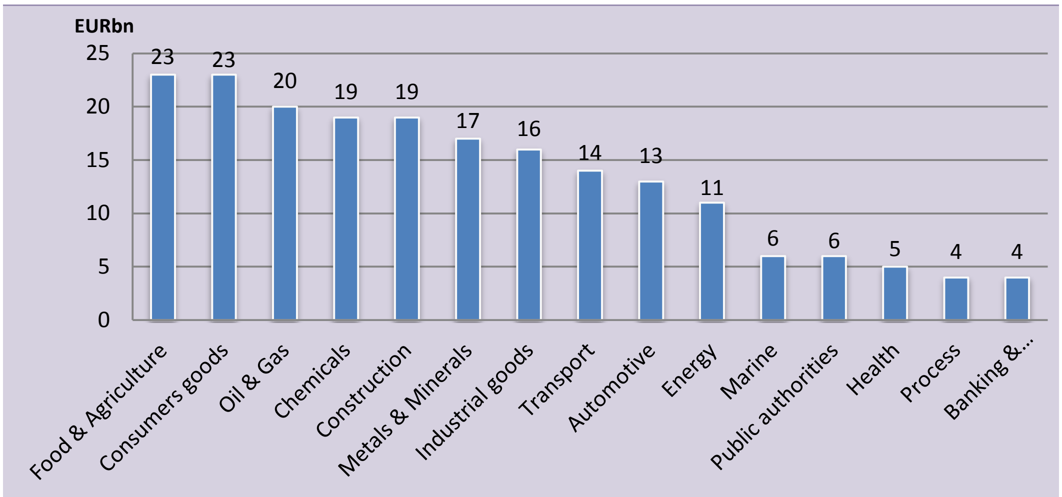
The **TIC** market (Test, Inspection, Certification), houses **a vast range of services in conformity assessment and certification in the areas of quality, health, safety, environment and social responsibility.**

These assessment and certification services concern **products** (mass retailing, food, electrical and electronics products, health, commodities-oil, petrochemicals, minerals, metals and farm commodities), **assets** (ships, buildings and infrastructure, power plants, refineries, pipelines) and **systems** (management QHSE - quality, health, safety, environment, supply management). TIC providers in the sector, considering their wide range of services, have the ability to meet clients' needs in testing, inspection and certification in **all industrial businesses and services sectors**.

A potential market estimated at EUR200bn, of which EUR80bn are addressable, spread over a wide range of services.

The market size estimate was recently widened by the second largest TIC company, **Bureau Veritas,** which raised the **TIC market size from EUR120bn to EUR200bn in 2015**, taking into account **outsourced and insourced markets**. With **40% of outsourcing**, the accessible market would be valued at **EUR80bn**. The French group justifies its sizing methodology, on one hand, by the structural increase for end-users' expenses concerning capex and opex linked to growth in trade volume, and, on the other, by the fact that safety requirements are growing in complexity as fast as testing, inspection and certification's. Furthermore, **Bureau Veritas** includes **China** in its estimates. **MarketsandMarkets stated the outsourced market should grow by a 5% CAGR over the 2015-2020 period**. The TIC market can be split into fifteen business sectors as follows:

Fig. 1: Global TIC market in 2015 by segment

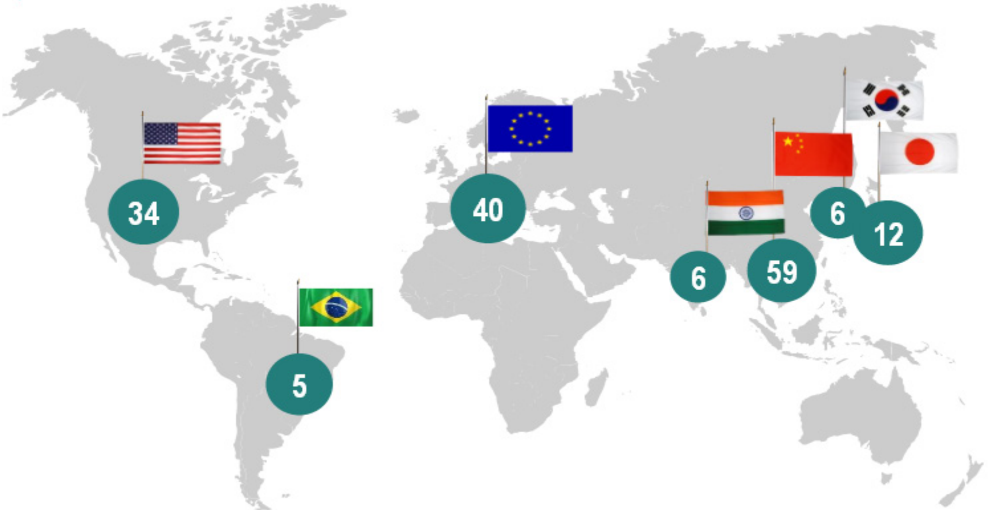


Source: Bureau Veritas; Bryan, Garnier & Co ests .

As illustrated, TIC activities are concentrated in main economically-developed areas such as **Europe, which centralises EUR40bn** of the global sector, then comes the **USA with EUR34bn.** In the emerging world, **China** also constitutes a great **opportunity with EUR59bn** according to Bureau Veritas. Note that these numbers include both outsourced and in-house activities.

A market particularly concentrated around three regions.

Fig. 2: TIC market by geographic areas



Source: IHS; Bureau Veritas.

2. … Supported by structural drivers

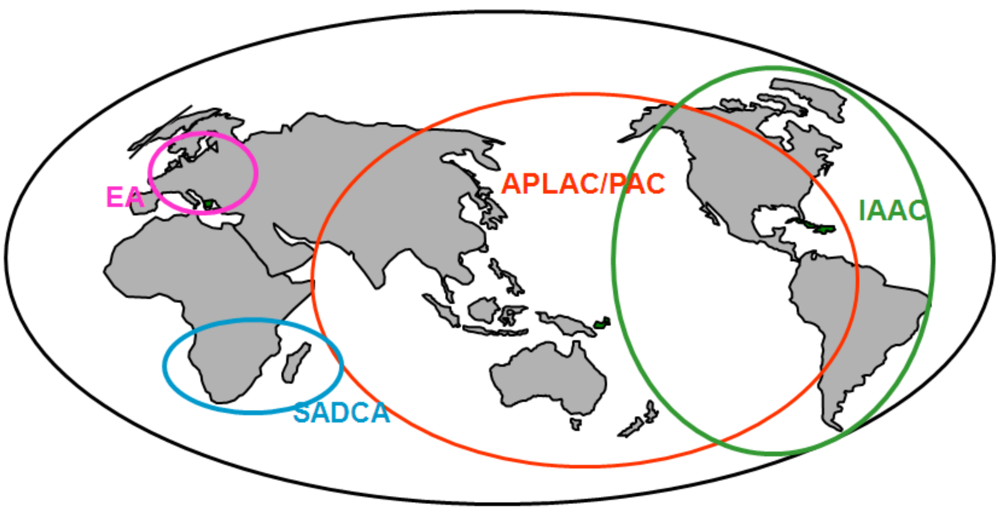
2.1. A globalisation which needs standards

The TIC market should benefit from increased regulations in addition to the setting up of **new standards**. This trend is born out by ever more present **globalisation** within economies, which leads to an **increase in international commercial flows**. According to WTO (Word Trade Organization), trade in global merchandise and services grew by 7% CAGR during the last 30 years, with a peak at USD22,000bn in 2011, after which the growth slowed down to 1.2% CAGR. It is important to realise that TIC activities are **closely linked to inspected merchandise volumes**. In more detail, Europe and the United States are very strongly regulated areas where a change in trend is inconceivable. As for Eastern European countries within the European Union, they are currently in the process of catching up with their co-state members on the Western side. Finally, **Asia,** which has been specialising in exports, has committed itself to increasing its regulations and standards.

Testing, inspection and certification providers regulated by national accreditors which attest their competency.

In a world composed of several countries which have their own standards born out of their history, and their own practices answering local consumers' requests, it soon became necessary to establish international standards in order to help exporting companies by guaranteeing quality, security and reliability of their products and services. **National institutions** are designated to **accredit just** who can certificate companies' products, processes or services; this fourth stakeholder in the TIC sector comes in addition to companies asking to be certificated, independent certifiers, and end-users. This **last level of control guarantees TIC companies' expertise and fairness** but a company doesn't need to be accredited by every institution where it is present thanks to **mutual recognition agreements**. Such international recognitions exist inside regional areas such as the European Union, the Americas, the South African continent, Asia and Oceania. Global recognitions also appeared with the ILAC (International Laboratory Accreditation Cooperation) association for standardisation, testing and inspection activities and IAF (International Association of Facilitators) for certification professions.

Fig. 3: International cooperation on accreditation



Source: COFRAC.

2.2. Scandals multiply

Besides, this structural trend in increased regulation is exacerbated by a context sprinkled with, for example, scandals in **sanitary areas** in food with Mars recently, the environment with Volkswagen or in medicine with the PIP prosthesis which have all implanted mistrust in consumers' minds. Yet, **consumers historically represent the greater source of requests** concerning security of reliability. Recent scandals emphasise how complex the distribution channels in the food industry are in a globalised world for instance, or the certification process imposed by authorities on industrials on other matters, and these are all points that consumers never imagined before. Whereas governments try to meet their peoples' demands, companies already and are still reinforcing their **internal quality requirements** and those regarding their **suppliers**. The companies' aim is to **control non-conformity costs and also their reputation**.

2.3. Outsourcing potential

At the same time, outsourcing is becoming a major driver in a market where testing, inspection and certification had been **historically insourced** by the companies themselves. Today, the outsourced market share is estimated to be approximately **40%** according to the leaders in the sector. This directional change by companies, now TIC providers' clients, is **due to the multiplication and complexity of tests**, with such a range engaging heavy costs internally, especially for players which haven't reached critical mass. As a result, this outsourcing represents a real driver for testing, inspection and certification specialists, among them **SGS**, **Bureau Veritas**, **Intertek** and **Eurofins**. It allows these specialists to hope for a far vaster potential market assuming total outsourcing.

2.4. Emerging countries as a growth driver

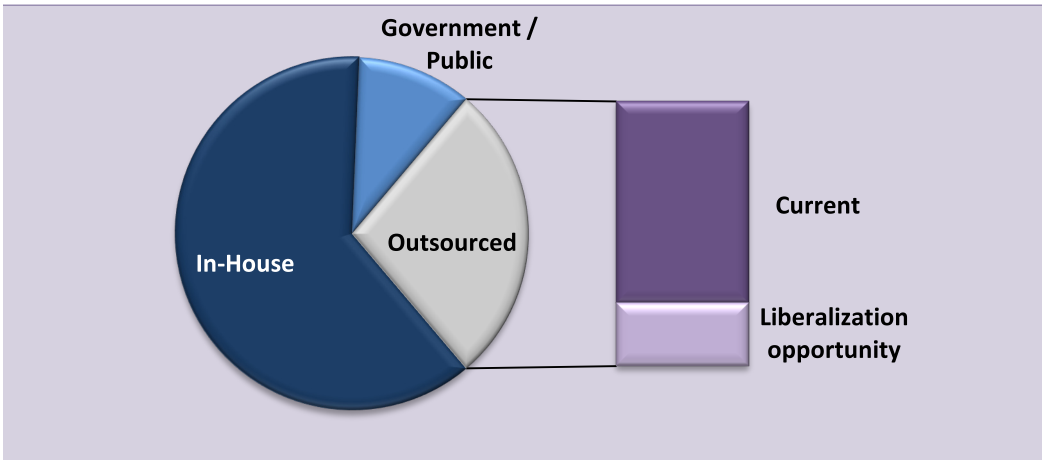
Apart from a potential increase of market shares in occidental companies following the outsourcing trend, TIC providers can also count on emerging markets in order to diversify their geographical exposure and benefit from economic growth in these regions. Despite the current economic slowdown, or recession for the worst cases, in some emerging countries, these economies are characterised by faster structural growth than developed countries. Knowing that emerging regions are the world's "factories", these countries concentrate production sites and therefore products that are destined for export. Yet, occidental companies have launched a campaign of quality control throughout the production chain; in other words the quality control inside their suppliers' factories in emerging countries. Among these emerging markets, China is estimated to be worth **EUR59bn** by **Bureau Veritas**, **EUR6bn** for India and **EUR5bn** for Brazil.

Some highlights on Greater China

In this context, China appears to be the country with the highest potential according to the size of its population and its well-developed economy. Moreover, Bureau Veritas' estimates for the Chinese market makes China the largest global TIC market and, like other occidental markets, the outsourced part is in the minority.

Chinese potential outsourced market estimated at EUR21bn in 2020.

Fig. 4: A EUR21bn Chinese TIC outsourced market in 2020



Source: Bureau Veritas.

High potential due to regulatory reinforcement, the emergence of a middle class and liberalisation in domestic activities.

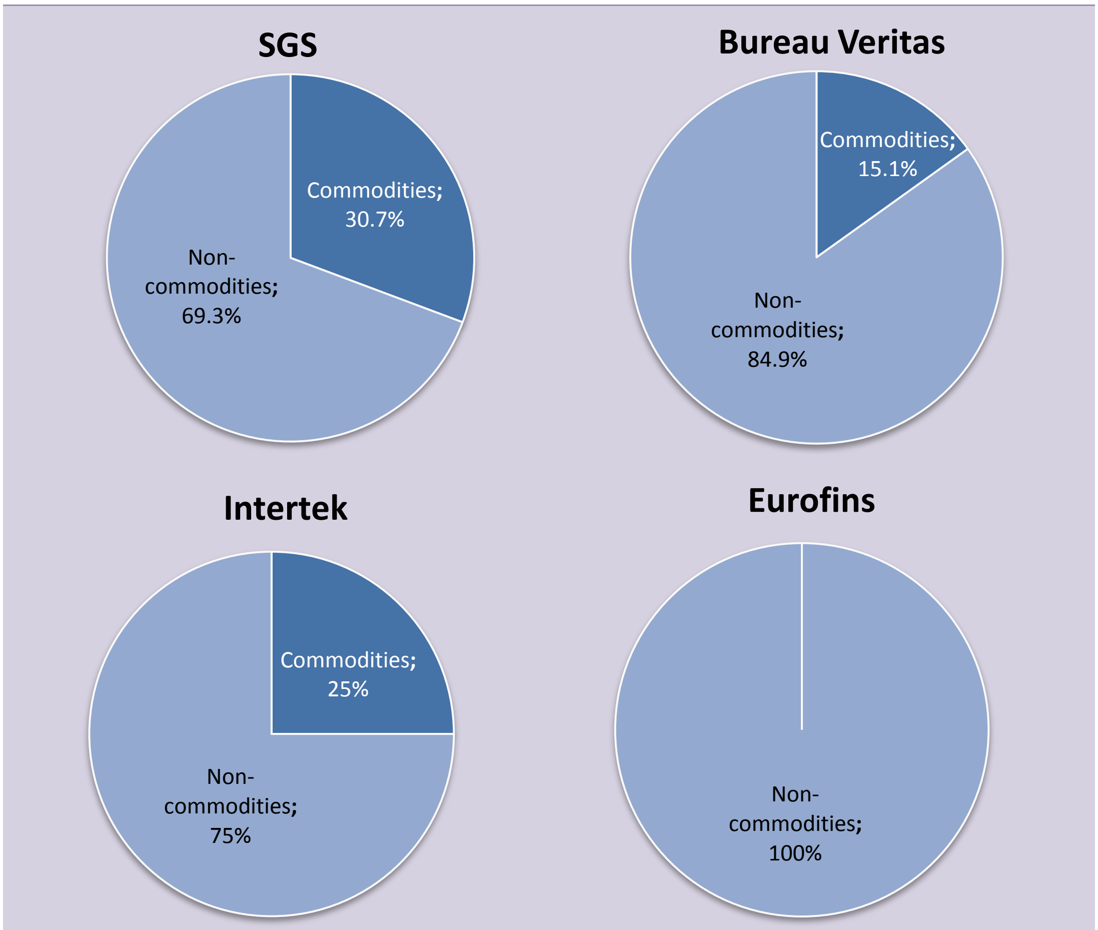
This high future market value should be supported by **increased regulations** born out of the **exponential growth of e-commerce and digitalisation** which are young sectors that need to be supervised. Furthermore, Chinese regulations will follow European and North American strengthening trends as they represent the first clients and importers impose their standards and regulations on Chinese suppliers. But it is necessary to keep in mind that China is currently transforming its economy by passing from a production structure to a consumption structure. Exports will consequently decline in favour of domestic consumption. Following this transformation, the **middle class is expected to grow fast and reach 100m households in 2020**. That is why the **Chinese domestic market is primordial** for TIC providers.

The problem, for the moment, is the **protectionism** in the Chinese domestic TIC sector. Much of the domestic market is covered by **national state-owned companies**, leaving little space for domestic independents and international independents. This assessment is again more relevant for ingestible products: drugs, food, feed and water. For instance, the testing specialist **Eurofins Scientific** generates 90% of its revenues in China through its Western clients whose subsidiaries are settled in China, proving Chinese clients are still faithful to their local TIC providers and forced to be. However, liberalization is on track and it should open an additional **EUR5bn accessible market by 2020 for the whole TIC sector**, as shown in the graph above.

2.5. The commodities shadow over TIC companies…

The TIC world historically benefited from the **commodities' hyper cycle**, indeed this sector's performance encouraged companies to focus on oil & gas and minerals segments, especially for the three majors. **SGS** appears to be the most exposed with 31% of its activities generated in the commodities segment in 2015.

Fig. 5: Major quoted TIC players' exposure to commodities in 2015

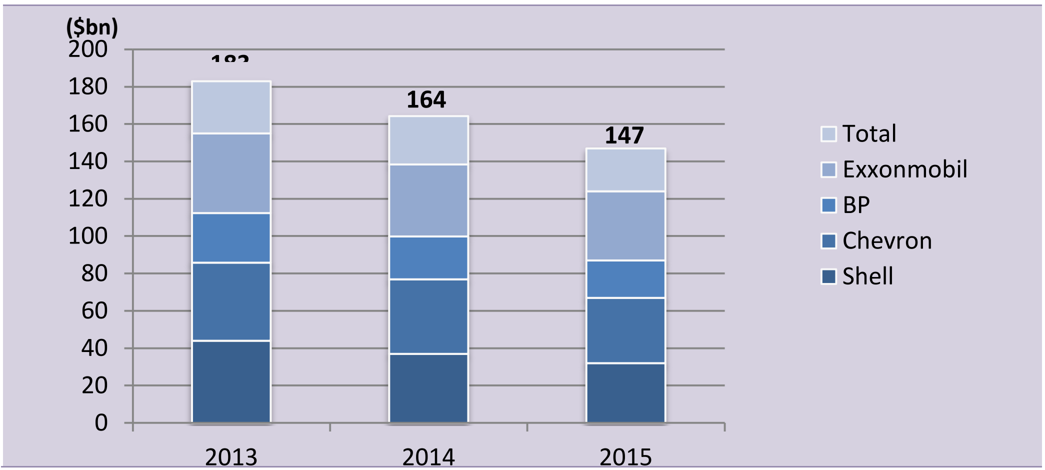


Source: Companies data; Bryan, Garnier & Co ests.

Heavy capex cuts pressuring TIC companies, especially the three leaders.

The fall in oil prices, starting in summer 2014, hit rock bottom at USD27-28/barrel and forced oil companies to **rationalise investments** and especially in exploration. As a result, major oil companies' capex has slumped over recent years with capex cuts of around 10%/year. Yet, capex represents a **great source of business for TIC** in commodities.

Fig. 6: Cumulative capex from leading oil & gas companies



Source: Companies data; Bryan, Garnier & Co ests.

As a consequence to this **dependence on commodity companies' capex**, the commodity activities **negatively impacted** testing, inspection and certification.

An exposure which benefited the leaders during the commodities' hyper-cycle but which is now affecting their business.

