



QUARTERLY REPORT

Q3/9M 2023

AS OF 30 SEPTEMBER 2023
SYNLAB AG



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Key Figures

CONDENSED P&L

In M€, unless stated otherwise

9M = from 1 Jan to 30 Sep

	9M 2023	9M 2022	Change
Revenue	1,989.9	2,549.3	(21.9)%
Adjusted EBITDA (AEBITDA)	328.3	663.0	(50.5)%
<i>As % of revenue</i>	16.5%	26.0%	(9.5)ppt
Adjusted operating profit (AOP)	149.4	486.7	(69.3)%
<i>As % of revenue</i>	7.5%	19.1%	(11.6)ppt
Operating profit	97.0	265.3	(63.4)%
Financial result	(66.8)	(11.6)	(473.7)%
Income tax expenses	(42.7)	(129.8)	(67.1)%
Adjusted net profit	36.2	332.4	(89.1)%
Net profit (Group share)	169.5	190.9	(11.5)%

CONDENSED CASH FLOW

In M€

9M = from 1 Jan to 30 Sep

	9M 2023	9M 2022	Change
Operating cash flow	222.4	549.1	(59.5)%
Unlevered free cash flow	5.0	339.1	(98.5)%

NET DEBT AND LEVERAGE

In M€, unless stated otherwise

	30 Sep 2023	31 Dec 2022	Change
Net debt	1,339	1,575	(236)
Adjusted net debt	1,314	1,645	(331)
Leverage ratio	2.93x	2.07x	0.86x

Business performance of SYNLAB Group

PREAMBLE

This quarterly statement should be read in conjunction with the Annual Report 2022 and the Half-Year Financial Report 2023.

ABOUT SYNLAB

SYNLAB Group („the Group“, or „SYNLAB“), with headquarters in Munich, Germany, is the leader in medical diagnostic services and specialty testing in Europe. SYNLAB offers a full range of innovative and reliable medical diagnostics for patients, practicing doctors, hospitals, clinics, governments and corporations. Providing a high level of service within the industry, SYNLAB is a partner of choice for diagnostics in human medicine. The Group continuously innovates medical diagnostic services for the benefit of patients and customers.

SYNLAB operates in 33 countries across four continents and holds leading positions in most markets. As of September 30, 2023, over 27,000 employees contribute to the Group's global success. SYNLAB carried out around 600 million laboratory tests and achieved revenues of €3.25 billion in 2022.

KEY ACHIEVEMENTS IN Q3 2023

M&A activities and active portfolio management improve business development

Following the sale of the business in Switzerland in July 2023, SYNLAB divested other margin-diluting or highly competitive businesses such as the operations in Poland and Ukraine or the veterinary diagnostics business in Belgium, Germany, and Spain. These actions were offset by ongoing M&A activities to increase network density and the resulting exploitation of synergies. SYNLAB completed seven acquisitions in the first nine months of 2023 with a cumulative Enterprise Value (EV) of 75 M€, including three in Germany, two in Belgium (North & East segment) and two in Italy (South segment).

Excluding the divested businesses (Switzerland, Ukraine, Poland and Veterinary), the AEBITDA margin is 16.9%, compared to a reported AEBITDA margin of 16.5% in 9M 2023.

Operational excellence

Through the multi-year SALIX efficiency program, SYNLAB achieved total savings of 9 M€ in Q3 2023 (in the first nine months of 2023: 30 M€). In addition, portfolio management activities are being rolled out across all markets, with a particular focus on end-to-end optimization in production, inventory management and logistics. Liquidity remains a focus in all areas. The go live of two central laboratories, one in Munich and one in Mexico City, should also be highlighted.

ESG

SYNLAB has implemented a Group-wide ESG and human rights due diligence process for the entire value chain to fulfill its obligations in accordance with the German Supply Chain Due Diligence Act.

As part of its corporate social responsibility and community investment, SYNLAB Foundation gGmbH is supporting a project by Global Healthcare Projects on colorectal cancer awareness and testing campaign in Black and African Caribbean communities in Portugal.

In addition, for high-quality healthcare, a first RNA blood test for bipolar disorder was added to the test portfolio in Italy, and roll-out in other countries is planned.

