Eurofins: 25 Years of Shareholder Value Creation

An independent analysis of Eurofins' shareholder returns over the 25 years since its IPO

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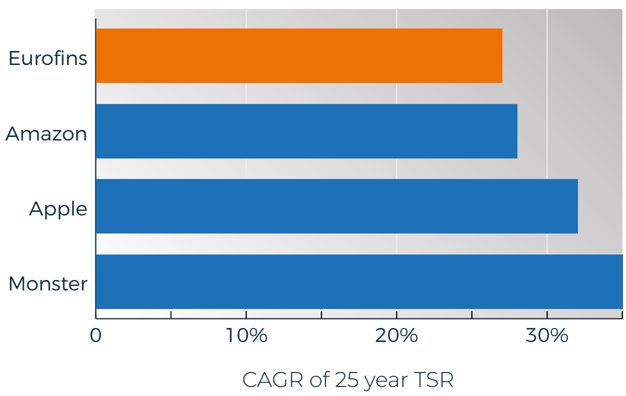
October 2022 marks 25 years since the initial public offering (IPO) of Eurofins Scientific on the Paris stock exchange on October 24 1997. According to this commissioned study, Eurofins has delivered a remarkable total shareholder return (including both share price growth and reinvestment of dividends) of about 36,600% since its IPO. This is equivalent to a compounded annual growth rate (CAGR) of nearly 27%. Amongst all the companies with listings on major European exchanges over that 25-year period, Eurofins delivered the highest total shareholder return. When the peer group is expanded to include companies trading on US exchanges, Eurofins ranks fourth, only behind Monster Beverage (CAGR 35%), Apple (CAGR 32%) and Amazon (CAGR 28%), Chart 1. Put another way, an investment of €2,728 in Eurofins at its IPO was worth about €1 million in October 2022. This result is a testament to the talent and dedication of Eurofins' teams to generate sustainable shareholder value.

Chart 1: 25-year total shareholder return CAGR



Source: Analyst Hire. Based on dividends and shares prices since October 24 1997

This short report focusses on the 25-year value creation for Eurofins shareholders. It then looks briefly at the longer-term economic background and discusses the key factors driving Eurofins' financial performance since 2009.

Background

Eurofins has a tradition of commissioning independent reports to mark major anniversaries of its stock market debut in October 1997. For the 25th anniversary of the initial public offering (IPO) and the 35th anniversary of the founding of the Company in October 1987, Eurofins commissioned Analyst Hire Ltd to produce an independent report comparing its stock market success to other public companies.

Previous reports

There were three previous reports marking the 10th, 15th and 20th anniversaries since the IPO.

- The 10-year, 2007 report, by Professor Dr Wolfgang Gerke, focused on the German stock market. At the time, Eurofins was listed in both Germany and France. He examined if junior stock markets helped emerging companies like Eurofins. He found that Eurofins had delivered a total shareholder return of 3,200%. Eurofins was outperformed by Sechiliene Sidec, a renewable power company (now called Albioma) - although that year saw Albioma's peak performance.
- The 15-year, 2012 report, by Professor Chris Brooks, noted that Eurofins had three main Business Units offering: food and feed testing; services to pharmaceutical and biotechnology companies; and environmental testing. His report examined stock market valuation metrics based on technical accounting data. Overall, he found a total shareholder return of 5,108%. This was the highest return on the Paris Bourse for the period. The market capitalisation at the time was €1.5bn.
- The 20-year, 2017 report was compiled by Marten & Co. At the time, Eurofins had a market capitalisation of €9.25bn, 2017 revenues of €3bn and EBITDA of €650m. The total shareholder return was about 30,000%. Eurofins showed the greatest total shareholder return of any company listed on a European exchange. Globally, Eurofins' total shareholder return ranked in third place behind Monster Beverage, a US energy drinks manufacturer and Celgene, a US biotech firm.