For the three main leaders, some highlights regarding **their exposure to commodities.**

For SGS, in fact taking into account Oil & Gas and Minerals, this is slightly over 30% of consolidated revenue in commodities and it is the most exposed leader. However, regarding commodities, it is mainly upstream activities that are suffering from lower client capex, i.e. around 40% of consolidated revenue in commodities. On the other hand, SGS's Industry segment (15% of consolidated revenue) is largely linked to Oil & Gas to the tune of 40%. **In summary, this is overall over 10% of consolidated revenue which is under pressure due to the reduced capex of clients in commodities.**

Commodities for **Bureau Veritas** include Oil & Petrochemicals, Metal & Minerals, Coal and Agriculture. Like for SGS, the Industry segment (22% of consolidated revenue) is also largely dependent on the Oil & Gas industry, and all in all this is c.8% of consolidated revenue linked to the reduced capex of clients in commodities.

Fig. 7: SGS's organic growth breakdown

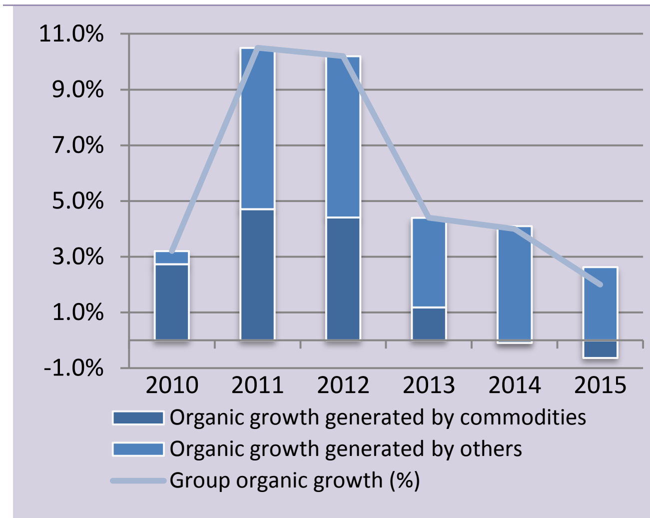


Fig. 8: Bureau Veritas's organic growth breakdown

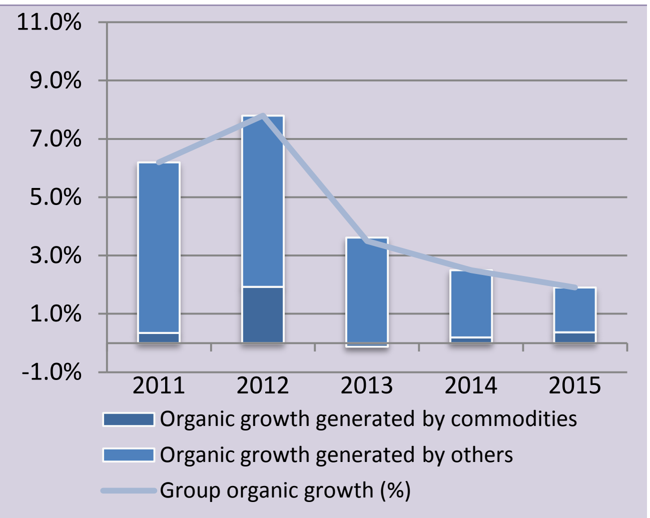


Fig. 9: Intertek's organic growth breakdown

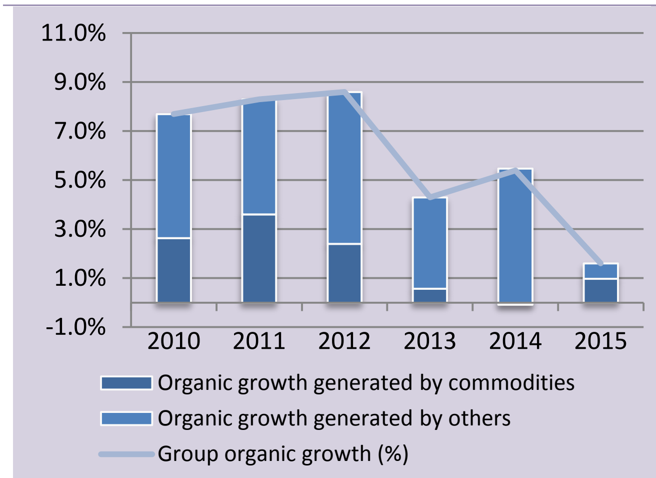
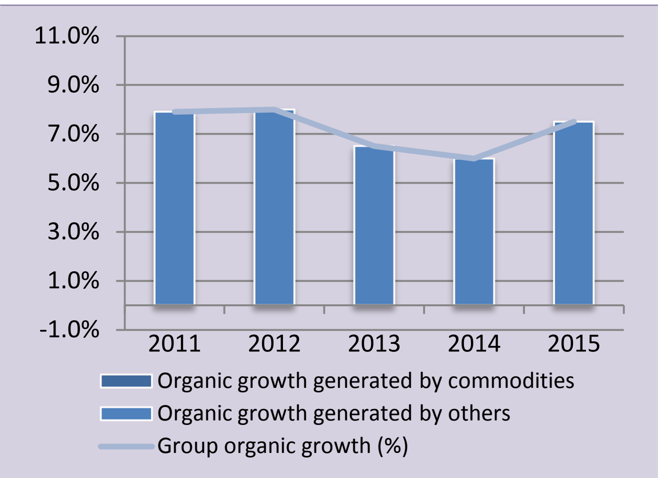


Fig. 10: Eurofins' organic growth breakdown



Source: Companies Data; Bryan, Garnier & Co ests.

Taking into account Commodities plus Industry & Assurance, which is about 75% of industry services mainly in Oil & Gas, o/w around 65% is linked to Oil & Gas clients' capex, **Intertek** is the TIC leader the most exposed to a capex slowdown in commodities representing over 15% of consolidated revenue.

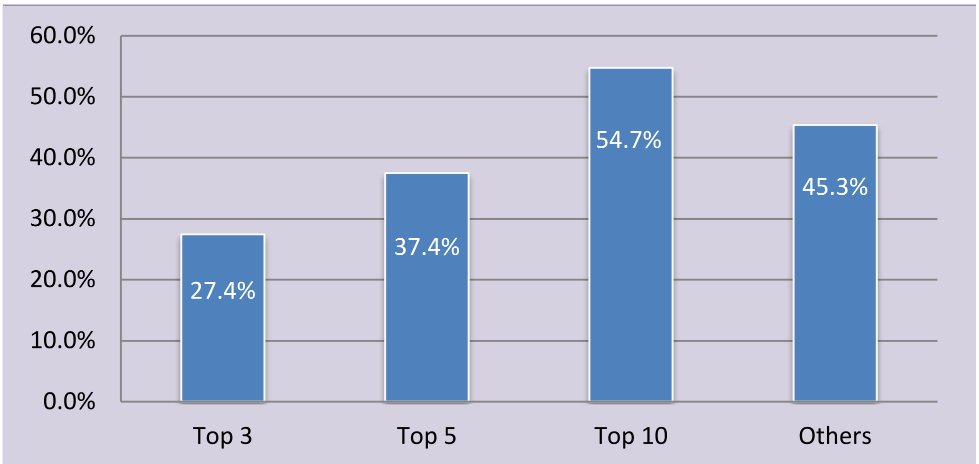
Eurofins is the only one amongst the four major quoted companies which hasn't been impacted by the end of the commodities hyper-cycle, due to its absence in this segment.

2.6. A continuing market consolidation

High concentration with the Top 3 concentrating more than 27% of market shares and the Top 10 c. 55%.

At first sight, the **competitive environment seems extremely concentrated** with, as illustrated below, **three main market leaders** which centralise more than **27%** of the whole outsourced activity. This ratio climbs to c.**55%** when taking into account the first ten companies, catching more business than the rest of the sector, which is composed of a crowd of little players specialised in niche markets. Such a concentration is due to **high-entry barriers** reated to **the need to be accredited by national accreditation organizations with a strong reputation and an international brand.** The **reliability** of the certification or inspection is closely linked to the TIC company's image which provides this certification.

Fig. 11: Market shares in outsourced TIC in 2015



Source: Companies data; MarketsandMarkets; Bryan, Garnier & Co ests.

With a Top 5 in which every member generates more than EUR2bn of revenues, other challengers present in the Top 10 are not far behind with sales between EUR1bn and EUR2bn. These **challengers are mostly specialised in other business segments or at least excluded from the leaders' priorities**. Indeed, the Top 3 is particularly active in industries, commodities, construction and, more recently and increasingly food. This prioritisation has allowed challengers such as **Eurofins** to emerge in some areas, e.g. environmental or bioanalysis (see Appendix).

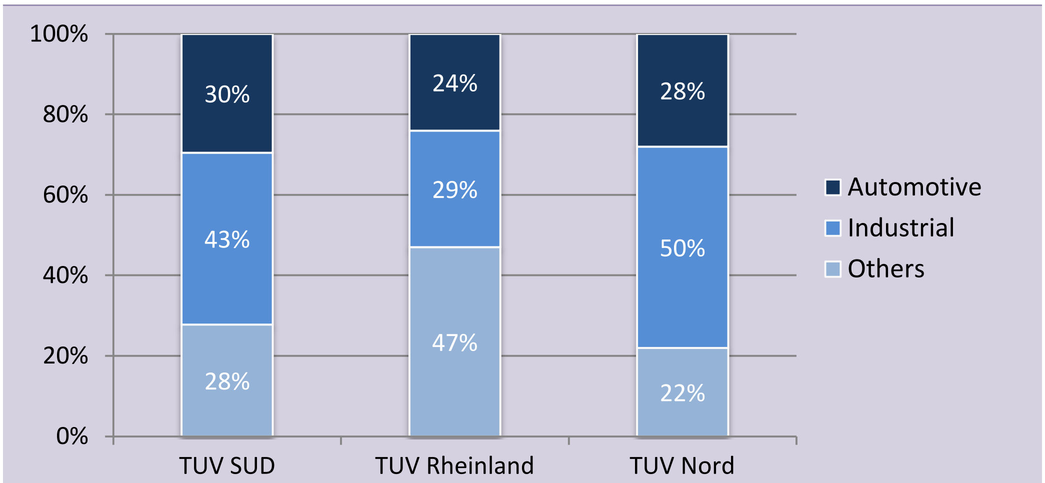
2.7. The atypical case of German foundations

Created during the industrial revolution of the XIXth century to help the emerging big German industrials, a multitude of associations progressively merged to form only **three companies nowadays: TÜV SÜD, TÜV NORD and TÜV Rheinland.** Their **legal structure is uncommon** in the TIC sector and especially their size. Indeed, being associations or foundations, these German firms have **no financial performance requirements** from their shareholders and **no dividend** is paid out. Besides, the shareholders often give their powers to an independent committee. Benefiting from this structure, the TÜVs proclaim their independence and impartiality. It allows them to be less pressurised by financial performance. As a matter of fact, their personnel policy is more generous and their profitability is lower than classic TIC providers. The possible downside is that these foundations can only count on the cash they generate and banking credit as sources of liquidity, contrary to common listed companies which have access to the financial markets.

German foundations are serious competitors for classic TIC providers due to their global presence and ranking among the world's biggest players.

These players represent **serious competitors** to classic TIC providers by their global size and ranking, as a reminder in the previous figure we can see that the three German TÜVs are among the first 15 companies in the world regarding revenues. Even if the TÜVs are involved in several countries, 50 countries in the case of **TÜV SUD**, they demonstrate a **strong geographical exposure** to one country, Germany, with sometimes more than 50% of their revenues generated in this first European economy. This exposure results from the historic role of these German certificators, which is why TÜVs are also **concentrated in the industrial and automotive/mobility** businesses.

Fig. 12: German TÜVs' revenue split in 2014



Source: Companies data; Bryan, Garnier & Co ests.

The target is set on data security and internationalisation through the Asian market.

However, reactivity is one the TÜVs greatest qualities. Considering their geographical and business dependence, these foundations have recently put their **target on data security**, and geographically their strategy is now focused on **internationalisation and especially the Asian market**. As an example, **TÜV SUD** reported a EUR16m capex investment in China in 2015 out of a total EUR80m capex, i.e. more than 20%.

German foundations are not very active in the market consolidation as **M&A is not a real driver for their growth**. Whereas **TÜV SUD** generated 7.8% revenue growth in 2015, organic growth was stated at 4.1%, and external growth was flat considering the 3.6% positive currency effect. In 2015, for TÜV SUD, external growth only generated 0.1% vs 4.1% organic growth. This poor external growth contribution can be explained through the small number of acquisitions and the corresponding cumulated revenue amount. In 2015, only five acquisitions were made representing less than EUR30m. In 2014, this amount reached only EUR14m with five M&A operations. Nevertheless, the first German TÜV now intends to enhance its growth strategy through M&A, following the business model set up by classic TIC providers.

Fig. 13: TÜV SÜD's growth split

	2012	2013	2014	2015
Group's growth	**8.5%**	**6.5%**	**6.3%**	**7.8%**
Scope effect	0.9%	2,0%	-0.2%	0.1%
Organic growth	5.8%	6.3%	6.9%	4.1%
Currency effect	1.8%	-1.8%	-0.4%	3.6%

Source: Company Data; Bryan, Garnier & Co ests.

The incursion into emerging countries in the coming years, resulting from TÜVs' strategy and existing investment in these countries, will intensify competition within the sector. Their different structure to classical TIC providers could also allow German foundations to lower prices and reduce margins in these markets. For the biggest foundation, **TÜV SUD**, external growth also represents a potential leverage for revenue growth, increasing M&A in the TIC sector.

2.8. M&A as an essential ingredient in growth

In a market where new technological developments and range of services are widening, external growth consequently is of key importance. This **correlation between the enlargement of the product portfolio and external growth** is due to the nature of the market itself. The competitive environment can be divided into two categories with, on one hand, a minority of international leaders and, on the other, many small players specialised in niche markets. These smaller companies thus possess the concept and skill but not always the structure and the necessary network to develop their innovations on a larger scale. Besides, the sector has an established notoriety in selling its services. Leaders are therefore constantly **looking for these technologies and newly-developed techniques by small laboratories in order to widen their portfolio**.

Acquisitions as a way to gain access to new technology accreditions, expand assays and client portfolios, and geographic presence.

Taking into account the **high retention rate** in the TIC market, due to the heavy regulation processes if a company switches its certificator and the small proportion of testing, inspection and certification costs in a group's cost structure, it is not easy to gain market shares from competitors. Excluding the opening of new markets and increasing outsourcing, the only way to gain market share is to acquire companies that have already built a client portfolio.

This trend has been **continuing since 2004**, the date from which acquisition numbers haven't ceased to accelerate for the majors. Over the 2004-2015 period, we count between 90 and 130 acquisitions for each of the four major quoted companies cited: **SGS**, **Bureau Veritas**, **Intertek** and **Eurofins**. These investments hit as high as EUR2.58bn for **Bureau Veritas**, one of the biggest consolidators in the sector.

Fig. 14: Major quoted TICs' in M&A activity

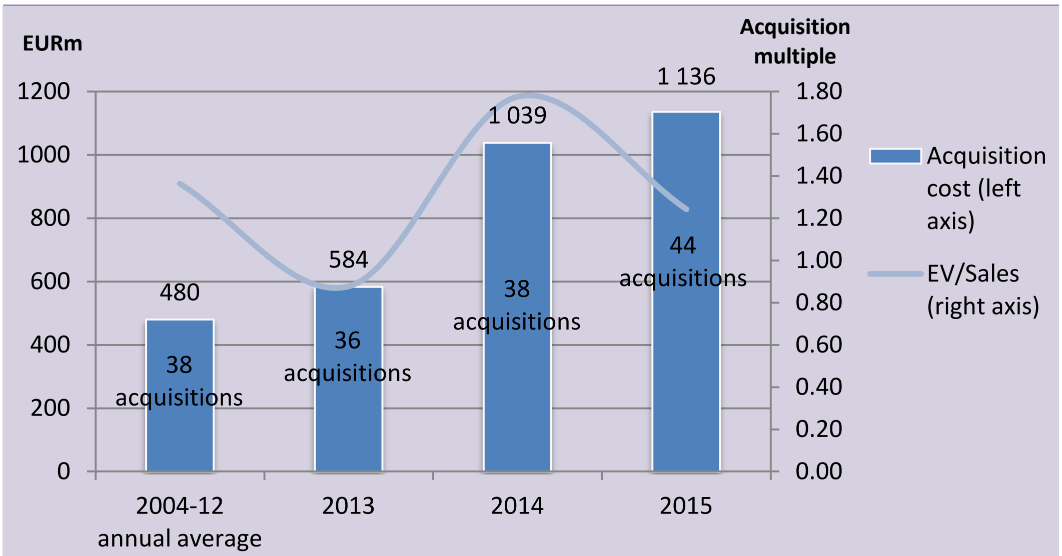
2004-2015 (EURm)	Number of acquisitions	Acquisition cost	Revenues related	EV/Sales
SGS	121	1,256	746	1.68
Bureau Veritas	121	2,577	1,979	1.30
Intertek	93	1,696	1,204	1.41
Eurofins	129	1,551	1,406	1.10
Four quoted leaders	464	7,080	5,335	1.33

Source: Company Data; Bryan, Garnier & Co ests.

The typical target is a small firm generating between EUR5m and EUR50m with a specialisation in: energy, cleantech, medical, food or commodities.

In this consolidation environment, the **typical target is a small firm** generating revenues between **EUR5m and EUR50m**, specialised in business lines such as: energy, cleantech, medical, food and commodities. Companies having developed skills along the whole value chain of a product or of a business line are very attractive too. We notice that the EUR5-10m stage in sales is a fundamental position because it proves the company has reached a critical mass in its niche market and above all that its expertise meets a real demand. According to Mergers Alliance, **transaction multiples reach 8x EBIT for small companies and 10 to 12x EBIT for mid-sized players**. Despite the strong activity in M&A, targets' rarefaction is not to expect regarding the whole sector due to the crowd of small laboratories and an increase in acquisition prices is unlikely on small sized acquisitions. However, prices measured by the EV/sales ratio have been fluctuating considerably between the range 0.88x and 1.79x since 2004, reaching 1.24x on average in 2015.

Fig. 15: Major quoted TICs' acquisition expenses and EV/Sales



Source: Companies data; Bryan, Garnier & Co ests.

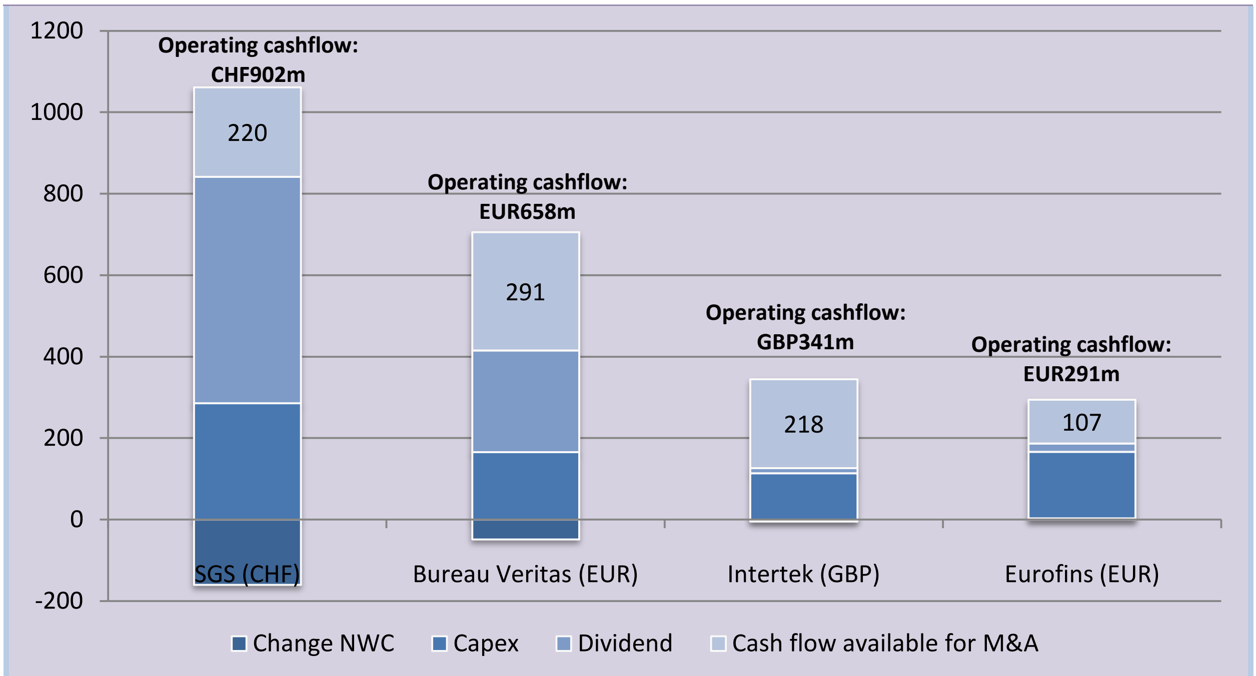
Fig. 16: Major quoted TICs' structure and valuation

(EURm)	EBITDA margin 2015	Net debt/EBITDA 2015	EV/Sales 2016e	EV/EBITDA 2016e
SGS	16.1%	0.42	2.63	12.06
Bureau Veritas	16.7%	2.39	2.29	10.85
Intertek	-16.6%	1.70	2.30	11.80
Eurofins	18.5%	2.54	2.48	13.60

Source: Company Data; Bryan, Garnier & Co ests.

