# €10bn battle of the labs as Unilabs and Synlab mull 2020 sales

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Europe's largest lab groups could both sell in 2020, with Apax appointing Rothschild to explore a sale of Unilabs while Synlab's majority owner Cinven is also weighing up an exit. The sale values including debt could potentially reach €10bn combined.

Both processes are in the early stages and Apax has not yet committed to selling the asset, one source said. HBI has increased the likelihood of a sale in the next 12 months to 85% on its HBI Pipeline Tool. Bloomberg reports that the firm, which has held Unilabs under two different funds since 2007, is targeting a valuation of around €4bn, which is 13x projected 2020 EBITDA, HBI estimates.

Just days after news of Unilabs sale surfaced, Cinven was reported to be weighing a sale of Synlab for a higher valuation of €5.5bn, although it is likely to be a similar EBITDA multiple. The firm is reportedly speaking to potential advisors, indicating a mandate has not been given and the process is therefore at an earlier stage than Unilabs. Synlab is mainly based in Europe but also has substantial operations in Latin America (€70m 2018 sales, 3.5% of its total of €2bn), Africa and the GCC (both 0.3%). It's not clear if Synlab's minority shareholders, Novo and Ontario Teachers' Pension Plan (OTPP), will be exiting too.

HBI understands that Apax is 'not pushing back' on the reported valuation of its assets, which has also has labs in South America. When Apax IX bought the company from Apax France and Nordic Capital in 2016 it had €679m sales and was valued at a reported 12.5-13x EBITDA. Revenue rose to €805m in 2017 and €1,050m in 2018. Its 2018 EBITDA margin is 20% and it is active in both lab and imaging with revenue splits of around 80/20 between the two segments.

Diaverum, another large healthcare services asset exploring a sale, is reportedly targeting a valuation of just under 11x 2019 EBITDA.

Unilabs CEO Jos Lamers recently announced that he was stepping down to become a part-time executive chairman. Current COO Michiel Boehmer will retain his role and also become President. The company will continue without a CEO with Lamers responsible for long-term strategy and Boehmer responsible for day-to-day activities.

As both sales are in their early stages, there is little indication of interested parties but sources have touted listed strategic buyers like Australian and European group Sonic, and Quest or LabCorp, the two largest diagnostic players in the US as possibilities for Unilabs.

One advisory source says that the potential is endless. “It’s very open-ended at the moment but it’s a crazy market out there. We saw Life Healthcare acquire diagnostics through Alliance Medical in 2016, so they might even have a go.”

Quest, which has a market cap of $14.07bn, only has minor ongoing work in Europe running cervical cancer screening tests for the Irish national health administration. It divested its UK clinical trials business in 2016. LabCorp’s European revenues – around 12% of total 2018 – are also from clinical trials.

To compare the pairs’ leverage: Quest Diagnostics has a debt to equity ratio of 0.76 and a 2.6x EBITDA/debt coverage while LabCorp has a debt/equity ratio of 0.87 with 3x EBITDA debt coverage.

Could Synlab buy Unilabs before its own process launches? An advisory source tells HBI that it’s unlikely – remember that it did bid last time Unilabs was on the market – pointing to its “staggering” 8x EBITDA debt coverage in 2018. “Cinven is likely to have already spent the amount it set aside for Synlab’s acquisitions considering how active it has been in different countries and there’s likely to be little appetite for further acquisitions.”

But Synlab potentially coming to the market does leave room for one of the large PE firms to come in and consolidate the pair. It’s nearly double the size of Unilabs in terms of 2018 revenue at €1,998m and 1.7x size EBITDA at €355m. HBI sources say that it would take significant leverage to buy both companies but it’s not out of the question. Joint revenues of around €3.05bn in 2018 would make it one of Europe’s largest healthcare companies, slightly lower than Ramsay’s European assets at €3.4bn but a nudge above Fresenius Helios-owned Quironsalud at €3.02bn.

There are surprisingly few competition issues with this approach. A consolidated company would take less than 10% of the market in France and there is no overlap in Germany or Sweden.

Switzerland could be a problem: a joint company would take 17% of the market but would be 40% bigger than the next largest player, Sonic. This would also be a sticking point if Sonic came in as a buyer because that would take about half of the market. So could the Czech Republic, Portugal and Spain with 40%, 30% and 22% respectively. And within each, regional competition issues are more likely.

Apax Partners declined to comment while Unilabs and Cinven have yet to respond to requests.

**Our Analysis:** You wait for one big lab process and two come along at once, which is obviously not coincidental: neither selling party will want to risk missing out on finding the right buyer willing to pay the best price, even if the list of potential buyers is a long one. Both are clearly testing the waters for now, and we’d expect them to fully explore every possible option, be it another round of PE, sale to a strategic or an IPO. We doubt there is an appetite from a single buyer for both, considering it would be such a massive bet whose success would largely depend on how a merger goes. Such an eventuality would be the largest healthcare service deal seen in Europe, ever, since Helios bought Quironsalud for nearly €6bn in 2016.

**We would welcome your thoughts on this story. Email your views to Rachel Lewis or call 0207 183 3779.**