Eurofins share price performance 1997-2022

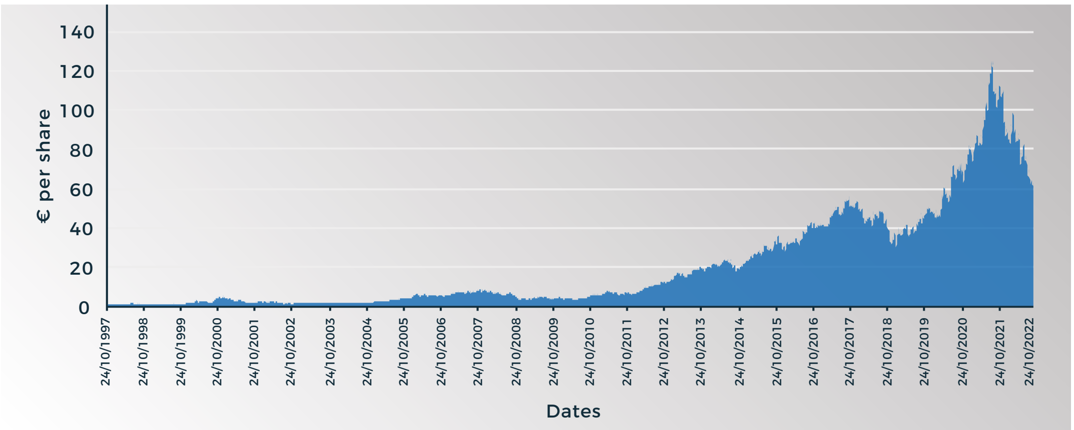
This section looks at Eurofins' remarkable value creation for shareholders over 25 years and compares it to other high-performing companies, many of whom are better known than Eurofins. It asks what returns a €1,000 investor who invested in Eurofins at the time of the IPO, and who maintained their holding, would have gained.

Price Performance

From its IPO on October 24 1997 to October 21 2022, Eurofins' share price, Chart 2, rose by 33,811%, which is equivalent to a Compound Annual Growth Rate (CAGR)[1] of 26.2%. Chart 3 shows the share price in terms of the percentage growth over the IPO price. Chart 3 shows strong share price gains in the immediate years following the IPO, and continued appreciation in the decades thereafter.

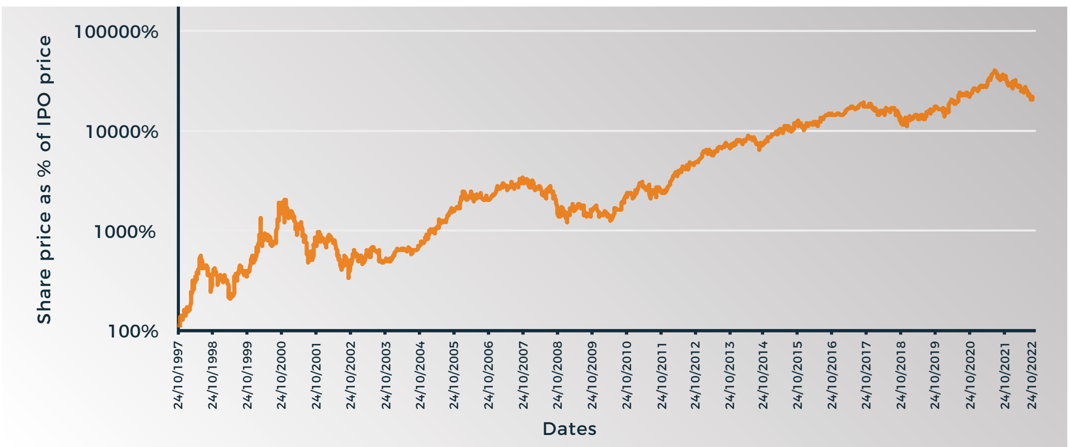
The starting point for our analysis is Eurofins' IPO on the then Paris Stock Exchange (now Euronext Paris). Adjusting for the two 10:1 share splits in 2000 and 2020 and the French Franc to Euro conversion, the IPO share price is equivalent to €0.1829/share. As of October 21 2022, the Eurofins price was €61.84/share, giving it a market capitalisation of about €12bn on 192.5m shares in issue.[2]

Chart 2: Eurofins share price growth



Source: Analyst Hire based on market data from October 24 1997 to October 21 2022.
Adjusted for the 2000 and 2020 share splits of 10 for 1 and the French Franc to Euro conversion

Chart 3: Eurofins percentage share price growth



Source: Analyst Hire based on market data from October 24 1997 to October 21 2022.
Adjusted for the 2000 and 2020 share splits of 10 for 1 and the French Franc to Euro conversion

[1] CAGR is a mathematical smoothing of the growth rate between two time points. One can think of it as an effective interest rate which compounds every year. The actual growth rate will fluctuate year by year.

[2] We abbreviate million as m and billion as bn.