These multiples, i.e. 1.33x EV/sales on average over the 2004-2015 period, which concern small targets, are mainly due to the TIC sector itself. It is indeed a wide sector with addressable clients in almost every market. TIC providers have also developed a strong flexibility in slow periods by modifying their cost structures, and still generating strong margins and cash, therefore explaining the high valuation of the entire sector. But even if acquisition prices appear to be expensive, the deals remain accretive for the leaders which are valued with even higher multiples, i.e. over 2.30x for 2016e.

Fig. 17: Major quoted TICs' available cash for M&A, excluding financing activities



Source: Company Data; Bryan, Garnier & Co ests.

To conclude

TIC market's medium/long-term outlook remains very positive with strong structural drivers i.e. globalization which needs standards, scandals in sanitary, outsourcing potential notably in greater China and continuing market consolidation under main leaders' activity in M&A. Nevertheless, short term is becoming more challenging for the three main leaders with the weakness of activities linked to commodities. Challengers, generating between EUR1bn and EUR2bn revenues in very specialized segments which are not related to commodities, are benefiting from this environment change and release strong growth, i.e. Eurofins for instance.

BRYAN, GARNIER & CO

INDEPENDENT RESEARCH

27th May 2016

Business Services

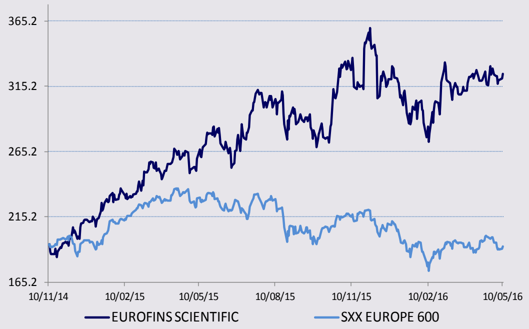
Eurofins Scientific

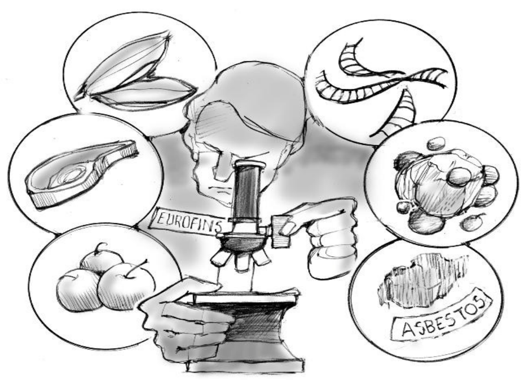
Simply too expensive

Fair Value EUR340 (price EUR345.65) **SELL**

Bloomberg	ERF FP
Reuters	EUFI.PA
12-month High / Low (EUR)	359.8 / 253.0
Market capitalisation (EURm)	5,317
Enterprise Value (BG estimates EURm)	6,526
Avg. 6m daily volume ('000 shares)	17.40
Free Float	58.3%
3y EPS CAGR	14.4%
Gearing (12/15)	85%
Dividend yields (12/16e)	0.44%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	1,950	2,482	2,808	3,149
EBIT(EURm)	264.33	324.05	364.79	409.13
Basic EPS (EUR)	3.69	NM	NM	NM
Diluted EPS (EUR)	8.77	9.29	11.30	13.14
EV/Sales	3.20x	2.63x	2.40x	2.19x
EV/EBITDA	17.3x	14.3x	13.0x	11.8x
EV/EBIT	23.6x	20.1x	18.5x	16.9x
P/E	39.4x	37.2x	30.6x	26.3x
ROCE	7.2	8.3	8.3	8.4





In the TIC sector, Eurofins focuses on testing with no inspection or certification activity unlike the other companies we follow. As the worldwide no.6 in terms of revenue, the group has a strong presence in food testing and now also in pharma and clinical diagnostics but no presence in commodities. The growth strategy is the same as the other players, split between organic growth and M&A, in which the group is particularly active. The current valuation with high multiples, reflecting a strong market track record and ambitious management, leaves no room for disappointment (lfl growth, M&A strategy in view of the group's financial constraints, EBITDA margin improvement).

- **A big player focused on niche markets.** Given its business focus on testing, Eurofins has developed a quadruple specialisation in pharma, clinical diagnostics, food and environment. With total revenue of c.EUR2bn in 2015, Eurofins is no.6 in the TIC sector and the fourth largest quoted player.

- **Growth strategy split between organic and acquisitions.** Besides strong organic growth (7% per annum on average in the last five years) underpinned by the launch of its proprietary start-ups, Eurofins also resorts to external growth to gain new market share and develop new skills. All in all, in the last five years, consolidated revenue CAGR stood at 23%.

- **A strategy requiring cash.** Eurofins' business model is cash consuming and there is not enough free cash flow to cover both organic growth and M&A. Short-term expansion has been secured after an active refinancing year in 2015 (hybrid capital, senior unsecured euro bonds). At the end of 2015, net debt was above EUR900m, representing leverage of 2.54x (covenant of 3.5x). Note that, including the hybrid capital (EUR600m), leverage would have reached 4.4x.

- **A valuation leaving no room for disappointment.** Retaining M&A and start-up development as part of the group business model, our "base case" taking into account organic growth of 8% in 2016 and 5% in the subsequent two years derives a FV of EUR340 (average between a DCF and historical median used as the exit multiple on FY+3). At the current share price, in line with our FV, the stock is valued 20.1x 2016e EV/EBIT and 18.6x 2017e compared with a historical median of 19.6x.

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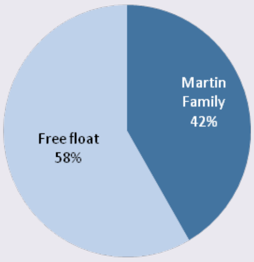
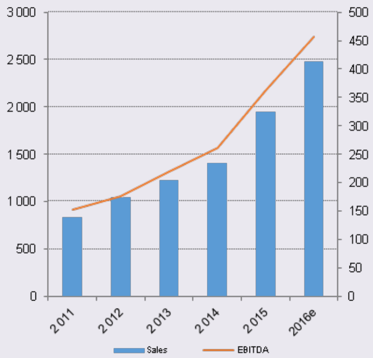




Company description

Eurofins Scientific was founded in 1987 with 10 employees to market the SNIF-NMR technology, a patented analytical method used to verify the origin and purity of several types of food and beverages and identify sophisticated fraud not detectable by other methods. Today the Eurofins Group is a leading provider of analytical services with: an international network of over 225 laboratories across 39 countries in Europe, North and South America and Asia-Pacific, over 23,000 staff, a portfolio of over 130,000 validated analytical methods and more than 150 million assays performed each year to establish the safety, identity, composition, authenticity, origin, traceability, and purity of biological substances and products, as well as carry out human diagnostic services. IPO on the French stock exchange in 1997.

Simplified Profit & Loss Account (EURm)	**2013**	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Revenues	1,226	1,410	1,950	2,482	2,808	3,149
Change (%)	*17.4%*	*15.1%*	*38.3%*	*27.3%*	*13.2%*	*12.1%*
Reported EBITDA	189	230	345	442	503	570
Adjusted EBITDA	219	260	361	457	518	585
Reported EBIT	112	132	198	299	340	384
Adjusted EBIT	162	190	264	324	365	409
Change (%)	*23.5%*	*17.2%*	*39.3%*	*22.6%*	*12.6%*	*12.2%*
Financial results	(23.4)	(30.8)	(66.1)	(66.3)	(58.0)	(55.8)
Pre-Tax profits	139	159	227	258	307	353
Tax	(22.1)	(31.1)	(59.6)	(67.0)	(82.8)	(98.9)
Profits from associates	0.30	0.20	0.37	0.0	0.0	0.0
Minority interests	(0.10)	0.0	3.1	4.0	4.5	5.0
Net profit	71.9	79.0	90.1	NM	NM	NM
Restated net profit	117	128	167	191	224	254
Change (%)	*82.6%*	*9.8%*	*30.4%*	*14.2%*	*17.4%*	*13.6%*
Cash Flow Statement (EURm)						
Operating cash flows	156	195	294	365	410	461
Change in working capital	13.8	17.1	(3.0)	(81.8)	(6.9)	12.0
Capex, net	(98.7)	(131)	(164)	(199)	(225)	(252)
Financial investments, net	(87.4)	(292)	(627)	(240)	(240)	(240)
Dividends	(15.5)	(18.3)	(20.4)	(22.2)	(23.5)	(28.6)
Other	(9.7)	(5.7)	(21.0)	(35.6)	(35.6)	(35.6)
Net debt	387	494	916	1,208	1,431	1,585
Free Cash flow	50.3	52.7	101	10.4	143	186
Balance Sheet (EURm)						
Tangible fixed assets	251	324	428	444	459	473
Intangibles assets	543	873	1,763	2,053	2,349	2,652
Cash & equivalents	297	217	794	288	6.7	(237)
current assets	347	404	631	802	908	1,018
Other assets	54.2	52.5	83.0	73.5	408	669
Total assets	1,497	1,873	3,700	3,661	4,131	4,575
L & ST Debt	684	710	1,710	1,497	1,438	1,348
Others liabilities	408	480	887	869	1,170	1,444
Shareholders' funds	395	664	1,080	1,267	1,486	1,736
Total Liabilities	1,102	1,209	2,620	2,394	2,645	2,839
Capital employed	794	1,422	2,491	2,878	3,197	3,501
Ratios						
Operating margin	17.89	18.47	18.50	18.40	18.43	18.58
Income tax	19.30	21.94	31.91	26.00	27.00	28.00
Net margin	9.52	9.08	8.57	7.68	7.97	8.08
ROE (after tax)	29.57	19.29	15.46	15.05	15.06	14.66
ROCE (after tax)	16.46	10.42	7.23	8.33	8.33	8.41
Gearing	98.00	74.32	84.82	95.38	96.28	91.32
Pay out ratio	19.64	16.67	16.53	16.53	16.53	16.53
Number of shares, diluted (000)	15,994	16,060	16,266	16,266	16,266	16,266
Data per Share (EUR)						
EPS	3.54	5.16	3.69	NM	NM	NM
Restated EPS	6.11	7.92	8.77	9.29	11.30	13.14
% change	*21.7%*	*29.6%*	*10.7%*	*5.9%*	*21.6%*	*16.3%*
BVPS	24.68	41.36	66.42	77.90	91.39	107
Operating cash flows	9.72	12.15	18.08	22.42	25.20	28.34
FCF	3.14	3.28	6.21	0.64	8.79	11.42
Net dividend	1.20	1.32	1.45	1.54	1.87	2.17

Source: Company Data; Bryan, Garnier & Co ests.

Table of contents

1. Eurofins' SWOT

Fig. 1: Eurofins SWOT

Strengths	Weaknesses
Specialisation on business lines which are resilient to economic cycles. Counts among its clients several international key accounts (Top 5 in pharma concentrates 5% of its pharma business) without strong client dependence. Strong structural and temporary growth drivers in each of the three sub-sectors. A wide range of available assays through a global laboratories network.	Limited exposure to emerging countries. Increasing debt (net debt/EBITDA 2.54x). Increasing position in French routine testing market. A structure characterised by higher capital intensity than other TIC leaders. A dependence on medical testing through pharma and clinical diagnostics (55% of revenues). Low flexibility to adapt cost structures in the case of a slowdown: layoffs and closing sites are not in Eurofins' culture.
Opportunities	**Threats**
Low outsourcing ratio in the TIC sector (40%) and especially in pharma (24%). Acquisition of small-sized players having developed new skills and a clientele. Sanitary, environmental or medical scandals breaking leading to additional consumers' concerns and regulations. Companies looking to protect their brand image against potential contamination incidents. Sector known for its strong barriers to entry: required notoriety forces concentration.	An economic boom would be of less benefit to business lines in which Eurofins is present. Reputational risk in case of analysis mistakes. Failed or poor integration of an acquisition. Many new entrants in the life science business line. Main leaders' recent appetite in food testing. High retention rate in the sector restrains market share gains and thus organic growth opportunities.

Source: Bryan, Garnier & Co ests.

2. Eurofins: Investment Case

Why the interest now?

The reason for writing now

In the TIC sector, we complete our coverage with Eurofins which unlike the other companies is exclusively involved in testing. The group has a strong presence in food testing and now also in pharma and clinical diagnostics, segments with sustained growth and positive outlooks.

Cheap or Expensive?

Valuation

A stock market track record well managed with results usually in line with expectations. The current valuation perfectly reflects this situation but limits room for improvement.

When will I start making money?

Catalysts

With a presence exclusively in testing and no presence in commodities, Eurofins' results have largely outperformed those of the main leaders. Eurofins is particularly active in M&A carried out on much lower multiples than the valuation of the group.

What's the value added?

Difference from consensus

Our 2016-2018 estimates take into account M&A contributions based on management's strategic plan. Partly due to this situation, our adjusted EBITDA 2016e, 2017e and 2018e are above consensus of respectively 1%, 4% and 8%.

Could I lose money?

Risks to our investment case

We identify four risks to our investment case: 1/ an M&A growth strategy that can weigh on the margin, 2/ a cash consumer growth strategy which would need new long-term resources regarding financial constraints, 3/ competition reinforced by the two main leaders' ambitions in food testing, and 4/ a valuation that will not accept any disappointment.

3. Eurofins in six graphs

Fig. 2: 2015 revenue by geography

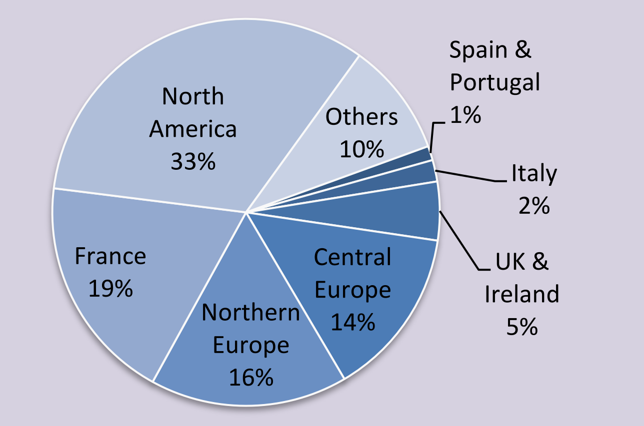
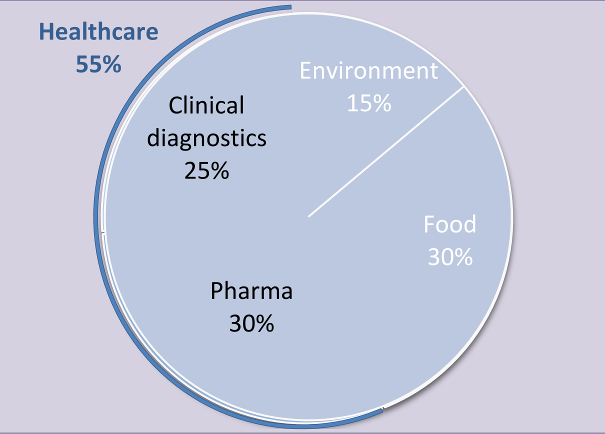


Fig. 3: 2015 revenue by segment



Source: Company Data; Bryan, Garnier & Co ests.

Fig. 4: 2015 laboratories by geography and business

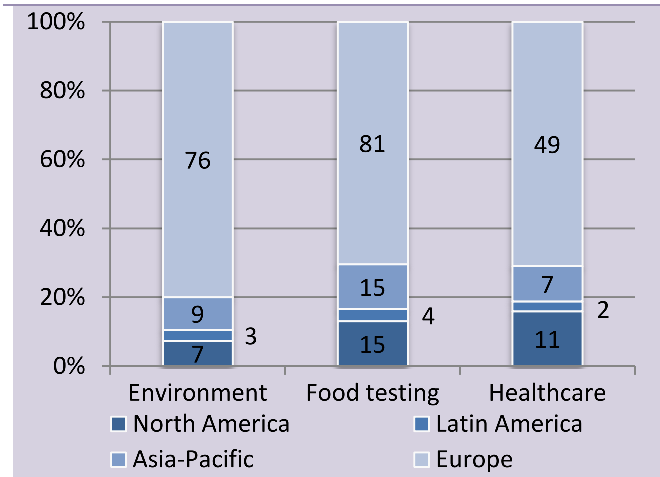
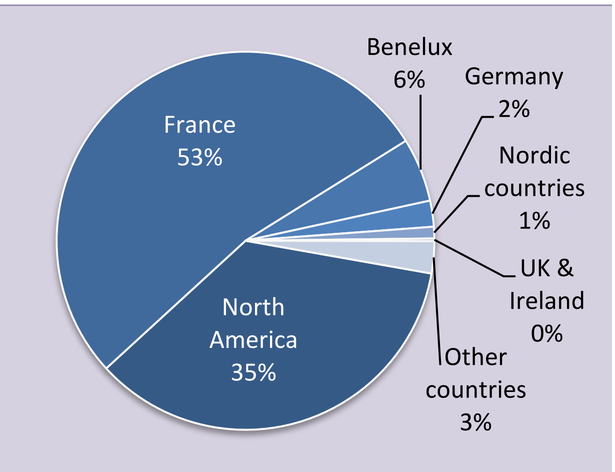


Fig. 5: 2015 capex by geography



Source: Company Data; Bryan, Garnier & Co ests.

Fig. 6: EBITDA and EBITA margins trend

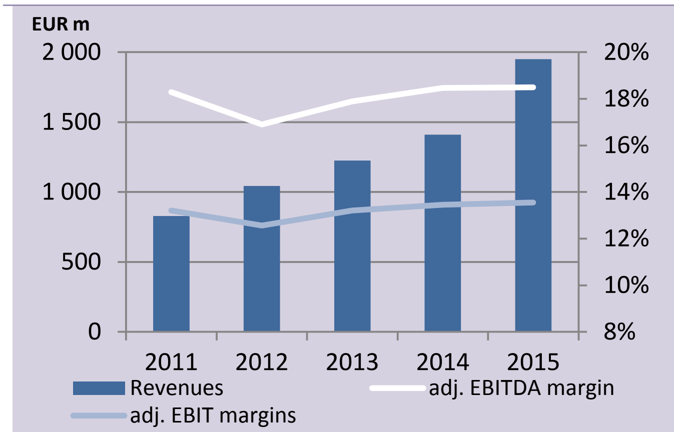
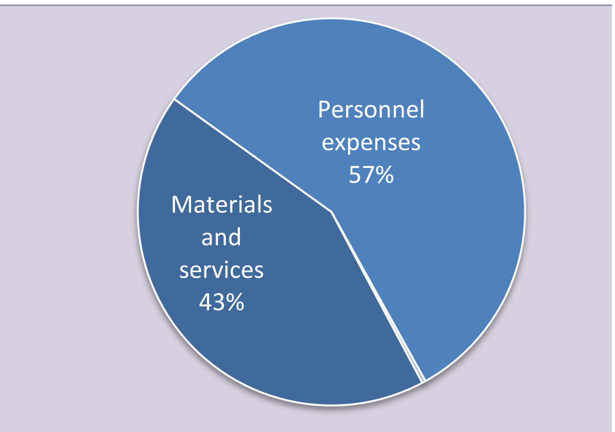


Fig. 7: 2015 operating cost's split



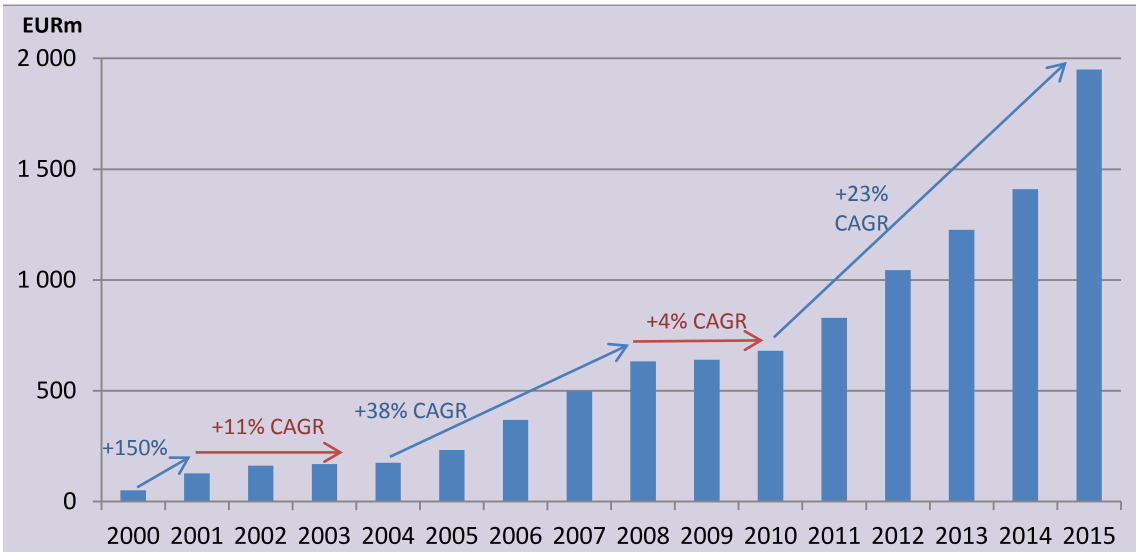
Source: Company Data; Bryan, Garnier & Co ests.