FINANCIAL PERFORMANCE

Revenue and growth

SYNLAB generated revenues of 617 M€ in Q3 2023 (Q3 2022: 698 M€) with solid underlying organic growth (growth excluding revenue contributions from COVID-19 testing) of 5.1%.

Nine-month 2023 revenues are 1,990 M€ (9M 2022: 2,550 M€) and underlying organic growth is a solid 6.9%.

Revenues from COVID-19 testing declined particularly sharply, amounting to 4 M€ in Q3 2023 (Q3 2022: 102 M€) and 36 M€ in the nine-month period of 2023 (9M 2022: 679 M€). The prior-year comparison period was impacted by the Omicron wave, which led to peaks in COVID-19 testing at that time.

The impact of foreign exchange on revenues was (0.4)% in 9M 2023, mainly due to weakness in GBP and various emerging market currencies, while M&A activity made a positive contribution of 1.6% on a pro forma basis.

Underlying organic growth accelerated to 6.9% in 9M 2023 compared to 9M 2022 (6.3% normalized for Synnovis). This was driven by robust volume growth of 5.4% and price growth of 1.5% across the Group's portfolio. Underlying growth in Q3 2023 was 5.1% with strong volume growth of 3.5% and price growth of 1.6%. Synnovis, the South East London hospital outsourcing contract, grew 14.3% in Q3 2023 and contributed 1.9 percentage points to the overall underlying growth in Q3 2023.

REVENUE AND GROWTH BY SEGMENT

In M€, unless stated otherwise	Quarterly view				9M view			
	Q3 2023	Q3 2022	Underlying organic growth	Organic growth	9M 2023	9M 2022	Underlying organic growth	Organic growth
France	120.6	145.5	(3.1)%	(17.2)%	393.3	527.9	(0.3)%	(25.9)%
Germany	134.1	150.6	13.0%	(19.9)%	401.7	556.6	9.3%	(33.1)%
South	173.9	207.3	(1.0)%	(8.1)%	617.3	745.4	4.5%	(13.4)%
North & East	188.5	194.5	12.5%	0.2%	577.6	719.4	13.2%	(17.3)%
SYNLAB Group	617.2	697.9	5.1%	(10.3)%	1,989.9	2,549.3	6.9%	(21.7)%

France recorded negative underlying organic growth of (3.1)% (quarterly view) and (0.3)% (nine-month view), with volume growth of 1.4% and 3.3% cushioning the price decline of (4.5)% and (3.6)%, respectively.

Germany achieved strong underlying organic growth of 13.0% and 9.3%, respectively. Robust volume increases of 13.4% and 9.4% were offset by slight price declines of (0.3)% and (0.1)%, respectively.

In the **South** segment, negative underlying organic growth in Q3 2023 was (1.0)% despite a 2.0% price increase. A (3.0)% decline in volumes had an offsetting effect. In the nine-month view, underlying organic growth of 4.5% was achieved (price increase of 1.6% and volume growth of 2.9%).

The strong underlying organic growth in the **North & East** segment of 12.5% and 13.2% respectively was based on higher volumes (5.7% and 6.8%) and higher prices due to price fixing (up 6.9% and 6.4%).

AEBITDA and AOP

Adjusted¹ EBITDA (AEBITDA) was 328 M€ in 9M 2023 (9M 2022: 663 M€), while adjusted² operating profit (AOP) was 149 M€ (9M 2022: 487 M€), with margins of 16.5% (9M 2022: 26.0%) and 7.5% (9M 2022: 19.1%), respectively. The AEBITDA margin remained within the FY 2023 margin guidance of 16-18% and was in line with the seasonality of the SYNLAB business, which typically has a weaker third quarter with lower sales compared to the other quarters.

AEBITDA for Q3 2023 was 96 M€ (Q3 2022: 135 M€) and AOP was 35 M€ (Q3 2022: 76 M€) with margins of 15.6% (Q3 2022: 19.3%) and 5.7% (Q3 2022: 10.9%), respectively. The year-on-year decline in AEBITDA margin remains mainly due to the decrease in volumes and prices from the COVID-19 tests and the still strong inflationary environment (mainly higher fuel and energy prices and higher labour costs in some countries). However, the year-on-year AEBITDA margin differential narrowed with each quarter, reflecting normalization after the COVID-19 pandemic (Q1 2023 vs. Q1 2022: (16.7)pp; H1 2023 vs. H1 2022: (11.6)pp; 9M 2023 vs. 9M 2022: (9.5)pp).

