22nd September 2016

Business Services

Eurofins Scientific

Price EUR400.35

Here comes the "blue sky" scenario, but fully priced in

Fair Value EUR400 vs. EUR340 (0%) **SELL**

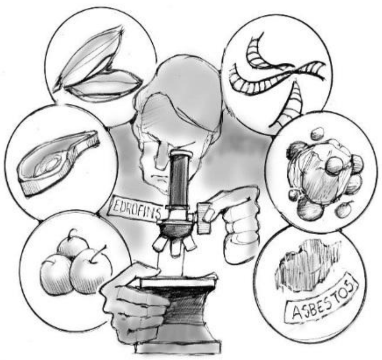
Bloomberg	ERF FP
Reuters	EUFI.PA
12-month High / Low (EUR)	400.4 / 268.8
Market Cap (EURm)	6,751
Ev (BG Estimates) (EURm)	7,447
Avg. 6m daily volume (000)	14.30
3y EPS CAGR	16.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	8.6%	23.1%	29.6%	24.4%
Inds Gds & Svs	0.7%	3.6%	5.4%	3.4%
DJ Stoxx 600	0.7%	0.7%	0.5%	-6.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,950	2,489	2,874	3,275
% change		*27.6%*	*15.5%*	*14.0%*
EBITDA	361	480	555	640
EBIT	264.3	347.3	398.6	457.3
% change		*31.4%*	*14.8%*	*14.7%*
Net income	167.1	207.9	248.6	289.1
% change		*24.5%*	*19.6%*	*16.3%*

	2015	2016e	2017e	2018e
Operating margin	18.5	19.3	19.3	19.6
Net margin	8.6	8.4	8.7	8.8
ROE	15.5	11.7	12.3	12.5
ROCE	7.2	8.9	9.1	9.3
Gearing	84.8	39.1	45.1	45.7

(EUR)	2015	2016e	2017e	2018e
EPS	8.77	9.87	11.68	13.92
% change	-	*12.6%*	*18.3%*	*19.1%*
P/E	45.6x	40.6x	34.3x	28.8x
FCF yield (%)	1.6%	0.4%	2.1%	2.8%
Dividends (EUR)	1.45	1.63	1.92	2.29
Div yield (%)	0.4%	0.4%	0.5%	0.6%
EV/Sales	3.9x	3.0x	2.7x	2.4x
EV/EBITDA	21.2x	15.5x	13.8x	12.2x
EV/EBIT	29.0x	21.4x	19.2x	17.1x



Following H1 results, two recent equity issues totalling around EUR500m and organic growth still above management's 5% forecast over the past two months (organic was over 11% in H1), management has raised its target for 2016, provided guidance for 2017 and confirmed its mid-term objective to deliver revenue of EUR4bn with adjusted EBITDA margin of 20% i.e. EUR800m. Our "blue sky" scenario clearly looks increasingly more attainable than our "base case". After adopting this scenario, our FV moves to EUR400.

ANALYSIS

- **2016 guidance upgraded with first indication of 2017 expectations:**
  - Following the very strong H1 results (11% lfl growth with an adjusted EBITDA margin up 100bp to 17.9%) and organic growth still above the group's 5% objective in July and August, management now expects FY 2016 adjusted EBITDA of EUR480m vs. EUR460 (consensus was at EUR468m and BG "base" case at EUR458m) representing an adjusted EBITDA margin of 19.3% having confirmed consolidated revenue of EUR2.5bn. This is mainly thanks to more profitable acquisitions with companies generating profitability levels closer to Eurofins and start-ups reaching breakeven sooner than expected. We are confirming our top line growth with notably 8% organic and have lifted our adjusted EBITDA to EUR480m vs. EUR458m.
  - **Regarding 2017**, ahead of final objectives that should be set when the company reports FY2016 results, management estimates that with 5% organic growth plus a EUR200m revenue contribution from M&A, the group should be able to reach EUR2.9bn in consolidated revenue with adjusted EBITDA of EUR550m i.e. a forecast in line with our "blue sky" scenario.

Main changes

	2016e			2017e			2018e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
SALES	2 491	2 489	-0,1%	2 829	2 874	1,6%	3 171	3 275	3,3%
EBITDA	458	480	4,8%	521	555	6,5%	589	640	8,8%
	18,4%	19,3%	90 bp	18,4%	19,3%	89 bp	18,6%	19,6%	98 bp
EBIT	325	347	6,8%	367	399	8,5%	412	457	11,0%
	13,1%	14,0%	90 bp	13,0%	13,9%	89 bp	13,0%	14,0%	97 bp
EPS	8,98	9,87	10,0%	10,56	11,68	10,6%	12,27	13,92	13,4%

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

Finally, management confirmed that the group is "well on track" to deliver the 2020 target for consolidated revenue of EUR4bn, representing a 2016-2020 CACR of 12.6%, with adjusted EBITDA of EUR800m. Our "blue sky" forecasts are respectively EUR4.133bn and EUR833m based on lfl revenue growth of 7% between 2017/2020 (same pace as between 2011/2015) after 8% in 2016, with acquisition contribution to revenue of EUR200m in the next four years (no price inflation with acquisitions based on EV/sales of 1.2x). In 2020, we have an adjusted EBITDA margin of 20% with further improvement between 2020 and 2023 with the ramp-up at the latest companies acquired in 2019 and 2020. Long-term EBITDA margin is 20% beyond 2025.

- **The balance sheet can now comfortably shoulder the group's M&A strategy:** at the end of May (initial coverage) we highlighted the fact that Eurofin's business model is cash consuming and that free cash flow was not enough to cover both organic growth and M&A after 2018. After two equity issues in late June (private placement of EUR200m to La Caisse de dépôt et placement du Quebec) and early September (EUR296m to institutional investors), this is no longer a problem until 2020 at least. In fact, as confirmed by the group, we estimate net debt at the end of 2016 at lower than EUR700m with cash and cash equivalents of over EUR800m representing financial leverage of 1.4x (covenant <3.5x). Based on our forecast, net debt to adjusted EBITDA would be 1.6x assuming M&A contributes EUR200m to the revenue base on 1.2x EV/sales (leverage would be lower at 1.5x based on management's guidance of 1x EV/sales).

VALUATION

- Our FV is derived from a DCF using a WACC of 7.5% with a Beta of 1 corresponding to two-year historical adjusted vs. Stoxx600.
- At the current share price, in line with our new FV, the stock is valued at 21.4x 2016e EV/EBIT and 19.2x 2017e compared with the historical median of 19.9x.

NEXT CATALYSTS

- Capital Market Day on 20th October (Hamburg)
- IMS 9m on 2nd November

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