4. Eurofins: a big player focused on niche markets

A quadruple specialisation:
- Pharma testing
- Clinical diagnostics
- Food & feed testing
- Environment testing

Eurofins Scientific, a specialist in Testing among the Testing, Inspection and Certification providers, is the **sixth largest worldwide** according to our estimates in terms of revenues (**EUR1.95bn in 2015 and EUR2.24bn on a pro-forma basis**) behind the two private German companies: TÜV SUD and Dekra, but fourth in the quoted universe. **Eurofins** has developed a quadruple specialisation in pharma, clinical diagnostics, food & feed and to a lesser extent in environmental testing in its first years and immediately began to expand its market shares through stages of several years of strong growth and consolidation. We note that pharma and clinical diagnostics have taken a major place in Eurofins' acquisitions, in terms of revenues acquired and total acquisition costs, since its last expansion cycle began in 2011.

Fig. 8: Eurofins' growth cycle since 2000



Source: Company Data; Bryan, Garnier & Co ests.

4.1. Pharmaceuticals business line (30% estimated of revenues)

Assays are realised all along the development of a drug, i.e. from R&D to the final assays before market approval.

■ **Pharmaceutical testing in a nutshell**

Drug developments need trials, made internally or externally in TIC companies, to ensure the structure and efficiency of the safety of the drug on humans. These assays are carried out throughout the development process of the drug, i.e. from the research and development and pre-clinical processes, to the final assays before market approval and testing along the production chain.

The outsourced subsector in laboratory testing is stated to be worth **EUR5bn/year** by Eurofins. According to our estimates, Eurofins has a **12% market share** in this small area of pharma, i.e.

laboratory testing. Among the numerous young small laboratories, **Eurofins** provides analysis on a drug's full life cycle, i.e. from its conception to mass production. **Eurofins** can also count on international key accounts among the biopharmaceuticals firms such as Pfizer, Sanofi, GlaxoSmithKline, Novartis and AstraZeneca, split between Europe and the USA through **70 laboratories**. According to our estimates, these Top 5 companies are responsible for 5% of the revenues coming from pharmaceutical activities for Eurofins, a relatively high portfolio concentration in line with the structure of the pharma sector.

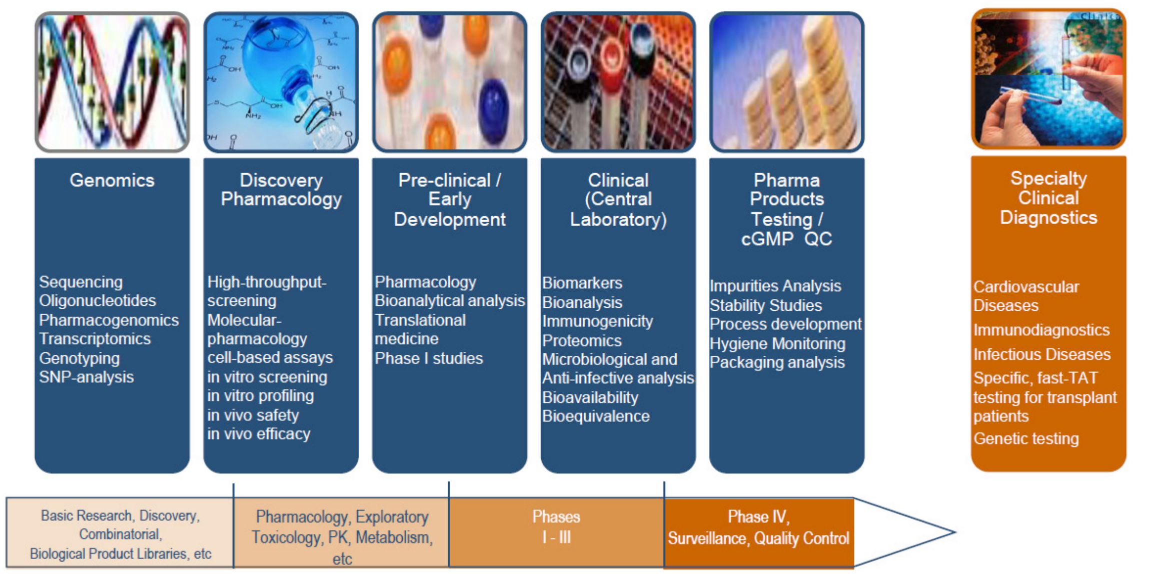
Further insight

This business can be divided into two hubs with: 1/ genomics and discovery pharmacology which gather all research and discovery activities, meeting mainly biotech, public research institutes and academic needs; and 2/ pre-clinical, clinical and product testing which concern drug development for pharma companies' clients. However, we note that **Eurofins** hasn't developed a significant presence in pre-clinical testing, i.e. tests on animals, due to ethical issues and to preserve its reputation.

A clientele gathering big pharma companies which mostly outsource pre-clinical and clinical testing.

The **clientele in this business is concentrated on the big pharma companies** which outsource a great part of their pre-clinical and clinical testing to independent laboratories, while product testing is mainly done "in-house". The riskiest and most complex activities are outsourced and the most basic are kept in-house. This concentration of clients can lead to strong price pressure due to the disequilibrium in negotiations. Pharma testing reveals a volatility in volume directly resulting from a research & development activity which tends to come in waves, but this volatility is softened by 3 to 5-year contracts generally signed with pharma companies. Other clients work with 1-year renewable contracts or an implicit contract, which in the end doesn't give rise to significant risk because of the high retention rate of clients by TIC companies.

Fig. 9: Eurofins' range of services in all healthcare businesses



Source: Company data.

Fig. 10: Healthcare segment's heterogeneity

	Genomics	Discovery pharmacology	Pre-clinical	Clinical	Pharma products	Clinical diagnostics
Eurofins' presence						
Outsourcing	very high	very low	high		very low	around 60%
Clients	Biotech, pharma, public research institutes, academies		Pharma			Physicians, hospitals, clinics

Source: Company Data; Bryan, Garnier & Co ests.

Upcoming drug patent expirations force pharma companies to develop new drugs, whose costs have increased by 145% since the 1990s.

What is there to monitor?

Pharmaceutical testing, concentrating Eurofins' greatest ambitions judging by its recent acquisitions, is supported by structural and temporary drivers. To face the **upcoming expiration of several drug patents**, i.e. Evaluate Pharma forecasts that **USD215bn** in sales will be at risk due to patent expirations between 2015 and 2020, such as Crestor which represents **USD6.4bn** in revenues for AstraZeneca, or Zetia which generates **USD2.6bn** for Merck, big pharma companies have to research and develop new drugs to fill their portfolios. Meanwhile, it is important to note the rising trend in **costs related to drug development** before approval. This reached **USD2.6bn o**n average in 2014 (+ additional USD312m in post approval development), i.e. an explosion of **145%** since the 1990s, mainly due to the complexity of trials imposed by new regulations. Besides, **outsourcing** only represents **24%** of global pharma companies' R&D spend (including laboratory testing and trials), stated at **USD140bn** in 2014, vs. **40%** of outsourcing for the whole TIC sector. Even if some activities in pharma are usually done in-house, this leaves room for higher outsourcing level for the TIC companies. Outsourcing could allow pharmaceuticals to **reduce their fixed costs** and give them **access to new skills not developed internally**.

Fig. 11: Average cost of drug development in the US

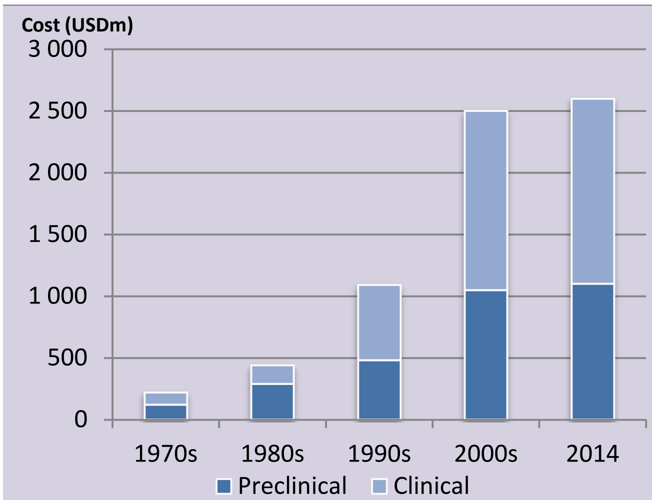
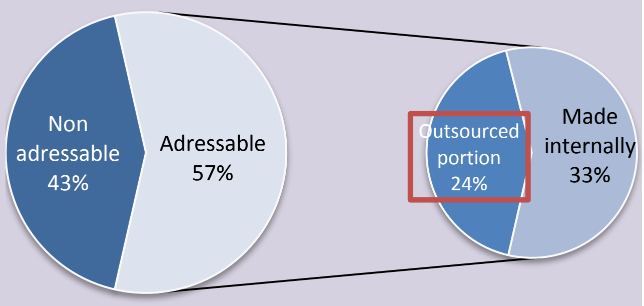


Fig. 12: Global pharmas' R&D spends



Source: Company Data; Tufts Center for the Study of Drug Development.

Fig. 13: Pharmaceuticals: main characteristics

Main factors	Impact	Comment
Pharmas' R&D	+	Many drug patents are coming to expiration, average industry cost per new drug approval is rising (USD2.6bn in US in 2013).
Consolidation	= / +	Very low concentration leaving a large number of potential small acquisitions for M&A, which could be restrained in some countries like France due to regulations over market shares.
Outsourcing	+	Outsourced business remains below the market average of 40% (around 24%).
Price	-	Negotiated prices in drug trials could be impacted by a competing enhancement.
Market size	=	Outsourced testing in laboratories estimated at EUR5bn/year by Eurofins.
Competitive environment	-	Many new entrants in the sub-sector, which could lead to a deflation in prices.
Society structure	+	Ageing population in both the US and the European Union.
General trend	**+**	

Source: Bryan, Garnier & Co ests.

4.2. Clinical diagnostics business line (>25% estimated of revenues)

Clinical diagnostics testing in a nutshell

In addition to drug testing, TIC providers are also positioned in **clinical diagnostics** which involve assays conducted on human tissues, cells or fluids such as blood. The assays help to determine cardiovascular diseases, their type and severity, as well as the most effective treatment method. Two types of assays can be defined: **1/routine testing** such as basic blood tests, cholesterol or pregnancy tests which only require standardised equipment; contrary to **2/ esoteric testing** which gather all the more complex assays such as those used for cardiovascular events, infectious diseases or oncology. Such specific tests also require specific technology and more skilled personnel.

Recent reinforcement in the US esoteric and French routine diagnostics markets.

The global clinical diagnostics sector is stated to be **USD163bn/year** by Transparency Market Research. **Eurofins** has recently accelerated its development in this market through external growth in 2014 and 2015 in the US and France but still remains a young player. About **5% of this market really concerns Eurofins' core business, i.e. esoteric testing**. We believe **Eurofins has a 6% market share** in the esoteric niche market.

Further insight

The US market is 62% dominated by 'outside the hospital' laboratories such as TIC providers. Physician laboratories are insignificant in terms of treated volumes, leaving the **competition between big hospitals and TIC providers**. The potential clients gather clinics and physicians, i.e. small and medium-sized players, as well as certain hospitals which outsource testing. However, this doesn't result in favourable price negotiation for TIC providers, or at least not for routine testing, because of price regulation. Indeed, public authorities put pressure on prices and have a strong influence on the sector, especially in France where the competitive regulatory system limits consolidation to 30% of market share per area. In the US and France, esoteric testing prices are structurally higher than routine prices due to their technical complexity.

What is there to monitor?

Eurofins' recent acquisitions in the US and France show its interest in the **diagnostics market**, a complementary life science sub-sector to pharmaceuticals answering the needs from different clients such as physicians, hospitals and clinics. Eurofins' management has openly published its ambition to become the world's leader in the bioanalytical testing market. Eurofins has enhanced its position in the **US esoteric diagnostics** market through acquisitions and in the **French diagnostics** market in the same way. However, we notice that Eurofins' French diagnostics labs do both esoteric and routine testing, due to the regulations which force French labs to carry out every kind of diagnostic. This diversification is interesting in the sense that these clients have a quasi-constant activity, excluding seasonality due to holidays. It also limits Eurofins' exposure to big pharma firms' R&D cycles and is a low capital intensity activity. According to MarketsandMarkets, clinical diagnostics should **grow by 5 to 7%/year** in the near term, supported by the ageing population in developed countries, technological improvements reducing diagnostics' complexity and prices, and the adoption of occidental countries' clinical testing protocols in emerging countries such as China, India and Brazil.

Public authorities' pricing pressure on routine and esoteric testing in US and France.

We also note that routine diagnostics face **pricing pressure** in the US and French markets by the public authorities. However, esoteric prices remain higher and are still negotiated prices. The sales of a leader in the US diagnostics market can be taken to illustrate this fact. Indeed, according to Laboratory Corporation of America's prices over five years, the esoteric testing price is on average **45% higher** than the routine testing price. This gap is mainly due to the high complexity of esoteric testing, which requires more equipment and technology.

Fig. 14: Laboratory Corporation of America's revenue per diagnostics assay

	Esoteric assay	Routine assay	Gap
2010-2014 prices average	USD66.34	USD37.48	+USD28.86

Source: Laboratory Corporation of America.

Fig. 15: Clinical diagnostics: main characteristics

Main factors	Impact	Comment
Technology	+	Technological improvements made diagnostics easier and cheaper.
Internationalisation	+	Emerging countries (China, India and Brazil) are adopting Western countries' processes in clinical testing.
Outsourcing	=	With an estimated 62% of esoteric activity realised outside the hospitals, outsourcing potential remains low. Routine testing is already well outsourced: between 80-90%.
Price	-	Pricing pressures due to public authorities, especially in routine testing.
Market size	=	Laboratory testing in esoteric and routine estimated at USD163bn/year by Transparency Market Research. Esoteric only concerns about 5%.
Competitive environment	-	TIC providers face strong competition from hospitals' internal laboratories. Clinics and physicians laboratories are insignificant. US market dominated by two players: Quest Diagnostics and Labco which together have a 20% market share.
Society structure	+	Ageing population in both the US (50% of global market) and Europe (25% of global market).
General trend	**=**	

Source: Bryan, Garnier & Co ests.

4.3. Food and feed business line (30% estimated of revenues)

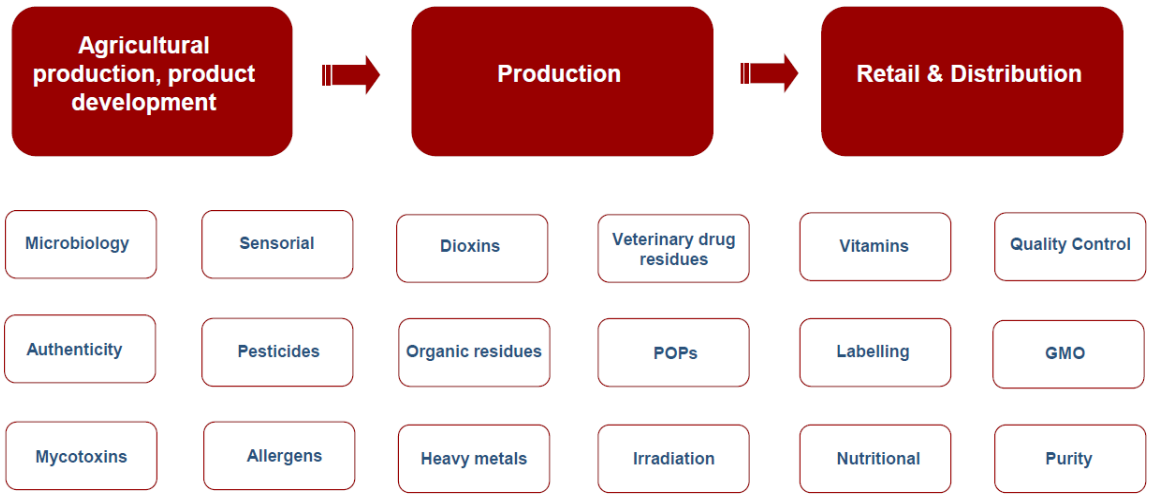
Food and feed testing in a nutshell

Testing performed in laboratories is estimated to be worth **EUR3bn/year** according to Eurofins, the sub-sector comprises testing the composition of food products and seeds to detect the presence and amount of dioxin, organic contaminants, pesticides, mycotoxins, allergens authenticity, pathogens, vitamins, GMOs and additives. Inspections of food imports and exports, as well as the labelling of products, are also part of the food testing sector. Potential clients are agricultural seeds developers, farmers and the agro-food industry. **Eurofins** is present over the whole value chain from farming to transformation and distribution through its **115 testing laboratories** and benefits from good positions in Europe (Germany, France, Benelux, the UK and Scandinavia), Brazil and the US. We believe Eurofins has a **19% market share** of food & feed testing in laboratories.

Further insight

As in other business units, samples can be shipped by the client through a lab code generated on its 'client portal', printed and stuck on the package. Otherwise, samples can be deposited in specific fridges that Eurofins' collectors have access and can pick them up. From this stage, clients are able to track their sample and then check the results online. Like pharmaceutical customers, agro-food industrials come to audit physically every potential provider laboratory before granting a contract, checking the processes, equipment, technology and the surface. Prices are negotiated through contracts which are usually 1-year contracts or implicit contracts.

Fig. 16: Eurofins' offer in food and feed testing

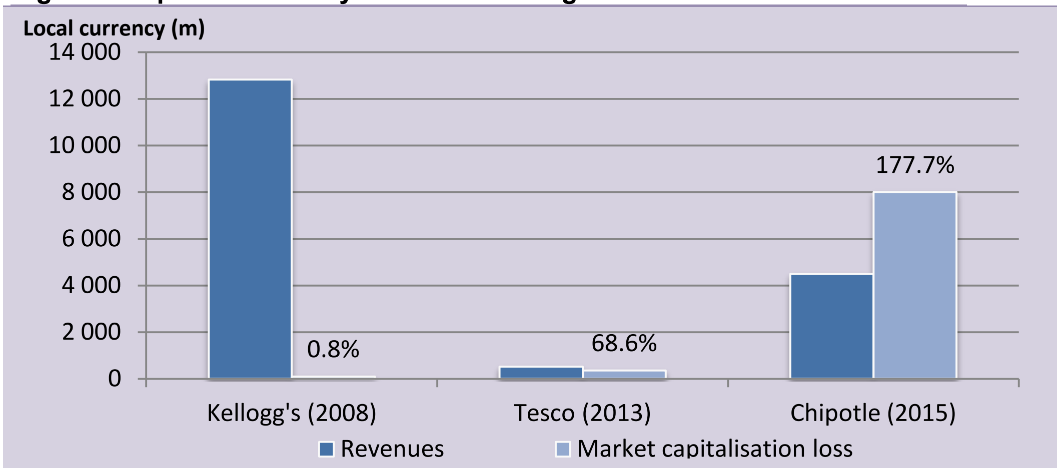


Source: Company data.