These impacts continued to be partially offset by accelerated price increases, particularly in the North & East segment, and efficiency gains under the SALIX program, which delivered savings of 30 M€ in 9M 2023 (Q3 2023: 9 M€).

¹ mostly acquisition-related items

² mainly for amortization of customer lists, see Operating Profit

AOP by segment

AOP recorded a decline in both the quarterly and nine-month view. The development by segment is as follows:

AOP: SEGMENT VIEW

In M€, unless stated otherwise	Quarterly view				9M view			
	Q3 2023	Q3 2022	Margin Q3 2023	Margin Q3 2022	9M 2023	9M 2022	Margin 9M 2023	Margin 9M 2022
France	7.8	25.8	6.4%	17.7%	40.8	108.8	10.4%	20.6%
Germany	1.0	26.2	0.7%	17.4%	(4.9)	134.0	(1.2)%	24.1%
South	8.7	11.3	5.0%	5.5%	50.2	98.6	8.1%	13.2%
North & East	17.7	12.5	9.4%	6.4%	63.3	145.4	11.0%	20.2%
SYNLAB Group	35.1	75.8	5.7%	10.9%	149.4	486.7	7.5%	19.1%

Operating profit

In the first nine months of the fiscal year, a profit from operating activities of 97 M€ was generated (9M 2022: 265 M€), representing a year-on-year decline of 63%. The year-on-year increase in the negative financial result was offset by lower tax expense compared with the previous year.

Amortization of customer lists included in depreciation and amortization amounted to 40 M€ (9M 2022: 41 M€).

Adjusted net profit

After the first nine months of 2023, SYNLAB generated net income – adjusted mainly for the result from the disposal of investments in the amount of 183 M€ (9M 2022: 71 M€) – of 36 M€ (9M 2022: 332 M€), a decrease of 89%.

Net profit (Group share)

Net profit (Group share) amounts to 169 M€ after the first nine months of 2023 (9M 2022: 191 M€), a decrease of 11.4%.

Debt and leverage ratio

Unlevered free cash flow (uFCF) for 9M 2023 was 5 M€ (9M 2022: 339 M€). This was impacted by extraordinary capital expenditures related to the construction of the new Synnovis-branded laboratory, COVID-19-related tax payments in Germany from the previous year, and the general COVID-19-related normalization of working capital in connection with the successful profit generation in the previous year. The uFCF for Q3 2023 amounted to 17 M€ (Q3 2022: 95 M€) with a positive working capital development, normalized tax payments, but still significantly high net investments related to Synnovis.

Group net debt decreased by 236 M€ to 1,339 M€ at the end of September 2023 (year-end 2022: 1,575 M€). Adjusted net debt (as per covenant definition) was 1,314 M€ at the end of September 2023 (year-end 2022: 1,645 M€). The decrease was mainly due to proceeds from disposals of 346 M€.

The leverage ratio decreased from 3.40x at the end of the first half of 2023 to 2.93x at the end of September 2023 thanks to the reduction in adjusted net debt and despite lower AEBITDA in the last twelve months. Following the sale of the activities in Switzerland in July 2023, the Term Loan B of 220 M€ maturing in 2026 was fully repaid.

SYNLAB had 404 M€ in cash at the end of September 2023 (year-end 2022: 542 M€). The TLA debt of 100 M€ was subsequently repaid in early October 2023 following the sale of the veterinary business at the end of September 2023.

OPPORTUNITIES AND RISKS

The opportunities and risk situation of SYNLAB has not changed materially since the publication of the Company's 2023 Half-Year Financial Report in August 2023, available on its website.

The situation in Ukraine has not changed materially since August 2023. SYNLAB remains impacted by the inflationary pressure resulting from the crisis. The Group is notably experiencing the direct impact on energy prices and the indirect impact on salaries and other operating expenses (material expenses). This currently high inflationary environment and the increase in government bond yields, impacting the WACC, increases the probability of goodwill impairment, notably for the Germany CGU & South CGU. The ripple effects of the crisis are expected to continue into the fourth quarter of 2023. They were taken into account when elaborating the current forecast for 2023.

