MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns B2 rating to Synlab's proposed notes

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London, 03 November 2016 -- Moody's Investors Service assigned a B2 rating to the proposed EUR940 million senior secured notes to be issued by Synlab Bondco PLC, a wholly-owned subsidiary of Synlab Unsecured Bondco PLC (Synlab), Europe's largest clinical laboratory services provider.

Today's rating assignment reflects the following inter-related drivers:

-- Moody's estimates that Synlab's leverage will increase pro forma for the proposed senior secured notes, but will remain within the B2 CFR rating category

-- Moody's expects that Synlab will generate some interest savings on lower interest cost and enhance its scale as a result of upcoming acquisitions

All other ratings remain unchanged, namely: the B2 corporate family rating (CFR); the B2-PD probability of default rating; the B2 rating of the EUR900 million senior secured fixed rate notes due 2022 and the B2 rating of the EUR775 million senior secured floating rate notes due 2022 (to be repaid at issuance of the proposed EUR940 million notes), both issued by Synlab Bondco PLC; and the Caa1 rating of the EUR375 million senior unsecured notes due 2023, issued by Synlab Unsecured Bondco PLC. The outlook on all ratings is stable.

RATINGS RATIONALE

On 3 November 2016, Synlab proposed to issue EUR940 million senior secured notes and use the proceeds to repay the EUR775 million floating rate senior secured notes due 2022; repay the EUR61 million drawn under its EUR250 million super senior secured revolving credit facility (RCF, unrated) due 2021; finance transaction fees and redemption premiums (EUR20 million in total); and use the remaining proceeds of EUR84 million for general corporate purposes and acquisitions.

Moody's estimates that Synlab's leverage, as measured by Moody's-adjusted debt/EBITDA, will increase to 6.5x pro forma for the proposed senior secured notes from 6.2x as of 30 June 2016 (pro forma for estimated drawings on the revolving credit facility after 30 June 2016). Despite this increased leverage, Moody's expects that the additional debt will be offset by an acceleration in the pace of Synlab's acquisitions. This will further enhance the company's economies of scale and improve its diversification across various regulatory regimes in Europe, key competitive advantages in the fast consolidating clinical laboratory testing services industry. In addition, Moody's expects that Synlab will generate some interest savings as a result of the refinancing.

Both Labco S.A. and synlab Holding GmbH, two groups that Cinven combined on 1 October 2015, have a good track record of achieving synergies from their numerous bolt-on acquisitions. Synergies stem from the rationalisation of back-office functions of acquired laboratories as well as lower costs driven by economies of scale in processing, logistics and procurement. Therefore the execution risk of future bolt-on acquisitions is relatively low.

Moody's expects that Synlab's liquidity will remain adequate pro forma for the proposed senior secured notes, supported by long-dated debt maturities, expected positive free cash flows of around EUR55 million in 2017, and an undrawn sizable EUR250 million RCF. Synlab has one net leverage covenant on the RCF that acts only as a draw-stop and tested only when the RCF is drawn by at least 35%. Moody's estimates that Synlab would have good headroom if this covenant were tested.

The B2 rating of the proposed senior secured notes and the B2 ratings of the outstanding senior secured notes are in line with the B2 CFR. The B2-PD probability of default rating (PDR) is in line with the B2 CFR reflecting Moody's 50% corporate family recovery rate. The Caa1 rating of the senior unsecured notes reflects their subordination to the senior secured notes and to the super senior secured RCF (unrated).

RATIONALE FOR THE POSITIVE OUTLOOK

The stable outlook reflects Moody's expectation that Synlab's leverage, as measured by Moody's-adjusted debt/EBITDA, will trend slowly below 6.0x in the next 12 months.

WHAT COULD CHANGE THE RATING UP/DOWN

Positive rating pressure could develop if:

- Synlab's leverage, as measured by Moody's-adjusted debt/EBITDA, were to improve sustainably below 5.5x; and

- The company were to continue to generate positive free cash flow and improve profitability

Negative rating pressure could develop if:

- Synlab's leverage, as measured by Moody's-adjusted debt/EBITDA, were to go above 6.5x for a prolonged period;

- Its liquidity profile were to weaken; or

- Its profitability were to significantly deteriorate due to competitive or pricing pressures

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Business and Consumer Service Industry published in October 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Synlab Unsecured Bondco PLC (Synlab), headquartered in Munich, Germany, is Europe's largest clinical laboratory services provider with revenue of EUR1.52 billion as of 30 June 2016. It operates a pan-European network of over 400 laboratories in 24 countries and employs approximately 12,900 people. Synlab is majority-owned by private-equity funds managed and advised by Cinven.

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