What is there to monitor?

Food and feed testing has been boosted by **sanitary scandals**. A large-scale food contamination incident and reported by the media can result in **recall costs, lost sales, potential costs of litigation, loss of customers, loss of investor confidence and a fall in the stock price**. For instance, Chipotle's (Mexican restaurant chain) scandal in 2015, related to an E. coli outbreak at restaurants in several states, caused 53 people to become ill and the hospitalisation of 22 others across nine states. Chipotle was hit by a **USD8bn** impact on its market value, i.e. **178%** of its sales for the year, in addition to a 15% decline in like-for-like revenues in the same period.

Fig. 17: Impact of sanitary scandals over agro-food leaders



Source: Companies data; Bryan, Garnier & Co ests.

Agro-food industrials willing to pay for testing to avoid contamination incidents and all their related costs.

But, contamination is difficult to prevent as globalisation has complicated the multinationals' supply chain, multiplying the weak points all over the chain where food can possibly be contaminated. Testing is one, if not the main way, to ensure the quality and the traceability of a product. In the same way, labelling on the products can reassure consumers. Following this favourable trend for TICs, the main leaders are reallocating their assets and reversing their strategies to move towards sub-sectors like Food and Feed testing. This is especially the case for **SGS**. Simultaneously, several **major new laws have appeared to reinforce testing programs in the agro-food industry**, e.g. European Food Regulation, US Country of Origin Labelling Law, US Food Safety Modernization Act and, more recently, the Chinese PRC Food Safety Law (see Appendix).

Fig. 18: Food and feed : main characteristics

Main factors	Impact	Comment
Globalisation	+	Multinationals are increasingly exposed to traceability issues.
Notability	+	Multinationals willing to allocate more funds to testing instead of paying millions or even billions in market capitalisation lost due to scandals.
Price	-	Commodities part impacted by flat prices (15% of Eurofins' revenues, in macrobiology, are flat).
Competitive environment	-	Increasing competition is expected with the 3 leaders becoming more involved in food testing: pressure on margins.
Regulatory environment	+	Strong regulations and standards in the European Union, catch-up effect in the US where food norms are overrun, ongoing law enactment in China.
Market size	= / +	Testing performed in laboratories estimated at EUR3bn/year according to Eurofins, other leaders expect a mid single-digit growth.
General trend	**+**	

Source: Bryan, Garnier & Co ests.

4.4. Environmental business line (15% estimated of revenues)

■ Environmental testing in a nutshell

This business line covers all air, water and soil testing procedures as well as testing in construction, e.g. asbestos cement. Tests made on natural elements concern public authorities and industries. Eurofins is present in every aspect of this sub-sector thanks to its almost **100 laboratories** in environmental testing, estimated to be worth **EUR4bn/year** by the latter, but seems to represent the least significant part of its activity. All the major leaders are absent from this business, except for **SGS** which generates 6% of its sales from it (around EUR300m). **Eurofins** currently has a **7% market share** in this business.

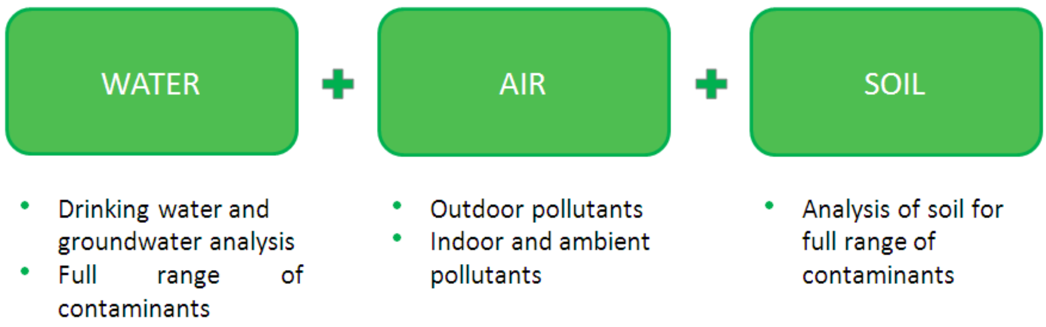
A business meeting two types of client: industrials and municipalities.

■ Further insight

This business meets two types of client: industrials through cleaning the water they use or will throw away, and municipalities, which also have to ensure the quality of the water distributed, and also the composition of air and soil for other purposes. Both types of client tend to resort to independent testing to meet regulatory standards except in the case of some industrials which may need even more purified water or air for certain activities. Regulation has an important role in this business and it can also generate volatility as regulatory changes have a huge impact on TIC providers. Municipalities also have strong pricing power over testing laboratories and margins are low with long-term contracts.

As a complementary service, some TIC providers also offer to industrials the REACH process (see Appendix).

Fig. 19: Eurofins' testing capacities in environment



Source: Company data.

What is there to monitor?

An increasing demand from citizens for better quality water, air and soil, putting pressure on governments and corporations.

The recent **awareness of global change** and the many **toxic elements** present everywhere in our daily life lead people to think of their quality of life and how to take care of it. Thus, we observe an increasing demand by citizens for a better quality of drinking water, outdoor and indoor air and even soil. This awareness has been exacerbated in the last few years by contamination cases and some extreme pollution issues such as smog over big cities.

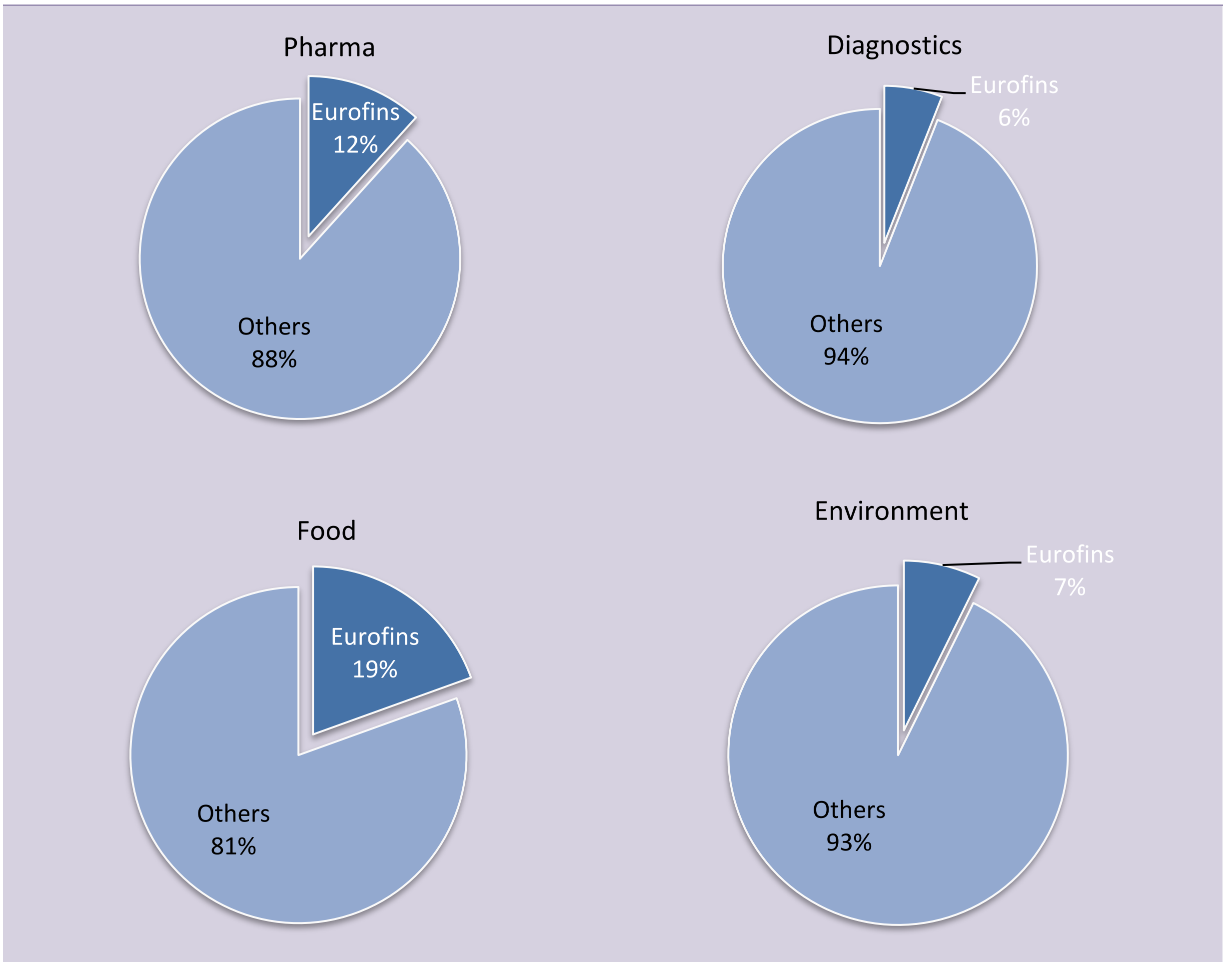
Regarding contamination risks, the European Union has enacted the Registration, Evaluation, Authorisation and Restriction of Chemicals norm (REACH: see Appendix) for imports and above all the usage of dangerous chemical substances in industries through an evaluation of risks and the setting of safety standards that can be handled by testing, inspection and certification (TIC) providers.

Fig. 20: Environment : main characteristics

Main factors	Impact	Comment
Environment' awareness	+	Global recent awareness about global warming and quality of life through air, water and soil provide an incredible activity for the TIC sector.
Business recurrence	-	Very volatile business due to its dependence on public authorities' willingness.
Price	-	Pricing power very weak with municipalities and public authorities (30% of Eurofins' revenues in environmental are flat).
Market size	=	Laboratory testing business estimated at EUR4bn/year.
Competitive environment	=	Absence of significant competition from big player except for SGS and Eurofins.
Regulatory environment	+	REACH norm in the European Union, forcing industrials to evaluate risks and set safety standards for each chemical substance used or imported in high quantity.
General trend	=	→

Source: Bryan, Garnier & Co ests.

Fig. 21: Eurofins' market share in its businesses



4.5. An ambidextrous growth

4.5.1. Eurofins' competitive advantages

Contra-cyclical markets forsaken by other main leaders.

Eurofins is characterised by being well positioned on markets which have been **forsaken by other main leaders and are contra-cyclical**, i.e. pharmaceuticals, clinical diagnostics, food and environment as seen above. Indeed, contrary to more cyclical segments such as commodities and construction, these three segments have been through the recent crisis thanks to **strong growth drivers**.

A network of laboratories combined with a wide range of analytical methods.

Besides these growth catalysts, Eurofins bets on its **worldwide specialist position**. The group indeed owns 225 laboratories in 39 countries, 74% in Europe and 12% in the US, almost all specialised by sector. Within a business, laboratories share the assays to be performed according to their speciality and their capacity to generate higher margins, employing the best of the **laboratory networks**. **Eurofins** also owns a **wide range of analytical methods**, i.e. 130,000, **responding to big industrials' keeness to focus on a few global testing suppliers able to take care of every assay they may ask for**. Alongside, **Eurofins** has developed skills on almost all the value chain in food and pharmaceutical testing.

Analytical sales managers per business line handle the relationship with clients. Once an assay is performed, the client has the opportunity to see the results on the internet through a **unique online platform**. As another strength, Eurofins owns a huge amount of laboratory space, for instance the group added 350,000m² of laboratory space between 2005 and 2015 and plans to add 120,000m² more by 2017. Being able to show a large area for testing is an advantage when potential clients come to audit a laboratory. Huge space, including empty space, shows the laboratory's capacity to increase its testing capacity and support additional volume.

As a result of all of Eurofins' competitive advantages and its position on markets supported by drivers, its **organic growth has remained well above 5% for years**. This is a high growth rate, considering the high retention rate by clients in the TIC sector, limiting the winning of market shares, also supported by the development of past acquisitions and rise of start-ups.

Fig. 22: Eurofins' growth breakdown

EURm	2011	2012	2013	2014	2015
Revenues	829	1,044	1,226	1,410	1,950
Organic growth	8.0%	8.0%	6.5%	6.0%	7.5%
External growth	14.0%	18.0%	12.8%	10.0%	25.3%
Currency effect	0.0%	0.0%	-1.9%	-1.0%	5.5%

Source: Company Data; Bryan, Garnier & Co ests.

Start-up launches as a strategy of balancing with aggressive M&A activity.

As a strategy of balancing the aggressive activity in M&A, Eurofins launched its **own start-ups in 2006** with a first wave of **17 start-ups between 2006 and 2010** and currently a second wave of 35 planned start-ups. Of the **35 planned** startups, 21 start-ups have already been launched with a focus on food and environmental businesses (with 12 in the US, 10 in France, 8 in Asia and 5 in the rest of Europe). Note the absence of pharma in this strategy, mainly due to big pharma's preference to hire large-sized labs that are already able to manage huge volumes. It is therefore difficult to build a pharma clientele from scratch. These start-ups are margin dilutive in the short term for Eurofins, costing around **EUR2m/year/start-up** in the first years. The management expects that all the start-ups in the second wave will be launched by the end of 2017.

4.5.2. Eurofins' strength in M&A…

External acquisitions are a way to ensure new market shares and develop new skills.

Following the trend in the Testing, Inspection and Certification (TIC) sector, **Eurofins also resorts to external growth to ensure new market shares and develop new skills**. The group is even one of the most active players in M&A compared to the other leaders with **129 acquisitions since 2004**, more than the number of acquisitions made by SGS, Bureau Veritas and Intertek.

Fig. 23: TIC quoted leaders' activity in M&A since 2004

2004-2015 (EURm)	Acquisitions	Acquisition cost	Revenues related	EV/Sales
SGS	121	1,256	746	1.68x
Bureau Veritas	121	2,577	1,979	1.30x
Intertek	93	1,696	1,204	1.41x
Eurofins	129	1,551	1,406	1.10x

Source: Companies data; Bryan, Garnier & Co ests.

Fig. 24: Eurofins' acquisitions since 2004

Eurofins (EURm)	2004-12 annual average	2013	2014	2015
Acquisitions	9	10	17	21
Acquisition cost	61	86	292	627
Revenues related	61	120	165	570
EV/Sales	0.99x	0.72x	1.77x	1.10x

Source: Companies data; Bryan, Garnier & Co ests.

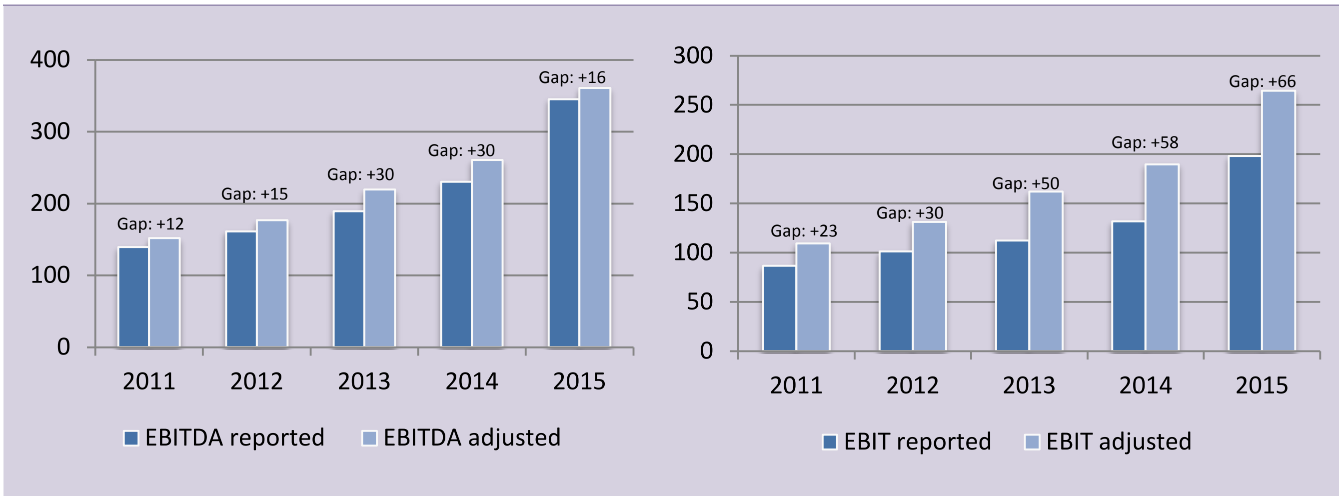
Despite Eurofins' presence in M&A since the TIC sector's appeal for external growth in 2004, the group really began to **accelerate its operations in 2014 and 2015** with 17 and 21 acquisitions respectively, especially by targeting bigger laboratories which generate higher revenues. As a reminder, the average revenue acquired per deal was **EUR6.8m** in the 2004-12 period, **EUR12m** in 2013 and **EUR27.1m** in 2015 for Eurofins. In addition to targeting revenues, Eurofins recently focused on **diagnostics testing** through external acquisitions in the US (Viracor in 2014; Boston Heart Diagnostics, Diatherix and EGL in 2015) and in France (BioAccess and Biomnis in 2015). The US acquisitions were in esoteric diagnostics (**EUR224m**) and the French acquisitions in routine testing (**EUR343m**), representing **29%** of 2015 Eurofins' revenues, allowing Eurofins to penetrate the diagnostics market.

Past cheap acquisitions raise concern over an inflation in multiples.

However, we note that up to now, in the 2004-2015 period, Eurofins benefited from **advantageous acquisition multiples** of around 1x with **EV/Revenue at 1.10x,** whereas the three leaders have paid for their acquisitions at between 1.30x and 1.68x on average. However, in the last two years 2014 and 2015, a particularly active M&A period for Eurofins, the group acquired total revenue of c. EUR680m for a total amount of c. EUR1bn, i.e. representing over 1.4x EV/Revenue.

Regarding M&A integration, Eurofins' track record is impressive and up to now IPL (a water testing company in France), acquired in 2011, is the only one which has been more challenging to integrate. Nevertheless, with such an expansion, the group has recurring operational restructuring costs (one-off costs of integration, reorganisation or depreciation) which explains why there is a significant spread between reported and adjusted EBITDA and EBIT.

Fig. 25: Historical adjusted and reported EBITDA and EBIT



Source: Companies data; Bryan, Garnier & Co ests.