SYNLAB does not expect any material risks to its business activities arising from the Middle East conflict.

A detailed discussion of SYNLAB's opportunity and risk factors can be found in the *Forecast Report* and *Opportunity and Risk Report* of the Company's 2022 Annual Report, also available on its website.

Consolidated statement of income

from 1 January to 30 September 2023

In K€, unless stated otherwise	From 1 January to 30 September	
	2023	2022
Revenue	1,989,871	2,549,290
Material and related expenses	(466,677)	(600,730)
Payroll and related expenses	(841,065)	(881,351)
Other operating income	28,345	24,452
Other operating expenses	(394,322)	(435,755)
Depreciation and amortisation	(218,601)	(217,624)
Impairment of non-current assets	(570)	(173,026)
Operating profit	96,981	265,256
Share of result of associates and other non-controlling interest	(663)	(2,014)
Profit on disposal of investment	183,242	70,653
Finance income	46,092	79,746
Finance costs	(112,911)	(91,393)
Profit before taxes	212,741	322,248
Income tax expenses	(42,736)	(129,751)
Profit for the period	170,005	192,497
thereof: Result attributable to non-controlling interests	550	1,576
thereof: Result attributable to equity holders of the parent company	169,455	190,921
Earnings per share (basic and diluted, in €)	0.77	0.86

Consolidated statement of comprehensive income

from 1 January to 30 September 2023

In K€	From 1 January to 30 September	
	2023	2022
Net profit for the period	170,005	192,497
Actuarial gains / (losses) on pension obligations	(1,500)	10,187
Taxes on actuarial losses on pensions obligations	(70)	(2,324)
Items that will not be reclassified to profit or loss (A)	(1,570)	7,863
Foreign exchange gains / (losses)	(14,850)	43,326
Items that may be reclassified subsequently to profit or loss (B)	(14,850)	43,326
Other comprehensive income for the year (A) + (B)	(16,420)	51,189
Total consolidated comprehensive income	153,585	243,686
Equity holders of the parent company	152,907	242,016
Non-controlling interests	678	1,670

Consolidated statement of financial position

as at 30 September 2023

ASSETS

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	30 Sep 2023	31 Dec 2022
Goodwill	2,268,497	2,323,423
Intangible assets	611,157	733,238
Property, plant and equipment	356,787	311,506
Right-of-use assets	579,488	655,968
Investments in associates	1,471	1,281
Financial non-current assets	60,940	80,518
Other non-current assets	4,554	4,700
Deferred tax assets	52,622	47,916
Total non-current assets	3,935,516	4,158,550
Inventories	69,291	84,094
Trade accounts receivables	412,333	443,089
Financial current assets	64,716	47,299
Other current assets	103,722	106,398
Cash and cash equivalents	404,159	541,684
Total current assets	1,054,221	1,222,564
Total assets	4,989,737	5,381,114

EQUITY AND LIABILITIES

In K€

	30 Sep 2023	31 Dec 2022
EQUITY		
Contributed capital	222,222	222,222
Additional paid-in capital	2,864,909	2,932,618
Treasury shares	(35,352)	(35,730)
Cumulative translation adjustment	16,793	31,771
Accumulated deficit	(649,666)	(817,710)
Total parent company interests	2,418,906	2,333,171
Non-controlling interests	(1,536)	70
Total equity	2,417,370	2,333,241
NON-CURRENT LIABILITIES		
Loans and borrowings	1,099,122	1,411,000
Lease liabilities	492,624	557,773
Employee benefits liabilities	29,610	31,042
Provisions	3,860	3,562
Contract liabilities	9,756	9,510
Other liabilities	38,294	62,862
Deferred tax liabilities	170,733	189,375
Total non-current liabilities	1,843,999	2,265,124
CURRENT LIABILITIES		
Loans and borrowings	24,366	15,873
Lease liabilities	127,376	132,187
Trade accounts payable	274,895	313,693
Contract liabilities	11,421	10,515
Provisions	31,268	31,517
Income tax liabilities	35,138	56,836
Other liabilities	223,904	222,128
Total current liabilities	728,368	782,749
Total liabilities	2,572,367	3,047,873
Total equity and liabilities	4,989,737	5,381,114