Consistency of returns

Eurofins' long term share price performance has been based on its exceptional performance during its early years as a public company with a CAGR over the first five years to 2002 of 35%. Over the last 20 years, the rise to October 2022 showed a CAGR of 24.1% and over the last ten years, the CAGR was 18%. This pattern of high share price growth rates reflects the Company's long-term revenue and profit growth (discussed in the next section).

Total shareholder return

A simple share price capital gain does not consider dividends - which add to the shareholder's returns. The definition of total shareholder return (TSR) is the percentage gain an investor makes from the capital appreciation of the shares plus dividends received. The dividends are assumed to be reinvested which compounds the gains as more shares are owned at the end of the period. Assuming the share price continues appreciating, TSR will be higher than the share price return. The opposite is also true: a depreciating share price will reduce returns.

However, the practical differences for growth companies like Eurofins are minor: many of the high performers we examined do not pay dividends (Monster Beverage and Amazon, for example), while many high growth companies reinvest most of their profits back into their businesses to finance further growth, as has been the case with Eurofins. In some cases, it does make a difference: SGS Group, a testing company, had a share price return over 25 years of 296% (CAGR 5.6%) but due to dividends, had a 591% TSR with an 8.0% CAGR. However, TSR is only real if an investor reinvests all their dividends; not all do or will. In addition, taxation means that a private investor may not have the full dividend amount available to reinvest and will also have dealing charges.

A €1,000 IPO investor

To illustrate the effects of TSR, we have considered a hypothetical scenario of an investor buying 5,467 shares for €1,000 at the IPO. This is shown in Table 1 (note, amounts are rounded).

The return on the Eurofins share price over 25 years was 33,711%. The 5,467 shares after 25 years were worth €338,108 at €61.84/share.

However, Eurofins started distributing dividends in 2007. It only paused distributions during the COVID-19 pandemic year in 2020, just like many other companies.

If the investor had chosen to spend these dividends when received, with a cash value of €3.05/share (totalling €16,648 excluding inflation), the total gain (including cash dividends) would have been 35,376%. The shares would be worth €338,108, as before.

If reinvested fully on the day of payment, Table 1, the dividends would have generated an accumulated value of €5.21 per share compared to the cash amount of €3.05 per share. The reinvested dividends gave a further 460 shares. The value of all the shares would have been €366,579. The TSR on Eurofins to October 21 2022 was 36,558%, equivalent to a CAGR of 26.6%.

If the €1,000 investor had also been able to take up their full rights in subsequent Eurofins equity issues and in financings in proportion to their shareholding, they would now hold an investment worth around €6.7m. However, the total cash invested would have risen to €763,000. This is still a more than 800% cash-on-cash return.[3]

Had the investor instead bought €2,728 of Eurofins shares on October 24 1997, held them for 25 years and reinvested the dividends, the investment would have been worth just over €1,000,000.

This is a remarkable investment return over a 25-year period.

Index comparisons

If the investor had also invested €1,000 in the French CAC 40 index over the same 25-year period, the value would be €2,200. The return, excluding dividends, would have been 120%.

If the investor had instead invested in the better-performing Nasdaq composite index over the same 25 years, the US-dollar equivalent investment (then $1,116) would have grown by 562% to $7,390 (€7,493 at the October 21 2022 exchange rate).

[3] This is only, in effect, applicable to an institutional investor like a fund.

Analyst hire Research to support deals and funding

Table 1: Investor returns on €1,000

	Notes	1997	2022	2022	
		At IPO	Absolute	With Dividends	
				Cash	Reinvested
Shares	Bought at IPO 1997	5,467	5,467	5,467	5,467
New shares gained	Dividend reinvestment				460
Total shares	Held in October 2022	5,467	5,467	5,467	5,928
Cash Dividends	Not reinvested			€ 16,648	
Reinvested dividends	Value October 2022				€ 28,470
Total value	October 2022	€ 1,000	€ 338,108	€ 354,757	€ 366,579
Return			33,711%	35,376%	36,558%
CAGR			26.23%	26.47%	26.64%

Source: Analyst Hire based on market data from October 24 1997 to October 21 2022

Comparative peer performance

Eurofins is considered by many investors to be part of a sub-sector of testing, inspection and certification companies called "TICs". This group includes Eurofins, Intertek (UK), Bureau Veritas (France) and SGS Group (Switzerland). Table 2 summarises this comparison.