Fig. 26: Eurofins' acquisitions in 2015

(EURm)	Company	Country	Division	Staff	2015 revenues	Investment spent
1	Boston Heart Diagnostics	US	Clinical diagnoctics	350	102	130
2	BioDiagnostics, Inc (BDI)	US	Clinical diagnostics	120		
3	NUA	Austria	Environment	45		
4	CEBAT	France	Environment	35	6	
5	Testronic	Belgium	Digital testing	150		
6	Experchem	Canada	Pharma	95	7	
7	QC Laboratories	US	Food & feed / Environment	200	19	
8	Sắc Ký Hải Đăng	Vietnam	Food & feed	100		
9	Trialcamp	Spain	Food & feed		2	
10	Diatherix	US	Clinical diagnostics	100	28	46
11	Nihon Soken	Japan	Environment	112	10	
12	BioAccess	France	Clinical diagnostics	1,100	140	225
13	De Bredelaar	Netherlands	Food & feed	20		
14	EVIC	France	Pharma + REACH	100	8	
15	EGL	US	Life science	100	14	37
16	Spectrum Analytical	US	Environment	140	13	
17	Biomnis	France	Clinical diagnostics	1,200	203	220
18	NM Group Laboratories	Malaysia	Food & feed / Environment	120		
19	Water & Waste Labs	Austria	Environment	65		
20	Radonlab	Norway	Environment			
21	Biotech Germande	France	Pharma / Environment	40	3	
				Total 2015	**570**	**627**
1	Sinensis Life Sciences	Netherlands	Pharma	150	13.5	
2	AMS Laboratory	Australia	Pharma	45	5	
3	Advantar Lboratoies	US	Pharma	50	8	
4	EAC Corporation	Japan	Environment	70	5	
5	Exova	UK	Food/Environment /Pharma	300	20	23.5
				Total 2016 YTD	**51.5**	**23.5**

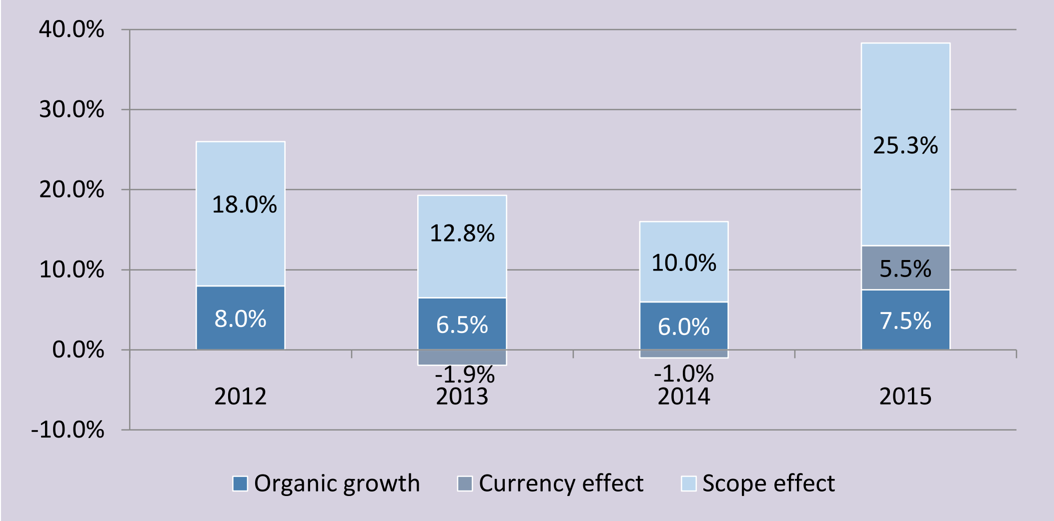
Source: Company data; Bryan, Garnier & Co ests.

Fig. 27: Significant transactions in TIC industry since 2013

	Company	Acquirer	Country	Sales (EURm)	Price (EURm)	EV/Sales	EV/EBITDA
2013	Keynote Systems	Thoma Bravo	US	118	380	3.2	18.4
	Grontmij France	Siparex	France	110	71	0.6	0.0
	Socotec	Copeba	France	475	498	1.0	9.6
2014	Diagnosticos Da America	Cromossomo	Brazil	1,009	1,420	1.4	8.7
	Maxxam Analytical	Bureau Veritas	Canada	179	433	2.4	12.5
	Zygo	Ametek	US	142	257	1.8	13.0
	Covance	Labcorp	US	2,465	5,320	2.2	16.5
2015	Inspecta	ACTA	Finland	176	280	1.6	14.0
	Nosvescia	Cerba	France	150	275	1.8	10.6
	Labco	Cinven	France	650	1,200	1.8	9.1
	Medisupport	Sonic Healthcare	Switzerland	153	314	2.1	8.0
	Anite	Keysight Technologies	UK	165	541	3.3	12.6
	Biomnis	Eurofins	France	218	220	1.0	7.5
	Synlab	Cinven	Germany	756	1,750	2.3	12.1
	Bio-Reference Laboratories	Opko Health	US	787	1,337	1.7	12.6
	Environmental Resources	Omers Private Equity	UK	835	1,511	1.8	14.4
	QualSpec	Team	US	162	230	1.4	10.6
	Amedes	Antin Infrastructure	Switzerland	399	775	1.9	9.7
	Willbros Professional Services	TRC	US	173	116	0.7	ND
	Professional Service industries	Intertek	US	227	290	1.3	7.6
	LGC	KKR	UK	358	1,237	3.5	14.2
	Element Materials Technology	Bridgepoint	UK	270	900	3.3	12.2
2016	WIL Research	Charles River	US	194	527	2.7	13.0
					Average	**2.0**	**11.2**

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 28: Eurofins' historical growth split



Source: Company Data; Bryan, Garnier & Co ests.

4.5.3. …supported by cash flow generation but mainly by external resources

To date, the group has managed its ambitious expansion very well, financed by operating cash flow (40%) and external financial resources (60%) including hybrid capital.

During 2015, with its strong M&A activity, management was again particularly active in refinancing its debt to fund its future development.

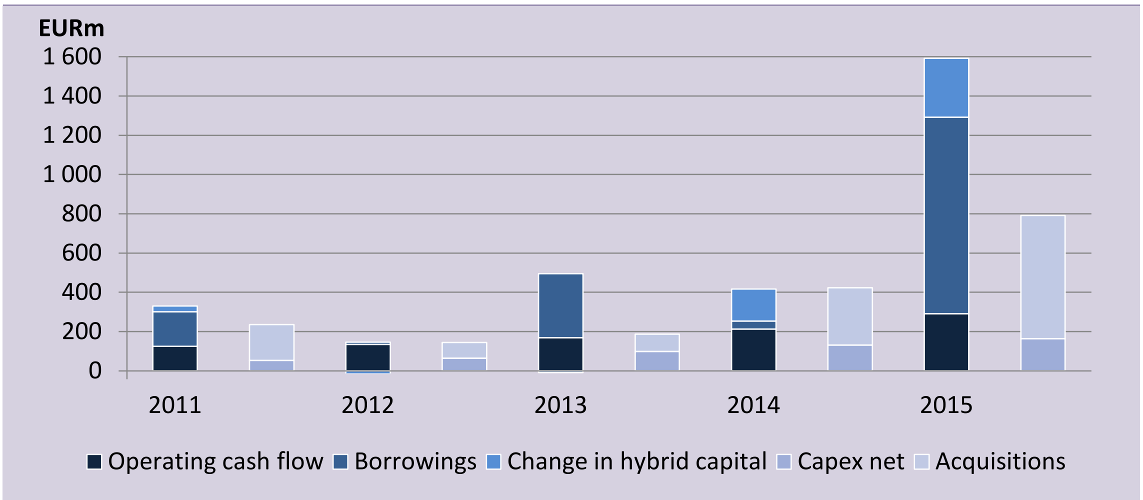
In fact, the company issued additional **hybrid capital** (after EUR300m issued in January 2013 and July 2014 with a fixed annual coupon of 7%) at a par value of EUR300m in April 2015 with a fixed coupon of 4.875% (total hybrid average cost of 5.9375%) and **two senior unsecured Euro bonds** for EUR500m each in January and July 2015 (after EUR300m in November 2013).

Remember that Eurofins has also entered into **several loan and facility agreements** mainly with a **Schuldschein** of EUR170m (issued in July 2011, 5-7 year maturity) and an **OBSAAR** (EUR117m outstanding as of 31st December 2015 with maturity between June 2016 and 2017). Note that for these issues the covenant is that the net debt/adjusted EBITDA ratio should not exceed 3.5x.

All in all, at the end of 2015, net debt reached EUR916m vs. EUR494m a year ago, representing a net debt/adjusted EBITDA of 2.54x (1.9x in 2014) or 2.27x on a pro forma basis, i.e. the companies acquired in 2015 on a full-year basis, well below the covenant limit despite over EUR800m cash invested in the business (capex + acquisitions+ restructuring costs). Cash and cash equivalents was EUR794m (EUR217m in 2014).

Note that, as show in Fig. 29, Eurofins' business model is cash consuming with not enough free cash flow to cover both organic growth and M&A.

Fig. 29: Eurofins' cash flow generation vs capex



Source: Company Data; Bryan, Garnier & Co ests.

More, remember that on 9th December 2015, **Eurofins announced the launch of a non-documented placement of approximately 1 million new ordinary shares** by way of an accelerated book building offering to institutional investors. The new ordinary shares would represent circa 6.5% of the existing pre-money issued capital (i.e. around EUR330m). Due to poor market conditions, the placement was cancelled.

5. Management objectives that look ambitious

5.1. Management expectations

Following Eurofins Investor Day in early November 2015 and the FY 2015 results, management confirmed its 2020 objectives of:

A doubling revenue to EUR4bn targeted by 2020, supported by EUR1bn of acquisitions.

- Consolidated revenue of EUR4bn for 2020 representing a CAGR 2015-2020 of 15.5% (12.3% on 2015 pro-forma, i.e. total revenue of EUR2,240m compared with EUR1,950m reported) taking into account:
  - lfl revenue growth of 5% per annum;
  - contribution from acquisitions of c.EUR200m per year, i.e. EUR1bn in total over the period.
- Adjusted EBITDA margin of at least 20% vs. 18.5% in 2015 (17.7% on reported), i.e. an adjusted EBITDA of EUR800m (EUR360.8m in 2015), i.e. an adjusted EBITDA CAGR 2015-2020 of 14.3%.
- Capex normalisation to 6% of revenue compared with over 8% in the last three years (8.4% in 2015, 9.3% in 2014 and 8.1% in 2013).

Such expectations look to us rather ambitious. Actually, although the medium-term average **organic revenue growth** seems to be achievable (5% on average, o/w 1% from tariff revaluation which occurs every 1st January, 1% to 2% from market growth in volume and 2% from market share gains) regarding fundamentals, notably in testing for pharma and biotech which is today the largest segment of Eurofins in terms of market size, **M&A,** which is one of the main drivers for growth and margin, could be less dynamic than expected due to competition and/or price inflation. Moreover, the **EBITDA** margin expectation could also be a bit aggressive in our view with notably most of the time a dilutive impact from acquisitions: a 20% adjusted EBITDA margin seems to us challenging with sustained M&A expansion.

Fig. 30: Start-ups & acquisitions in restructuring margin trend

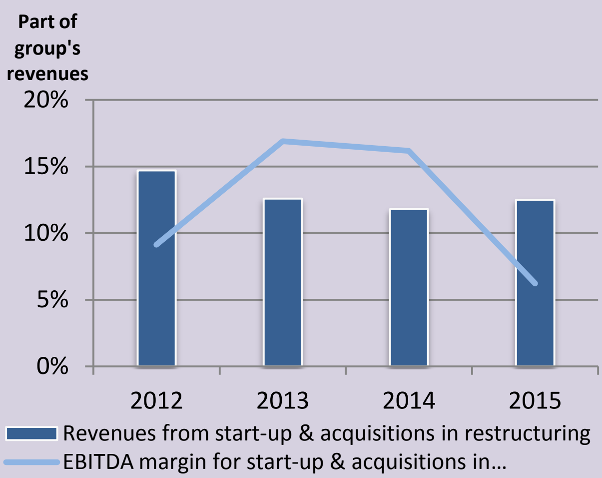
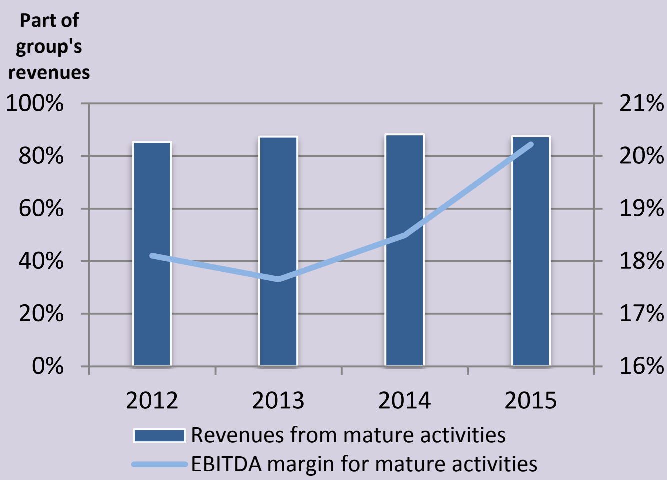


Fig. 31: Mature activities margin trend



Source: Company Data; Bryan, Garnier & Co ests.

Finally, note that the historical guidance from the management was in line with realisations apart from sometimes on the EBITDA margin due to acquisitions.

Fig. 32: Accuracy of historical guidance

	2011			2012			2013			2014			2015			2016	2020
(EURm)	Guidance	Real	Gap	Guidance	Real	Gap	Guidance	Real	Gap	Guidance	Real	Gap	Guidance	Real	Gap	Guidance	Guidance
Revenues	800	829	29	1 000	1 044	44	1 200	1 226	26	1 400	1 410	10	1 600	1 950	350	2 500	4 000
Adjusted EBITDA	145	152	7	210	176	-34	210	219	9	250	260	10	300	361	61	460	800
Adj EBITDA margin	18,1%	18,3%	0,2%	21,0%	16,9%	-4,1%	17,5%	17,9%	0,4%	17,9%	18,5%	0,6%	18,8%	18,5%	-0,3%	18,4%	20%

Source: Company Data; Bryan, Garnier & Co ests.

5.2. Cash flow statement and financial structure: Enough short-term resources for further M&A but…

At the end of 2015, the net debt/adjusted EBITDA ratio was 2.54x (1.9x in 2014), or 2.27x on a pro forma basis, i.e. well below the covenant limit of 3.5x with cash and cash equivalent of EUR794m (EUR217m in 2014). **Note that including the hybrid capital (EUR600m), net debt/adjusted EBITDA would have reached 4.4x at the end 2015.**

This situation gives the group resources to pursue its M&A or start-up expansion for the next three years. But, at the end of 2018, we estimate ("base case" scenario) that net debt will be over EUR1.5bn vs. EUR916m at the end of 2015 maintaining a high leverage unchanged at c.3x and not far from 4x including the hybrid capital. **Before the end of 2018, Eurofins' M&A ambitions as defined in the 2020 strategic plan are likely to require cash and a capital increase should again be put on the table.**

5.3. Good start in 2016

FY 2016 is well engaged regarding organic revenue growth and M&A

In fact, Q1 revenue (released at the end of April) reached EUR582m, up 48% with sustained organic growth of over 10% after a strong Q4 and Q3 2015 up respectively over 9.5% and 8%. In FY2015, organic growth was up 7.5%. As again highlighted by management, these numbers confirmed that the annual organic growth objective of 5% set for the next five years could well prove to be conservative, at least in 2016. Moreover, remember that Q1 is seasonally weaker compared with other quarters. We have retained in our forecast an organic growth of 8% for FY2016.

Same findings regarding **M&A.** In Q1, after organic growth of over 10% with limited FX impacts (+0.1%), the contribution from acquisitions, mainly due to companies acquired in the course of 2015 but not consolidated for FY, represented c. 38% of total revenue growth, i.e. c. EUR150m. Again, during the first four months of 2016, Eurofins was active in M&A with the acquisitions of 5 new companies totalling over EUR50m in full-year revenue. For 2016, taking into account the contribution of the 2015 acquisitions not yet fully integrated and representing c.EUR300m additional revenue plus those realised or expected in 2016, i.e. EUR100m pro rata temporis, at the moment the objective to add EUR200m of revenue per annum through acquisitions could easily be achievable in 2016 and our forecast is EUR390m.

5.4. Our "base case" scenario compared with Eurofins' 2020 expectation

Retaining M&A and start-ups development as part of the group business model, as for BVI or SGS, we have elaborated three scenarios mainly to take into account uncertainties on acquisition prices and integration costs.

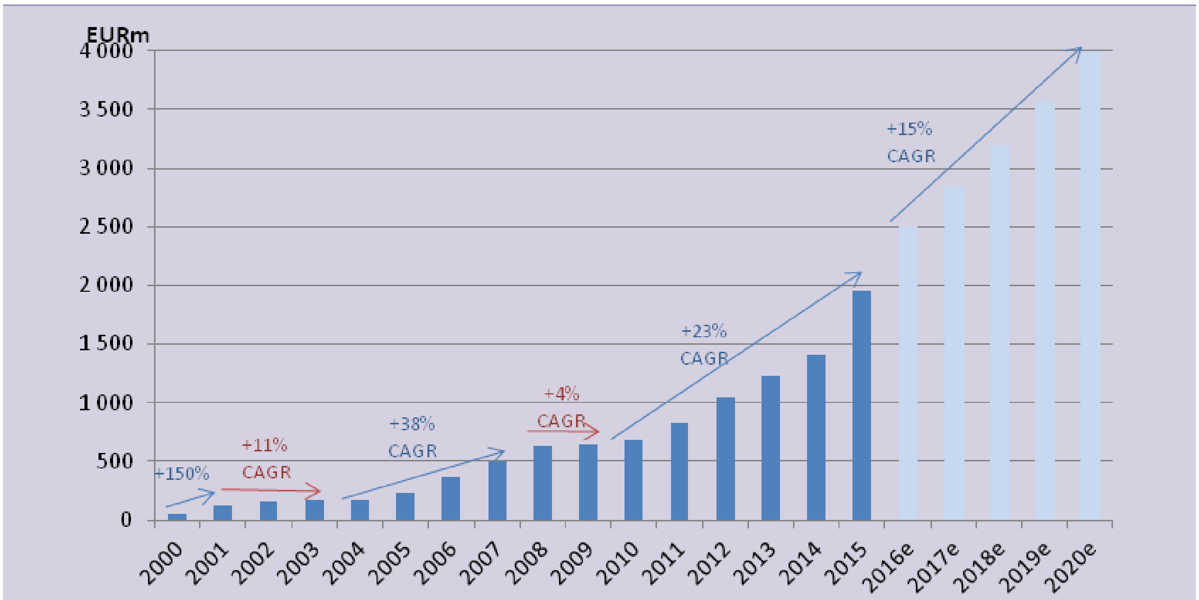
In our "base case," we have retained the following assumptions:

- After organic growth of 8% anticipated for 2016, we retain 5% in the years 2017 and 2018 with a progressive decrease beyond to reach 2.5% in 2025 as our long-term hypothesis;
- M&A contributions to revenue of EUR200m between 2017 and 2020 after EUR390m in 2016. The acquisition amount has been based on 1.2x EV/Revenue. No more acquisitions beyond 2020.
- A long-term EBITDA margin by 2025 of 20% which is management's objective for 2020 and slightly lower than the current EBITDA margin for mature activities. The 2015 adjusted EBITDA margin was 18.5%. In fact, we estimate that M&A and start-ups will continue to weigh on the margin, and group objective of a 20% EBITDA margin could be reached only after 2015-2020 inorganic expansion.

Regarding M&A and start-ups based on a EUR200m top-line contribution, our EBITDA and EBIT take into account year after year recurring restructuring charges, efficiency programme costs of EUR15m on EBITDA and EUR10m more on the EBIT level due to depreciation costs.

Moreover, we estimate that M&A and start-ups will continue to weigh on the margin and the group's ambition of a 20% EBITDA margin can only be reached after this period of active inorganic expansion.

Fig. 33: Eurofins historical growth stages and ambitions



Source: Company Data; Bryan, Garnier & Co ests.

6. Valuation: Average between DCF and historical median multiple as the exit multiple FY+3

Our valuation is based on a DCF using a WACC of 7.6% taking into account the following assumptions:

- A risk-free rate of 1.6% which corresponds to the average over five years of ten-year rates in the five main European countries, namely Germany, France, the UK, Italy and Switzerland;
- A market risk premium of 7% which is calculated on the basis of an arithmetical average of three-year risk premiums on the Stoxx50, Stoxx600 and CAC40 indices;
- A Beta of 1 corresponding to two-year historical adjusted vs. Stoxx600.

Note that we used a restated net debt including the hybrid resources for a total amount of EUR600m and an average cost of debt of 3.9% vs. 3.2% w/o the hybrid.

The historical median EV/EBIT used as the exit multiple on FY+3 is 19.6x calculated on the last 6 years.

6.1. "Base case" scenario derives EUR340 per share

Our "Base case" scenario derives a DCF valuation of EUR321 per share and EUR356 using the historical median multiple.

