

30th June 2016

Business Services

Eurofins Scientific

Price EUR318.00

Private equity issue: Good news for the group ambitions but dilutive

Fair Value EUR340 (+7%)

SELL

Bloomberg	ERF FP
Reuters	EUFI.PA
12-month High / Low (EUR)	359.8 / 265.8
Market Cap (EURm)	4,892
Avg. 6m daily volume (000)	16.10

	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.5%	1.9%	-0.8%	-1.2%
Inds Gds & Svs	-10.0%	-5.4%	-8.1%	-8.3%
DJ Stoxx 600	-9.4%	-5.5%	-13.1%	-13.4%

	2015	2016e	2017e	2018e
P/E	40.1x	37.8x	31.1x	26.7x
Div yield (%)	0.4%	0.4%	0.5%	0.6%

ANALYSIS

- **Private equity issue for EUR200m:** The group announced yesterday evening its first capital increase since 2000 for a total amount of EUR200m. The capital increase is reserved for **La Caisse de Dépôts et Placement du Québec (CDPQ)**. At a subscription price of EUR330 per share (vs. current share price of EUR318) this represents 606,061 newly-issued shares pointing to dilution of 3.8%. Note that in December, Eurofins cancelled a non-documented placement of approximately one million new ordinary shares due “to poor market conditions”.
- **Capital structure strengthened:** At the end of 2015, total shareholders’ equity was EUR1080m with net debt of EUR916m representing gearing of 85%. Net debt/adjusted EBITDA was 2.54x (1.9x in 2014) or 2.27x on a pro forma basis vs. a covenant of 3.5x. On our estimates, at the end of 2016 Net debt/adjusted EBITDA moves to 2.3x vs. 2.6x initially. With cash and cash equivalents of EUR794m at the end of 2015, this issue reinforces the group’s liquidity to pursue its M&A strategy. In fact, management highlighted the fact that after taking into account the issue, it considers “it requires no additional funding to execute its mid-term plan” (i.e. IFl revenue growth of 5% per annum plus contribution of c.EUR200m per year). In our view, and based on our hypothesis with M&A based on EV/Revenue of 1.2x, Eurofins would need at least EUR300m more to achieve its ambitious.

VALUATION

- At the current share price, the stock is trading at 20.1x EV/EBIT 2016e and 18.4x 2017e compared with the historical median of 19.6x.
- Dilutive for existing shareholders, this is nevertheless good news for the group's strategic plan largely based on non-organic development. The main uncertainty in our view remains management's mid-term ambition on adjusted EBITDA margin, which is to reach 20% by the end of 2020 compared with 18.5% at the end of 2015.

NEXT CATALYSTS

- Conference call at 4:00pm CET
- H1 results on 2nd August 2016

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Bruno de La Rochebrochard, bdelarochebrochard@bryangarnier.com



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BRYAN, GARNIER & CO

London	Paris	New York	Munich	New Delhi
Beaufort House 15 St. Botolph Street London EC3A 7BB Tel: +44 (0) 207 332 2500 Fax: +44 (0) 207 332 2559 Authorised and regulated by the Financial Conduct Authority (FCA)	26 Avenue des Champs Elysées 75008 Paris Tel: +33 (0) 1 56 68 75 00 Fax: +33 (0) 1 56 68 75 01 Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudentiel et de résolution (ACPR)	750 Lexington Avenue New York, NY 10022 Tel: +1 (0) 212 337 7000 Fax: +1 (0) 212 337 7002 FINRA and SIPC member	Widenmayerstrasse 29 80538 Munich Germany +49 89 2422 62 11	The Imperial Hotel Janpath New Delhi 110 001 Tel +91 11 4132 6062 +91 98 1111 5119 Fax +91 11 2621 9062 Geneva rue de Grenus 7 CP 2113 Genève 1, CH 1211 Tel +4122 731 3263 Fax+4122731 3243 Regulated by the FINMA

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