Out of this TIC group, only SGS shares were quoted in 1997. An investor buying SGS shares in October 1997 would have made a 591% TSR, equal to an 8% CAGR after 25 years.

Laboratory Corporation of America (LabCorp) is a peer comparator to Eurofins in the clinical diagnostics area. LabCorp has been listed since 1990. LabCorp's 25-year TSR since October 1997 was 3,225%, a 15% CAGR. This is significantly less than that of Eurofins.

Table 2: Total peer returns since 1997

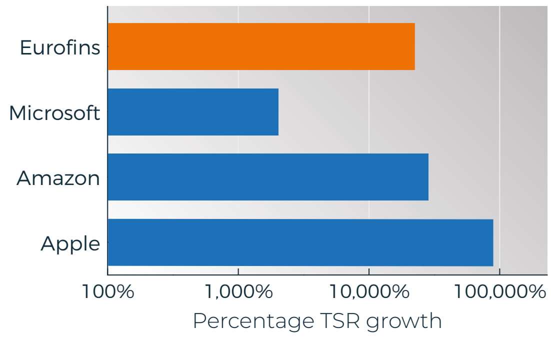
	Total Retun	CAGR
Eurofins	36,558%	27%
LabCorp	3,225%	15%
SGS Group	591%	8%

Source: Analyst Hire based on market data from October 24 1997 – October 21 2022

Broader company comparisons

While Eurofins may not be as well known to the public as consumer-oriented US technology giants such as Apple, Amazon and Microsoft, Eurofins has broadly achieved a comparable total return. Chart 4 compares Eurofins to these high performing technology companies in terms of percentage TSR growth over the last 25 years. These major stocks are relevant since they had stock market quotations in October 1997 and have survived and thrived like Eurofins. Many other companies listed at that time have been acquired or vanished.

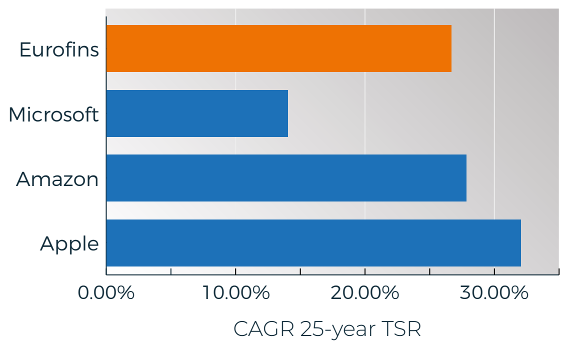
Chart 4: Percentage TSR growth



Source: Analyst Hire based on market data from October 24 1997 – October 21 2022

Chart 5 looks at the CAGR of these four stocks over 25 years based on their total shareholder returns.

Chart 5: CAGR TSR growth



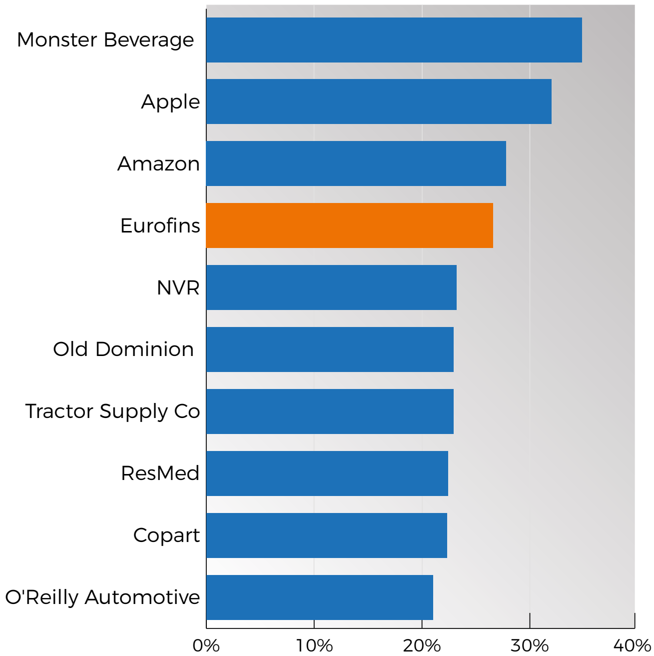
Source: Analyst Hire based on market data from October 24 1997 – October 21 2022

Eurofins' total shareholder return has grown by a CAGR of nearly 27% over 25 years. This compares with returns of 32% for Apple, 28% for Amazon, and 14% for Microsoft. Microsoft, Apple and Eurofins paid dividends for part of the period.