Fig. 34: DCF "Base case" scenario

EURm	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Long -term assumptions
Revenue	2 483	2 811	3 152	3 490	3 817	4 122	4 395	4 626	4 805	4 925	
% chg. In revenue		13,2%	12,1%	10,7%	9,4%	8,0%	6,6%	5,2%	3,9%	2,5%	2,5%
EBIT	324	365	409	456	501	545	584	618	645	665	
EBIT margin	13,1%	13,0%	13,0%	13,1%	13,1%	13,2%	13,3%	13,4%	13,4%	13,5%	13,5%
- IS	-81	-91	-102	-114	-125	-136	-146	-154	-161	-166	
+ DAP	143	163	186	206	226	245	262	276	288	295	
as a % of revenue	5,8%	5,8%	5,9%	5,9%	5,9%	5,9%	6,0%	6,0%	6,0%	6,0%	6,0%
+ Chg in WCR	82,0	7,0	-12,4	-11,8	-10,7	-9,3	-7,4	-5,2	-2,7	0,0	
as a % of revenue	3,3%	0,2%	-0,4%	-0,3%	-0,3%	-0,2%	-0,2%	-0,1%	-0,1%	0,0%	0,0%
Operating Cash Flow	468	444	481	537	592	644	692	734	769	794	
- Capex	-149	-169	-189	-209	-229	-247	-264	-278	-288	-295	
as a % of revenue	-6,0%	-6,0%	-6,0%	-6,0%	-6,0%	-6,0%	-6,0%	-6,0%	-6,0%	-6,0%	-6,0%
- Acquisitions	-240,0	-240,0	-240,0	-240,0	-240,0						
Free Cash Flow	79	35	52	87	123	397	429	457	480	499	
Discount coefficient	0,96	0,89	0,83	0,77	0,71	0,66	0,62	0,57	0,53	0,49	
Discounted FCF	75	31	43	67	87	263	264	262	256	247	

Source: Company Data; Bryan, Garnier & Co ests.

Sum of discounted FCF	1595
Terminal Value	4948
- Net Debt	1516
- Minority Interest	123
+ Financial investments (book value)	32
Equity Value	4935
Number of shares (m)	15,4
Fair Value (EUR)	320,8

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 35: DCF sensitivity

				Growth rate (i)		
	320,8	2,0%	2,3%	2,5%	2,8%	3,0%
	6,86%	364,1	384,5	407,3	432,9	461,8
	7,11%	337,2	355,2	375,3	397,7	422,7
	7,36%	312,8	328,9	346,6	366,3	388,2
WACC	7,61%	290,7	305,0	320,8	338,2	357,4
	7,86%	270,5	283,4	297,4	312,9	329,9
	8,11%	252,0	263,6	276,2	290,0	305,1
	8,36%	235,0	245,5	256,8	269,2	282,7

Source: Company Data; Bryan, Garnier & Co ests.

6.2. "Upside" and "Downside" scenario derive a DCF of respectively EUR390 and EUR294

As presented (cf. Fig. 36), our "**Upside**" scenario is based on average historical organic revenue growth of 7% with an adjusted EBITDA margin of 20% by the end of 2020 as expected by the management with some improvement ahead taking into account positive impacts from M&A realised at the end of 2016-2020 plan.

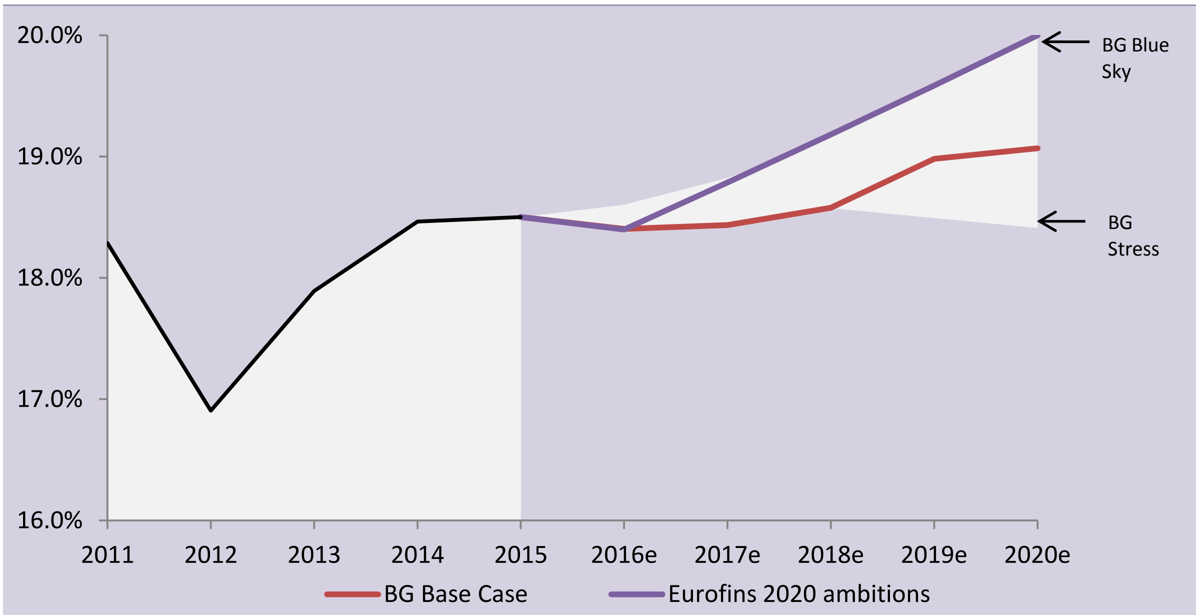
Our "**Downside**" scenario's main difference compared with the others is based on no margin improvement due to acquisitions made at higher prices due to competition.

Fig. 36: Summary of our scenarios

Target investment: Our base case	Upside scenario	Downside scenario
Organic revenue growth of 8% in FY2016, 5% in the next 2 years. Declining after 2018 to reach 2.5% in 2025 representing our long-term growth.	Organic revenue growth at the same pace as between 2011 and 2015 i.e. c.7% between 2017 and 2020 after 8% in the current FY year. Declining after 2020 to reach 2.5% in 2025 representing our long-term growth.	Organic revenue growth of 8% in FY2016, 5% in the next 2 years. Long-term growth of 2.5% beyond 2025.
Acquisition contribution to revenue of EUR390m in FY2016, EUR200m in the next four years as expected by the management. No further acquisitions after 2020 and no price inflation with acquisitions based on EV/Revenue of	Acquisition contribution to revenue of EUR390m in FY2016, EUR200m in the next four years as expected by management. No further acquisitions after 2020 and no price inflation with acquisitions based on EV/Revenue of	Acquisition contribution to revenue of EUR390m in FY2016, EUR200m in the next four years as expected by the management. No further acquisitions after 2020. Price inflation with acquisitions based on EV/Revenue of 1.5x.

1.2x.	1.2x.	
50bps EBITDA margin improvement between 2015 and 2020. Long-term margin EBITDA of 20% assuming no more external growth after 2020.	150bps EBITDA margin improvement between 2015 and 2020 to reach 20%. Between 2020 and 2023, continuing EBITDA margin improvement with the ramp-up of latest companies acquired in 2019 and 2020. Long-term EBITDA margin of 20% beyond 2025.	EBITDA margin deterioration due to acquisitions with long-term target of 18% by 2025.

Fig. 37: BG's adjusted EBITDA margin vs. Eurofins' expectations



Source: Company Data; Bryan, Garnier & Co ests.

7. Appendix

Among the major pieces of legislation enacted or in progress in the three main geographic areas: the US, Europe and China, we mention:

- **REACH** in European Union

This stands for Registration, Evaluation, Authorization and Restriction of Chemicals and came into force on June 2007. It applies to every industrial and manufacturer which uses, imports into Europe or exports from Europe a certain quantity of chemicals. This floor quantity was set at 1,000 tons in November 2010, then at 100 tons in May 2013 and finally will fall at 1 ton by May 2018. This legislation norm forces players to collect and assess information on the properties and hazards of the substances used. Finally, the European Chemicals Agency (ECHA) scientific committees assess whether the risk of substances can be managed.

- **General Food Law Regulation** in European Union

Set in 2002, this creates many international standards concerning products to be traded, exported, imported and other standards for the traceability of food and the withdrawal or recall of unsafe food, and the requirements for food businesses to place safe food on the market.

- **Country of Origin Labelling Law** in the US

Effective since 2005, this requires retailers (grocery stores, supermarkets) to notify their customers of information regarding the source of certain foods (muscle cut, ground meats: lamb, goat, chicken, wild- and farm-raised fish and shellfish, fresh and frozen fruit and vegetables, peanuts, pecans, macadamia nuts, ginseng).

- **PRC Food Safety Law** in China

Set up in 2009 and then updated in October 2015, this law puts more emphasis on the supervision and control of every step associated with the food safety. Food industrials have to follow safety-related techniques released by independent associations, the media is encouraged to release news about any illegal food safety actions, public authorities will protect and award whistle-blowers and strengthen punishment for illegal food safety actions.

- **FDA Food Safety Modernization Act (FSMA)** in US

To soon be finalised and enacted, seven major laws:
1/ Produce safety rule (science-based standards focused on the growing, harvesting, packing and holding of produce on farms for domestic and international growers). 2/ Preventive controls for human food rule (hazard analysis and development of preventive controls to minimise hazards from contaminating food). 3/ Preventive controls for animal feed rule. 4/ Foreign supplier verification rule (importers will be required to verify that food imported into the US has been produced to the same food safety standards that are required of US products). 5/ Accreditation of third-party auditors rule. 6/ Intentional adulteration proposed rule (protect food supply from intentional adulteration). 7/ Sanitary transportation of human and animal foods rule (enhancement of rules regarding motor and rail vehicles and transportation equipment to protect food during transportation, training and technical assistance by the FDA, recordkeeping to demonstrate compliance with the rule).

Fig. 38: The top 15 TIC companies

	Revenue (€)	Food	Oil & Gas, Minerals	Healthcare	Products	Certification	Industrial / Energy	Environment	Automotive	Marine	Construction	Training, personnel	Insurance
SGS	5,212	6%	31%	4%	20%	7%	16%	6%	6%				
Bureau Veritas	4,635	2%	15%		14%	21%	22%			9%	12%		
Intertek	2,736	1%	25%	8%	38%		28%						
Dekra	2,510						28%		53%			18%	
TUV SUD	2,222					24%	43%		30%				
Eurofins	1,950	30%		55%				15%					
TUV Rheinland	1,731			11%	22%	7%	29%		24%			7%	
Applus	1,702			3%			70%		27%				
Lloyd's Register	1,314						✓			✓		✓	✓
DNV GL	1,235		26%				14%			43%			12%
TUV Nord	1,090		10%				50%		28%			11%	
UL	ND			✓	✓	✓	✓				✓	✓	
ALS Group	999		25%	37%			33%						
Core Lab	999		✓				✓						
Apave	820					✓	✓	✓			✓	✓	
ABS	ND					✓	✓					✓	✓
Socotec	506					✓						✓	
SAI Global	189	✓	✓	✓			✓		✓		✓		✓

Source: Company Data; Bryan, Garnier & Co ests.

INDEPENDENT RESEARCH UPDATE

27th May 2016

SGS SA

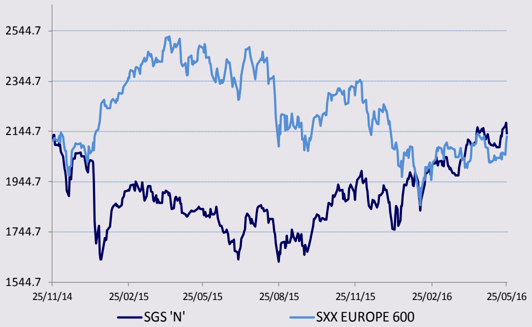
SGS ! quality certified

Business Services

Fair Value CHF2400 vs. CHF2150 (price CHF2,136) **BUY**

Bloomberg	SGS VX
Reuters	SGS.VX
12-month High / Low (CHF)	2,178 / 1,626
Market capitalisation (CHFm)	16,708
Enterprise Value (BG estimates CHFm)	17,219
Avg. 6m daily volume ('000 shares)	23.40
Free Float	64.7%
3y EPS CAGR	7.9%
Gearing (12/15)	24%
Dividend yield (12/16e)	3.18%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (CHFm)	5,712	6,125	6,395	6,715
EBIT (CHFm)	916.90	983.80	1,036	1,099
Basic EPS (CHF)	71.98	85.06	92.63	98.80
Diluted EPS (CHF)	82.01	89.18	96.85	103.03
EV/Sales	3.01x	2.81x	2.69x	2.56x
EV/EBITDA	15.0x	13.3x	12.7x	12.0x
EV/EBIT	18.7x	17.5x	16.6x	15.6x
P/E	26.0x	24.0x	22.1x	20.7x
ROCE	20.9	21.4	21.8	22.4



The strong re-rating, especially after the FY results publication in mid-January, confirms the group's cost flexibility in an environment lacking visibility (stock price up c.9% ytd in absolute terms, outperforming the DJ Stoxx in Euro by 17.5%). Although the "old" main growth sectors, i.e. Oil, Gas and chemicals, Minerals and Industrial services are not delivering at the moment, we nevertheless understand after our contact with the company that current trading is much better than for Bureau Veritas in all segments. Taking into account this situation, lfl revenue growth in H1 should be in line with the FY 2016 guidance (between 2.5% and 3.5%) and the top of the range seems now reachable for the full year. We upgrade our lfl revenue growth, maintaining a flat adjusted operating margin vs. last year at 16.1%. Our FV moves to CHF2,400 from CHF2,150.

- **Current trading largely in line with FY top-line guidance.** Early this year after the FY 2015 results, management expected to deliver FY2016 organic growth of between 2.5% and 3.5% after 2% in 2015. After a call with the company following Bureau Veritas's disappointing Q1 revenue, we understand that the current trading is much better for SGS (no release on Q1) and we have no reason to suspect H1 lfl revenue trend will be different to FY guidance. We decided to move our lfl revenue growth to 3.3% (vs. 2.5% previously) with 2.6% in H1 (released on 18th July) vs. 2.1%.

- **FY flat margin guidance not at risk in this context.** FY2016 will benefit from the full remaining payback of CHF64m of restructuring measures taken in 2015, i.e. CHF40m and to a lesser extent from the new business structure and back-office reorganisation. Early this year, due to this situation and the negative impact from recent acquisitions (notably Accutest laboratories early this year in the USA), management's guidance was for a flat adjusted operation margin for FY2016. Such a guidance is not at risk in SGS's current trading environment.

- **Our FV moves to CHF2,400 from CHF2,150:** Our FV is derived from the average valuation between a DCF and the 10-year historical EV/EBIT multiple used as the exit multiple FY+3. Multiples remain high at 17.5x EV/EBIT 2016e and 16.6x 2017e compared with an historical median of 14.8x but in our view justify regarding group performances. More, remember that in 2014, SGS' board secured the dividend for the next three years at a minimum of CHF65. Moreover, a share buy-back of CHF750m started in February 2015 up to December 2016, o/w CHF500m to be cancelled (representing almost 3% of the current market cap) and CHF250m for stock option purposes.

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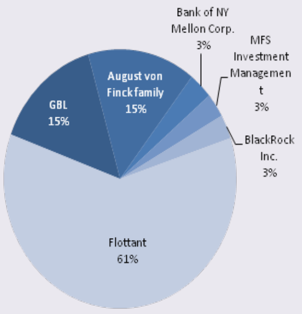
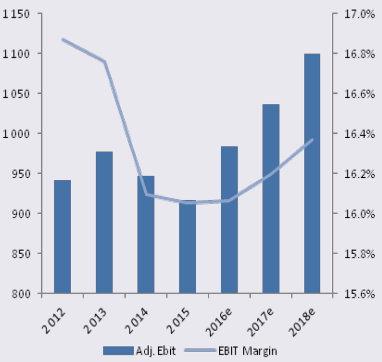




Company description

SGS SA is a Swiss company that, through its subsidiaries, is engaged in the provision of inspection and inspection services, verification, testing, certification and quality assurance services, as well as risk management services, technical consultancy and training services. The Company organizes its activities in 10 business lines: Agricultural; Minerals; Oil, Gas and Chemicals; Life Science; Consumer Testing; Systems and Services Certification; Industrial; Environmental; Automotive and Governments and Institutions. The Company operates worldwide through a network of subsidiaries, branches and agencies. The Company divides its geographical operations into Europe, Africa, Middle East, Americas and Asia Pacific. Europe, Africa, Middle East comprises Western Europe, Central & North West Europe, South East Europe, Eastern Europe & Middle East and Africa. Americas comprises North America and South America. Asia Pacific comprises East Asia, China & Hong Kong, and South East Asia & Pacific.

Simplified Profit & Loss Account (CHFm)	**2013**	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Revenues	5,830	5,883	5,712	6,125	6,395	6,715
Change (%)	*4.5%*	*0.9%*	*-2.9%*	*7.2%*	*4.4%*	*5.0%*
EBITDA	1,210	1,245	1,144	1,292	1,353	1,434
Adjusted EBIT	977	947	917	984	1,036	1,099
Change (%)	*3.8%*	*-3.1%*	*-3.2%*	*7.3%*	*5.3%*	*6.1%*
Financial results	(38.0)	(41.0)	(43.0)	(39.0)	(35.0)	(35.0)
Pre-Tax profits	874	900	779	910	966	1,029
Exceptionals	23.0	8.1	48.0	7.5	7.5	7.5
Tax	(236)	(234)	(195)	(227)	(241)	(257)
Profits from associates	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	38.0	37.0	35.0	37.5	39.2	41.1
Net profit	600	629	549	645	685	731
Restated net profit	651	662	625	676	716	762
Change (%)	*3.4%*	*1.7%*	*-5.6%*	*8.1%*	*6.0%*	*6.4%*
Cash Flow Statement (CHFm)						
Operating cash flows	977	1,021	902	1,025	1,076	1,141
Change in working capital	(29.0)	(109)	160	(13.2)	(8.6)	(10.2)
Capex, net	(341)	(299)	(286)	(337)	(352)	(369)
Financial investments, net	(84.0)	(101)	(104)	(183)	(89.5)	(94.3)
Dividends	(471)	(523)	(556)	(492)	(586)	(622)
Net debt	335	340	480	510	504	492
Free Cash flow	591	607	673	675	716	762
Balance Sheet (CHFm)						
Tangible fixed assets	1,029	1,043	964	958	958	958
Intangibles assets	1,216	1,337	1,306	1,401	1,462	1,535
Cash & equivalents	964	1,341	1,490	1,075	1,069	1,069
current assets	1,597	1,778	1,787	1,916	2,001	2,101
Other assets	233	268	347	372	389	408
Total assets	5,039	5,767	5,894	5,722	5,879	6,071
L & ST Debt	1,308	1,690	2,214	1,847	1,847	1,848
Others liabilities	1,519	1,674	1,699	1,822	1,902	1,997
Shareholders' funds	2,212	2,403	1,981	2,053	2,129	2,226
Total Liabilities	5,039	5,767	5,894	5,722	5,879	6,071
Capital employed	3,316	3,620	3,287	3,449	3,559	3,689
Ratios						
Operating margin	16.76	16.10	16.05	16.06	16.20	16.37
Tax rate	27.01	26.00	25.04	25.00	25.00	25.00
Net margin	11.17	11.26	10.95	11.04	11.20	11.35
ROE (after tax)	30.40	28.46	32.81	34.27	35.03	35.65
ROCE (after tax)	21.50	19.36	20.91	21.39	21.83	22.35
Gearing	15.14	14.15	24.23	24.84	23.69	22.10
Pay out ratio	89.08	86.70	82.94	85.00	85.00	85.00
Number of shares, diluted	7,708	7,702	7,630	7,585	7,401	7,401
Data per Share (CHF)						
EPS	78.43	81.98	71.98	85.06	92.63	98.80
Restated EPS	85.27	82.69	82.01	89.18	96.85	103
% change	*3.2%*	*-3.0%*	*-0.8%*	*8.7%*	*8.6%*	*6.4%*
EPS bef. GDW	85.27	82.69	82.01	89.18	96.85	103
BVPS	287	312	260	271	288	301
Operating cash flows	127	133	118	135	145	154
FCF	76.63	78.80	88.19	89.03	96.71	103
Net dividend	65.00	68.00	68.00	68.00	72.30	78.73

Source: Company Data; Bryan, Garnier & Co ests.

1.1. Lfl revenue growth that should be largely in line with guidance even in H1

Following After a call with the company following Bureau Veritas's disappointing Q1 revenue, we understand that the current trading is much better for SGS (no release on Q1) and we have no reason to suspect H1 lfl revenue trend will be different to FY guidance. We decided to move our lfl revenue growth to 3.3% (vs. 2.5% previously) with 2.6% in H1 (released on 18th July) vs. 2.1%.