Consolidated statement of changes in equity

from 1 January to 30 September 2023

In K€

	Contributed capital	Additional paid-in capital	Treasury shares	Cumulative translation adjustment	Accumulated deficit	Total parent company interests	Non-controlling interests	Total equity
Balance as at 1 January 2023	222,222	2,932,618	(35,730)	31,771	(817,710)	2,333,171	70	2,333,241
Net profit for the period	-	-	-	-	169,455	169,455	550	170,005
Other comprehensive income	-	-	-	(14,978)	(1,570)	(16,548)	128	(16,420)
Total comprehensive income for the period	-	-	-	(14,978)	167,885	152,907	678	153,585
Transactions with owners, recorded directly in equity								
Acquisition of non-controlling interests	-	-	-	-	159	159	(537)	(378)
Credit to equity for equity-settled share-based payments	-	4,970	-	-	-	4,970	-	4,970
Issue of treasury shares in connection with share-based payments	-	(176)	378	-	-	202	-	202
Dividends	-	(72,503)	-	-	-	(72,503)	(1,747)	(74,250)
Balance as at 30 September 2023	222,222	2,864,909	(35,352)	16,793	(649,666)	2,418,906	(1,536)	2,417,370

In K€

	Contributed capital	Additional paid-in capital	Treasury shares	Cumulative translation adjustment	Accumulated deficit	Total parent company interests	Non-controlling interests	Total equity
Balance as at 1 January 2022	222,222	3,788,983	-	15,210	(1,769,537)	2,256,878	(1,179)	2,255,699
Net profit for the period	-	-	-	-	190,921	190,921	1,576	192,497
Other comprehensive income	-	-	-	43,232	7,863	51,095	94	51,189
Total comprehensive income for the period	-	-	-	43,232	198,784	242,016	1,670	243,686
Transactions with owners, recorded directly in equity								
Purchase of treasury shares	-	-	(14,570)	-	-	(14,570)	-	(14,570)
Change of scope	-	-	-	-	-	-	900	900
Acquisition of non-controlling interests	-	-	-	-	271	271	269	540
Credit to equity for equity-settled share-based payments	-	2,405	-	-	-	2,405	-	2,405
Dividends	-	(73,327)	-	-	-	(73,327)	(789)	(74,116)
Balance as at 30 September 2022	222,222	3,718,061	-	58,442	(1,570,482)	2,413,673	871	2,414,544

Consolidated statement of cash flows

from 1 January to 30 September 2023

In K€	9M 2023	9M 2022
Operating profit	96,981	265,256
Depreciation, amortisation, impairment	218,941	390,579
Change in provisions	756	593
Loss (income) from the disposal of non-current assets	(248)	2,066
Other non-cash revenues and expenses	6,254	22,358
Change in inventories	11,413	20,710
Change in trade accounts receivable	18,854	138,844
Change in trade accounts payable	(32,323)	(96,221)
Change in other net working capital	(34,556)	(44,219)
Income tax paid	(63,700)	(150,847)
Cash flow from operating activities (A)	222,372	549,119
Acquisition of subsidiaries, net of cash acquired	(65,450)	(91,759)
Purchase of intangibles and property, plant and equipment	(97,654)	(91,056)
Sale of subsidiaries, net of cash disposed and changes in debt	346,529	83,790
Proceeds from sale of intangibles and property, plant and equipment	918	296
Cash paid for other non-current assets	(1)	(299)
Cash received from other non-current assets	5	-
Interest received	5,232	1,896
Dividends received	30	167
Cash flow used in investing activities (B)	189,609	(96,965)
Acquisition of treasury shares	-	(14,570)
Cash received from the exercise of share options	203	-
Interest paid	(51,385)	(47,143)
New loans, borrowings and other financial liabilities	40,680	690
Repayment of loans, borrowings and other financial liabilities	(361,154)	(554)
Repayment of lease liabilities	(102,568)	(105,321)
Contribution from non-controlling interests	-	900
Dividends paid and other payments to non-controlling interests	(75,846)	(76,918)
Cash flow used in financing activities (C)	(550,070)	(242,916)
Total cash flows (A+B+C)	(138,089)	209,238
Cash and cash equivalent at the beginning of the period	541,590	443,525
Net foreign exchange differences	449	7,108
Cash and cash equivalents at the end of the period	403,950	659,871

Published on 8 November 2023

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