Top ranked growth

Analyst Hire has compared Eurofins' total shareholder return with the best performing companies listed on major Western (US and major European) stock exchanges over the same period, shown in Chart 6.[5]

Chart 6: Top global companies TSR CAGR



Source: Analyst Hire based on market data from October 24 1997 – October 21 2022

In terms of the overall ranking of companies by total shareholder return, there are only three companies that have achieved higher returns: Monster Beverage Corporation[6], Apple and Amazon. Neither Monster Beverage nor Amazon pay dividends.

Eurofins' stock price performance over the last 25 years ranks it in fourth place among those extant companies that had listings on October 24 1997.

Share price comparisons across different stock markets over long durations are challenging to run on a consistent basis so we have attempted to make a fair comparison by excluding cases where a very high return might have been achieved through financial engineering.[7]

Amongst European companies[8] over this period, Eurofins is top ranked. The number 2 ranked would have been the renewable energy company Albioma with a 25-year share price gain of 5,400%, equivalent to a CAGR of about 18%.[9]

We also found that Eurofins ranks among the top 30 companies in terms of share price CAGR out of a larger selection of about 15,000 companies listed on the stock exchanges of major OECD countries. This represents a recognition by the stock markets of Eurofins' long-term value creation.

We also looked at returns from the best performing biopharma stocks. These carry high levels of risk and capital intensity but are potentially high reward investments. The standout performers included Gilead Sciences and Novo Nordisk which both achieved similar 18.4% CAGR TSRs over the last 25 years.

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[5] We excluded volatile smaller stocks on exchanges with limited liquidity as we were interested in comparing Eurofins to major companies with significant revenue and growth. We have not included Chinese stocks as there are issues that make solid comparisons difficult. Some major Chinese stocks, like Alibaba, have not performed well in any case; its CAGR since the 2014 New York listing is about 0.5%.

[6] There are some aspects of Monster Beverage's history that make a comparison difficult. Monster Beverage had, prior to 1993, been in bankruptcy protection. It was trading in 1997 but its share price was very depressed as sales were low. New products later boosted sales and gave a subsequent high growth performance.

[7] For example, by a reverse takeover of a shell company or SPAC (special purpose acquisition company). These have typically ceased any business activities and may have emerged from bankruptcy protection so the reference price would be extremely low, thus seemingly generating a high return over time.

[8] That is, amongst those having a primary listing on a major European exchange.

[9] Albioma has been acquired by the private equity investor Kohlberg Kravis Roberts and the shares were de-listed on October 13 2022. Even though the listed period is just less than the time span of this analysis, we note Albioma's history for comparison with the 2007 report.

Growth of Eurofins

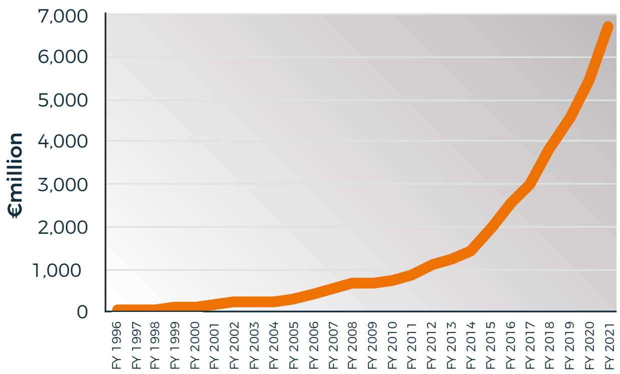
Eurofins is a very decentralised, entrepreneurial business because the life science business is inherently diverse with multiple opportunities: commercial, scientific and technical. The decentralised approach, delegating to Business Unit managers with lean centralised services and access to investment, has enabled solid growth.

This section briefly looks at the steady increase in revenues and operational earnings, discusses the business model underpinning that growth and then looks at how increased scale over the last 13 years led to higher EBITDA margins. We then compare Eurofins' performance since 2009 with peer "TIC" group companies and show it has been much more successful.