Fig. 1: Lfl revenue growth trend

	2013	2014	H1 2015	H2 2015	2015	H1 2016e	2016e
Agricultural	3,8%	6,6%	3,0%	4,6%	4,0%	6,0%	6,0%
Minerals	-7,8%	-4,3%	-1,9%	-1,7%	-1,8%	-1,0%	0,0%
Oil, Gas & Chemicals	9,4%	8,6%	0,2%	-4,4%	-2,2%	-1,0%	-0,5%
Life Science	0,1%	5,5%	0,4%	12,6%	6,4%	0,0%	0,0%
Consumer Testing	11,2%	6,9%	4,8%	5,0%	4,9%	5,0%	5,0%
Systems & Services Certification	3,9%	5,9%	6,6%	7,7%	7,2%	8,5%	8,5%
Industrial	2,1%	2,4%	-3,3%	-2,7%	-3,0%	-1,0%	-0,5%
Environmental	-0,3%	0,3%	5,2%	5,2%	5,2%	5,0%	5,0%
Automotive	10,4%	3,5%	6,6%	10,3%	8,5%	6,0%	7,0%
Governments & Institutions Services	11,1%	-0,4%	8,4%	15,5%	12,0%	10,0%	10,0%
Total	**4,4%**	**3,9%**	**1,8%**	**2,2%**	**2,0%**	**2,6%**	**3,3%**

Source: Company Data; Bryan, Garnier & Co ests.

1.2. Main changes

	2016			2017			2018		
	Old	New	Δ%	Old	New	Δ%	Old	New	Δ%
SALES	6 083	6 125	0,7%	6 343	6 395	0,8%	6 671	6 715	0,7%
EBITDA	1 260	1 292	2,5%	1 338	1 353	1,1%	1 441	1 434	-0,5%
	20,7%	21,1%	37 bp	21,1%	21,2%	5 bp	21,6%	21,3%	-25 bp
EBIT	985	984	-0,1%	1 040	1 036	-0,4%	1 109	1 099	-0,9%
	16,2%	16,1%	-13 bp	16,4%	16,2%	-19 bp	16,6%	16,4%	-25 bp
EPS	89,34	89,18	-0,2%	97,59	96,85	-0,8%	104,42	103,03	-1,3%

Source: Company Data; Bryan, Garnier & Co ests.

1.3. Valuation: DCF + Historical multiple FY+3

CHFm	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Long-term assumptions
Revenue	6 125	6 395	6 715	7 027	7 329	7 617	7 889	8 142	8 375	8 584	
% chg. In revenue	7,2%	4,4%	5,0%	4,6%	4,3%	3,9%	3,6%	3,2%	2,9%	2,5%	2,5%
EBITA	984	1 036	1 099	1157	1213	1267	1320	1370	1416	1459	
EBITA margin	16,1%	16,2%	16,4%	16,5%	16,6%	16,6%	16,7%	16,8%	16,9%	17,0%	17,0%
- IS	246	259	275	289	303	317	330	342	354	365	
+ DAP	322	343	352	366	379	391	402	413	422	429	
as a % of revenue	5,3%	5,4%	5,2%	5,2%	5,2%	5,1%	5,1%	5,1%	5,0%	5,0%	5,0%
+ Chg in WCR	-13,2	-8,6	-10,2	-9,1	-7,9	-6,6	-5,1	-3,5	-1,8	0,0	
as a % of revenue	-0,2%	-0,1%	-0,2%	-0,1%	-0,1%	-0,1%	-0,1%	0,0%	0,0%	0,0%	0%
Operating Cash Flow	1 047	1 111	1 166	1 224	1 281	1 335	1 387	1 436	1 482	1 524	
- Capex	520	441	464	466	466	464	459	451	442	429	
as a % of revenue	8,5%	6,9%	6,9%	6,6%	6,4%	6,1%	5,8%	5,5%	5,3%	5,0%	5,0%
Free Cash Flow	527	670	702	758	815	871	928	985	1 040	1 095	
Discount coefficient	0,96	0,91	0,85	0,80	0,75	0,71	0,67	0,63	0,59	0,55	
Discounted FCF	508	607	598	607	613	617	618	616	612	605	

Sum of discounted FCF	5999	1712		
Terminal Value	16058	13844	14,8	Historical Multiple EV/EBIT 2003-2013
- Net Debt	480			
- Minority Interest	75			
+ Financial investments (book value)	347		Valuation using an historical median multiple as the exit multiple FY+3	
Equity Value (CHFm)	21849	15349		
Number of shares (m)	7822,0			
Fair Value (CHF)	2793,3	1962,3		
Last Price (CHF)	2136,00	2136,00		
Upside/Downside	30,8%	-8,1%		

Source: Company Data; Bryan, Garnier & Co ests.

BRYAN, GARNIER & CO

INDEPENDENT RESEARCH

27th May 2016

Business Services

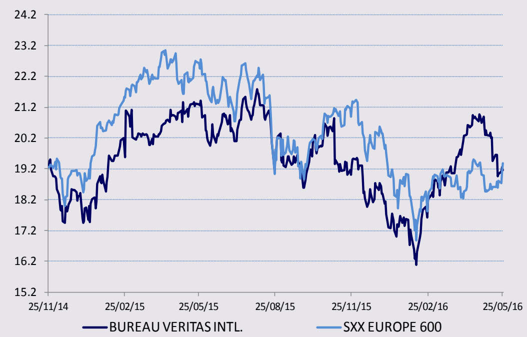
Bureau Veritas

Why test the risk now?

Fair Value EUR22 (price EUR19.17) **NEUTRAL**

Bloomberg	BVI FP
Reuters	BVI.PA
12-month High / Low (EUR)	21.8 / 16.1
Market capitalisation (EURm)	8,471
Enterprise Value (BG estimates EURm)	10,256
Avg. 6m daily volume ('000 shares)	777.6
Free Float	56.9%
3y EPS CAGR	6.2%
Gearing (12/15)	166%
Dividend yields (12/16e)	2.84%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	4,635	4,740	4,925	5,139
EBIT(EURm)	775.20	789.20	828.76	871.17
Basic EPS (EUR)	0.58	0.88	0.94	1.01
Diluted EPS (EUR)	0.96	1.03	1.08	1.15
EV/Sales	2.23x	2.16x	2.06x	1.95x
EV/EBITDA	13.2x	11.2x	10.6x	9.9x
EV/EBIT	13.3x	13.0x	12.2x	11.5x
P/E	20.0x	18.7x	17.7x	16.7x
ROCE	15.2	15.2	15.3	15.4



The TIC market's medium/long-term outlook remains very positive even if market growth is less sustained by trade globalisation, which has matured, or the super cycle in commodities. Moreover, Bureau Veritas is engaging in growth initiatives which should bring in at least 4% organic growth CAGR in the next five years even if we assume no market growth. Nevertheless, the short term is under pressure with a lack of visibility in some businesses and organic growth turning negative in Q1 2016 as expected but at a higher pace. Due to this situation with no improvement expected in Q2 and the lack of visibility due to macro-economic uncertainties, the share price should continue to be volatile.

- **Short term is challenging with lack of visibility.** The first part of the year was a bit more challenging than anticipated with Q1 lfl revenue down 0.6% (vs. 0.3% anticipated) and no improvement expected in Q2. H2 2016 should be better due to more favourable comps and positive impacts from new commercial successes as announced by the management, which confirmed its FY guidance of lfl revenue growth of between 1% to 3% (our forecast is 1.6%) with an EBIT margin between 16.5% and 17% (our forecast is flat vs. last year at 16.7%).

- **Medium/long-term perspectives remain strong. Growth in the** TIC market will be lower than in the last 10 years (which had been positively impacted by trade globalisation and the commodities super cycle) but the fundamentals remain positive with "new normal" growth estimated at 3%. In such a market, Bureau Veritas has engaged key growth initiatives which concern 60% of the current portfolio (EUR2bn of incremental revenue anticipated in 2020 vs. 2015, balanced between organic and acquisitions). Assuming only contributions from organic key initiatives, the CAGR 2015-2020 is c.4% (vs.4.6% between 2010-2014).

- **Be patient.** The stock price should remain under pressure for a while, waiting for more favourable winds but more importantly the first positive effects from BVI's key initiatives which need time. At the current share price, the stock is trading at 2016e and 2017e EV/EBIT of 13.0x and 12.2x respectively, compared with an historical median of 14.3x and CAGR EBIT 2015-2018 of 4%.

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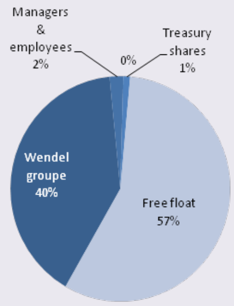
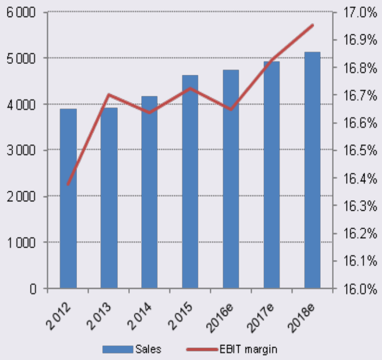




Company description

Created in 1828, Bureau Veritas is a global leader in Testing, Inspection and Certification (TIC).

Bureau Veritas offers innovative solutions that go beyond simple compliance with regulations and standards, reducing risk, improving performance and promoting sustainable development.

Bureau Veritas is recognized and accredited by major national and international organizations. The group now operates in some 140 countries through a network of 1,400 offices and laboratories. Bureau Veritas employs more than 66,000 people and has a portfolio of more than 400,000 customers.

Simplified Profit & Loss Account (EURm)	**2013**	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Revenues	3,933	4,172	4,635	4,740	4,925	5,139
Change (%)	*0.8%*	*6.1%*	*11.1%*	*2.3%*	*3.9%*	*4.3%*
EBITDA	739	778	782	913	960	1,012
Adjusted EBIT	657	694	775	789	829	871
Change (%)	*2.8%*	*5.6%*	*11.7%*	*1.8%*	*5.0%*	*5.1%*
Financial results	(64.0)	(80.9)	(89.3)	(95.7)	(95.8)	(95.9)
Pre-Tax profits	526	483	488	604	644	686
Exceptionals	12.8	19.8	20.8	0.0	0.0	0.0
Tax	(169)	(175)	(221)	(205)	(219)	(233)
Profits from associates	0.0	0.70	0.78	0.80	0.83	0.86
Minority interests	11.4	12.9	12.4	12.7	13.2	13.7
Net profit	357	308	268	399	425	454
Adjusted net profit	397	391	420	449	475	503
Change (%)	*-1.4%*	*-1.4%*	*7.4%*	*6.9%*	*5.7%*	*6.0%*
Cash Flow Statement (EURm)						
Operating cash flows	604	661	658	674	711	751
Change in working capital	(75.6)	(54.4)	48.5	49.6	51.5	53.8
Capex, net	(141)	(144)	(166)	(166)	(172)	(180)
Financial investments, net	(164)	(597)	(101)	(102)	(93.5)	(75.5)
Dividends	(217)	(216)	(250)	(225)	(240)	(254)
Net debt	1,321	1,879	1,867	1,784	1,676	1,530
Free Cash flow	381	459	537	558	590	625
Balance Sheet (EURm)						
Tangible fixed assets	401	476	498	509	529	552
Intangibles assets	1,787	2,465	2,430	2,485	2,582	2,694
Cash & equivalents	191	220	523	608	718	869
current assets	1,170	1,431	1,481	1,515	1,574	1,643
Other assets	169	188	219	224	232	242
Total assets	3,717	4,780	5,157	5,340	5,636	6,000
L & ST Debt	1,511	2,099	2,390	2,392	2,395	2,398
Others liabilities	1,224	1,540	1,641	1,678	1,743	1,819
Shareholders' funds	982	1,141	1,125	1,271	1,498	1,782
Total Liabilities	3,717	4,780	5,157	5,340	5,636	6,000
Capital employed	2,489	3,393	3,358	3,434	3,568	3,723
Ratios						
Operating margin	16.70	16.64	16.73	16.65	16.83	16.95
Tax rate	32.17	36.32	34.00	34.00	34.00	34.00
Net margin	10.09	9.38	9.07	9.48	9.64	9.79
ROE (after tax)	41.52	35.32	38.37	36.21	32.38	28.76
ROCE (after tax)	17.90	13.02	15.24	15.17	15.33	15.44
Gearing	134	165	166	140	112	85.83
Pay out ratio	52.60	52.75	56.67	53.00	53.00	53.00
Number of shares, diluted	443,797	443,797	443,218	443,218	443,218	443,218
Data per Share (EUR)						
EPS	0.79	0.67	0.58	0.88	0.94	1.01
Restated EPS	0.91	0.90	0.96	1.03	1.08	1.15
% change	*-0.3%*	*-1.1%*	*6.7%*	*6.9%*	*5.7%*	*6.0%*
EPS bef. GDW	0.91	0.90	0.96	1.03	1.08	1.15
BVPS	2.21	2.57	2.54	2.87	3.38	4.02
Operating cash flows	1.36	1.49	1.48	1.52	1.60	1.70
FCF	0.86	1.03	1.21	1.26	1.33	1.41
Net dividend	0.48	0.48	0.51	0.54	0.57	0.61

Source: Company Data; Bryan, Garnier & Co ests.

1.1. Lfl revenue growth under pressure especially in H1

In Q1 comps were not easy and negative figure was anticipated but all numbers were lower than expected not only in Oil & Gas and upstream minerals but also in Marine, Certification, GSIT or in Consumer products where the group performance seems to be lower than competitors. Management confirmed its FY guidance but no improvement anticipated before H2 with Q2 at the same trend than Q1.

Fig. 1: Lfl revenue growth trend

lfl revenue growth %	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016 est.	Q1 2016 released	FY 2016e
Marine	13,7%	9,9%	8,6%	9,4%	7,0%	1,2%	4,0%
Industry	4,6%	2,6%	-4,6%	-7,6%	-8,0%	-8,1%	-5,0%
In-Service Inspection & Verification (IVS)	1,1%	2,5%	2,7%	4,6%	5,0%	5,1%	3,0%
Construction	0,5%	1,4%	2,9%	0,5%	1,0%	0,8%	3,0%
Certification	4,5%	4,4%	4,9%	4,7%	4,5%	3,6%	4,5%
Commodities (Inspectorate)	6,3%	4,9%	0,6%	1,9%	0,0%	1,6%	3,0%
Consumer products	5,1%	2,1%	0,1%	-0,8%	-0,5%	1,6%	3,0%
Government Services & International Trade (GSIT)	-0,7%	-4,8%	3,3%	-4,8%	0,0%	-5,2%	3,0%
Total group	**4,4%**	**3,0%**	**0,9%**	**0,0%**	**-0,3%**	**-0,6%**	**1,6%**

Source: Company Data; Bryan, Garnier & Co ests.

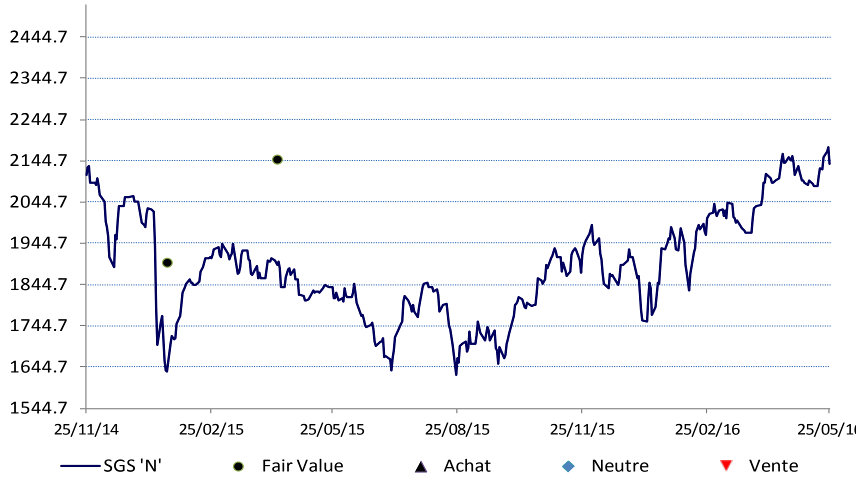
1.2. Valuation: DCF and Historical multiple FY+3

EURm	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Long-term assumptions
Revenue	4 740	4 925	4 925	4 943	4 978	5 031	5 103	5 194	5 306	5 438	
% chg. In revenue	13,6%	3,9%	0,0%	0,4%	0,7%	1,1%	1,4%	1,8%	2,1%	2,5%	2,5%
EBITA	775	789	829	833	840	850	864	880	901	925	
EBITA margin	16,4%	16,0%	16,8%	16,9%	16,9%	16,9%	16,9%	17,0%	17,0%	17,0%	17,0%
- IS	271	276	290	292	294	298	302	308	315	324	
+ DAP	205	213	222	222	224	226	230	234	239	245	
as a % of revenue	4,3%	4,3%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%	4,5%
+ Chg in WCR	48,5	49,6	51,5	44,3	37,2	30,1	22,9	15,5	7,9	0,0	
as a % of revenue	1,0%	1,0%	1,0%	0,9%	0,7%	0,6%	0,4%	0,3%	0,1%	0,0%	0%
Operating Cash Flow	757	776	812	808	807	809	814	822	832	846	
- Capex	269	268	266	260	256	252	249	247	246	245	
as a % of revenue	5,7%	5,4%	5,4%	5,3%	5,1%	5,0%	4,9%	4,8%	4,6%	4,5%	4,5%
Free Cash Flow	488	508	546	548	551	557	565	575	587	601	
Discount coefficient	0,96	0,90	0,85	0,79	0,74	0,70	0,66	0,61	0,58	0,54	
Discounted FCF	470	458	462	435	411	389	370	353	338	325	

Sum of discounted FCF	**4010**	**1390**		
Terminal Value	8105	10060	14,3	Historical Multiple EV/EBIT 2007-2016
- Net Debt	1867			
- Minority Interest	30			
+ Financial investments (book value)	5			Valuation using an historical median multiple as the exit multiple FY+3
Equity Value (EURm)	10223	9558		
Number of shares (m)	442,0			
Fair Value (EUR)	23,1	21,6		
Last Price (EUR)	19,17	19,17		
Upside/Downside	20,7%	12,8%		

Source: Company Data; Bryan, Garnier & Co ests.Price Chart and Rating History

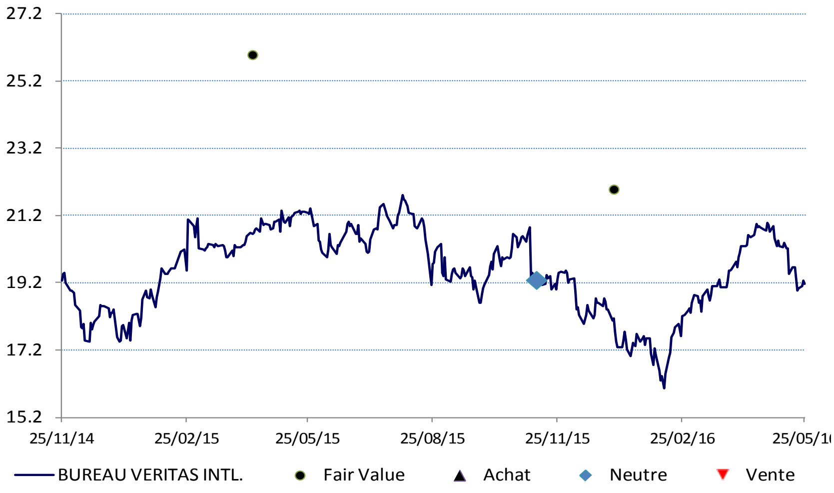
Price Chart and Rating History
SGS SA



Ratings		
Date	**Ratings**	**Price**
27/06/13	BUY	CHF2033

Target Price	
Date	**Target price**
14/04/15	CHF2150
23/01/15	CHF1900
21/01/15	Under review
09/01/14	CHF2350
16/12/13	CHF2300
27/06/13	CHF2400

Bureau Veritas



Ratings		
Date	**Ratings**	**Price**
09/11/15	NEUTRAL	EUR19.49
11/12/12	BUY	EUR21.65

Target Price	
Date	**Target price**
05/01/16	EUR22
14/04/15	EUR26
28/08/14	EUR24
18/06/14	EUR26
21/05/14	EUR27
09/01/14	EUR28
30/09/13	EUR27
29/08/13	EUR29
25/03/13	EUR31
15/01/13	EUR25
11/12/12	EUR23.75

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Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY
Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

NEUTRAL
Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

SELL
Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 56.3% NEUTRAL ratings 34.5% SELL ratings 9.2%

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15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

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Please see the section headed "Important information" on the back page of this report.

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