Historic performance

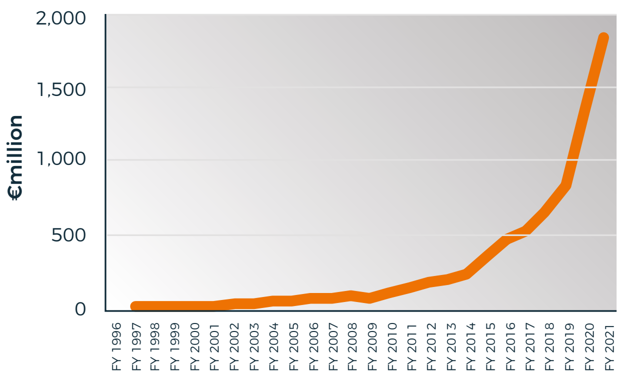
Eurofins has generated a massive 101,700% increase in revenue (to December 2021) since its IPO, Chart 7. Operational performance is reflected in EBITDA (earnings before interest, tax, depreciation and amortisation).[10] EBITDA margins increased from 14% in 2012 to 17% in 2019 and rose further due to COVID-19 testing reaching 27.4% in 2021. EBITDA is shown in Chart 8.

Chart 7: Revenue growth



Source: Analyst Hire based on Eurofins reports

Chart 8: EBITDA growth



Source: Analyst Hire based on Eurofins reports

Historically, growth was solid until the 2008 economic slowdown which resulted in low 2009 growth of 1.2% to €640m in revenue. Eurofins was already re-appraising its business model at that time. The methodical process of optimising testing into laboratories, called the "hub and spoke" model, was initiated to gain scale. This created higher test throughput in individual laboratories. A laboratory is, in effect, a fixed cost due to the facilities, equipment and staff required. Tests usually have low variable costs. Consequently, maximising volumes and revenues gives consistent coverage of fixed costs and so generates better economic returns.

Business Model

Fundamentally, Eurofins' success is built around its core focus on fast turnaround times (TAT): efficient delivery of results to clients through its 940 strong laboratory network and offering of over 200,000 test modalities. It is segmented by:

- four main businesses: pharma and agrosciences, food testing, environment testing and clinical diagnostics;
- differing types of test modalities (for example, chemical, clinical, genomic, and biological);
- varied methods from longstanding technologies to the latest, innovative developments;
- diverse geography (50+ countries and global down to local); and
- depending on the market, varying regulations and environmental priorities.

The Company benefits from society's growing need for testing due to demands for better health, cleaner environments, and safer pharmaceuticals, food and other products. These factors comprise an attractive market environment giving Eurofins multiple growth opportunities.

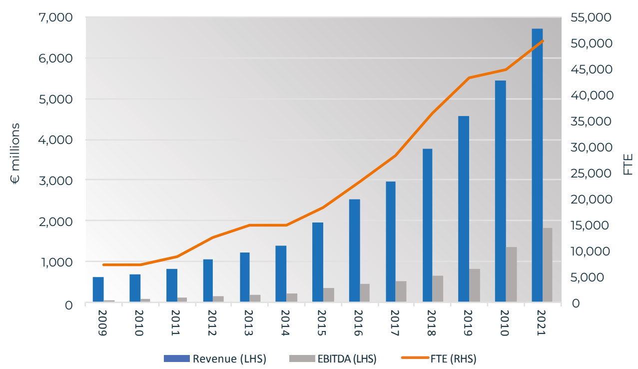
[10] Eurofins also reports adjusted EBITDA but we cite the standard investment definition as reported.

Efficiency gains from scale

Historically, 2009 (being 12 years from the IPO and 22 from Eurofins' foundation) should be when the business has passed through the initial growth phases (Griener, 1998).[11] In this period, 2010 is the year cited as when Eurofins started to implement its "hub and spoke" model. We were interested in how Eurofins' move to a more efficient business model affected its economic success.

Since 2009, Chart 9, Eurofins' employee levels (Full Time Equivalents (FTE)) have grown in line with core business revenues, but EBITDA has grown faster.

Chart 9: Revenues, EBITDA and FTE trends



Source: Analyst Hire based on Eurofins reports 2009-2021

2009-2019 – strong gains

The end year used for this analysis, 2019, is the last pre-pandemic year. This gives a comparable year-on-year set of results. We note that Eurofins made major acquisitions over this period, especially in the USA in 2017-2018. These moved North America from 30% of revenues in 2017 to 37% of revenues by 2019.

Chart 10 shows that between 2009 and 2019, EBITDA grew faster (27% CAGR) than revenues (20% CAGR) and that EBITDA per FTE grew much faster year-on-year (8%) than revenues per FTE (1.5%). Other factors could contribute to this, but the margin increase strongly indicates that optimising for scale using the hub and spoke business model works well in boosting efficiencies and controlling costs.

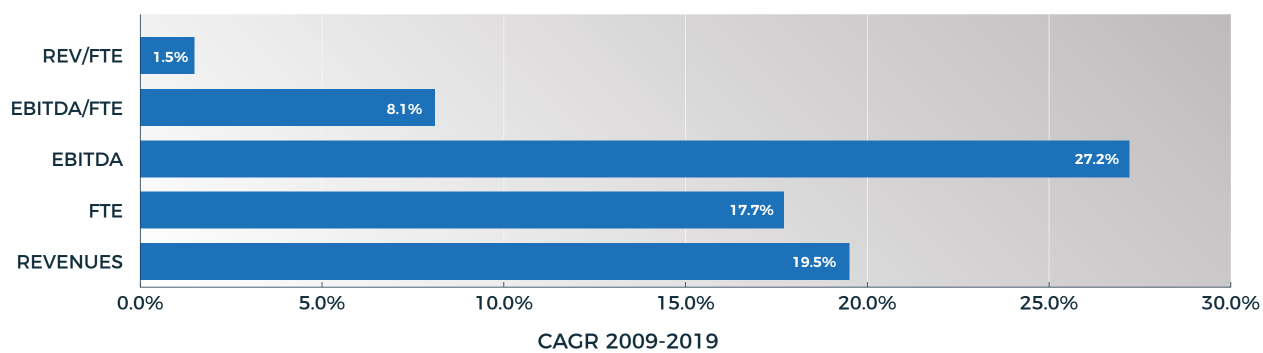
2009-2021 – COVID-19 scale

Eurofins reacted strongly and quickly to the global SARS-Cov-2 pandemic in 2020 and 2021 by running many, much needed and publicly beneficial, COVID-19 tests. There was also distortion from COVID-19 in 2020 and 2021 affecting the underlying testing core markets.

This shifted and altered the Company's activity profile and economic performance. As this period shows how Eurofins reacted effectively to the pandemic, we have also run the analysis as a longer 2009-2021 sequence.

Revenue, EBITDA and FTE growth rates (CAGR) were similar (19.8%, 30.3% and 16.1% respectively) over 2009-2021 versus the shorter 2009-2019 period, but EBITDA/FTE grew much faster at 12.2% CAGR compared to revenue growth of 3.2% CAGR. This probably reflects the better operating margins due to the scale of COVID-19 testing at the end of the period. The analysis also shows how the decentralised Eurofins structure responded to this sudden pressure.

Chart 10: Eurofins productivity 2009-2019



Source: Analyst Hire based on Eurofins reports for financial years 2009-2021

[11] https://hbr.org/1998/05/evolution-and-revolution-as-organizations-grow

Eurofins' outperformance since 2009

As all TIC companies plus LabCorp had listings since 2009, we wondered how they had performed over a shorter period. This period starts at the low point of global stock markets during the 2008-09 financial crisis. Markets then entered a long bull market run. Also, Eurofins upgraded its facilities and started systematically optimising its operations from 2009 so this appears to be a strategic inflection point.

Table 3 shows that Eurofins significantly outpaced all the TICs and LabCorp from 2009 to 2022 on a total shareholder return basis.

Table 3: Peer performance since 2009

Company	Total return	CAGR
Eurofins	2,116%	26.5%
Intertek	260%	10.3%
Bureau Veritas	243%	9.9%
LabCorp	199%	8.8%
SGS	129%	6.6%

Source: Analyst Hire based on market data from October 24 2009 to October 21 2022

Conclusion

Eurofins has been a tremendous stock market success over 25 years. It has delivered a total return of 36,558% and CAGR of nearly 27%. In our view, the sophisticated hub and spoke network is key to the strong 8% CAGR rise in EBITDA/FTE between 2009 and 2019. Since its IPO, Eurofins delivered the fourth best global total return for investors and became the best European share investment over 25 years, as consistently shown by previous reports. Eurofins has also massively outperformed all its TIC comparison group and LabCorp over the last 13 years. This result is a testament to the talent and dedication of Eurofin teams to generate sustainable shareholder value.

Analyst Hire

Analyst Hire's two directors bring a deep experience of the biotech and pharmaceutical sectors, along with extensive experience with medical devices and diagnostics including diagnostic statistics. Analyst Hire takes the disparate, interwoven strands involved in building a life science, environmental or technology company and separates them out to build the business case for an investor and aid understanding.

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