

The logo for SGS, consisting of the letters 'SGS' in a bold, white, sans-serif font. A thin horizontal line is positioned below the letters, and a thin vertical line is positioned to the right of the letters, intersecting the horizontal line.An abstract digital globe or sphere composed of glowing orange and blue lines and dots, set against a dark background. The lines radiate from a central bright point, creating a sense of depth and connectivity. The dots are arranged in a grid-like pattern, suggesting a digital or data-driven environment.

2021 Full Year Alternative Performance Measures

Appendix to the 2021 Full Year Results

For the period ended 31 December 2021

The following document presents and defines the Group's alternative performance measures (APMs), not defined by IFRS which are used to evaluate financial and operational performance. Where relevant, a reconciliation to the information included in our IFRS consolidated financial statements is presented. Management deems these performance measures as a useful source of information when taking strategic decisions and managing the operations. These APMs are disclosed in the annual report, the half year report and other external communications to investors, as well as available under:

www.sgs.com/en/our-company/investor-relations/reports-and-presentations

Constant currency (CCY)

Prior period comparatives are presented at historical and constant currency, in order to assess the period over period evolution of financial indicators without the currency impact. SGS applies current period average exchange rates to prior period numbers, to present comparable figures.

Organic revenue growth (Organic)

Organic revenue growth is used by management to evaluate the evolution of existing operations, excluding the impact of business acquisitions, divestments and currency fluctuations. This provides a 'like-for-like' comparison with the previous period in constant scope and constant currency, enabling deeper understanding of the business dynamics which contributed to the evolution of revenue and adjusted operating income from one period to another.

For the purpose of calculating the organic revenue: the results from acquisitions are excluded for the 12 months following the date of a business combination, while results generated by a divested unit are excluded for the 12 months prior to the divestiture; the effect of changes in foreign exchange rates is calculated as the current year revenue converted at the current year's average exchange rates, less the prior period revenue converted at the current year's exchange rates; organic revenue is then divided by the prior period revenue at constant currency in order to derive the percentage growth.

A numerical reconciliation of this APM is included below:

(CHF million)

Revenue December 2020	5 604	
Currency impact	3	
Revenue December 2020 CCY¹	5 607	
Growth in value and in % at CCY¹		
Organic	498	8.9%
Acquisitions	302	5.3%
Disposals	(2)	0.0%
Revenue December 2021	6 405	14.2%

1. Constant currency (CCY).

Adjusted operating income (AOI)

The adjusted operating income that is disclosed in our financial highlights and our segment disclosures in Note 4 of our condensed consolidated financial statements is provided to assess the underlying financial and operational performance of the Group by business line excluding the influence of items not directly attributable to operational performance. Adjusted operating income represents the income from operations excluding:

- Amortization and impairment expenses on intangibles arising as a result of acquisitions
- Impairment expenses on goodwill
- Restructuring costs including impairment charges arising from the execution of restructuring plans
- Gains and losses from sale of businesses
- Acquisition and divestment-related expenses including integration costs
- Other non-recurring items which may include non-operational items such as certain regulatory, compliance and legal costs and certain asset write-downs/impairments.

(CHF million)	December 2021	December 2020
Operating income	977	795
Amortization and impairment of acquired intangibles	39	31
Restructuring costs	15	84
Goodwill impairment	–	37
Gain on business disposals	–	(63)
Transaction and integration costs	24	16
Adjusted operating income	1 055	900

Adjusted operating income margin (AOI margin)

The adjusted operating income margin is the adjusted operating income as a percentage of revenue.

(CHF million)	December 2021	December 2020	December 2020 CCY
Adjusted operating income	1 055	900	903
Revenue	6 405	5 604	5 607
Adjusted operating income margin	16.5%	16.1%	16.1%

Earnings before interest, tax, depreciation and amortization (EBITDA)

EBITDA is an important performance measure as it depicts the underlying performance of the Group before tax and excluding non-cash charges of depreciation and amortization. It is a measure commonly used by the investment community.

EBITDA is defined as operating income before depreciation, amortization and impairment.

(CHF million)	December 2021	December 2020	December 2020 CCY
Operating income	977	795	799
Depreciation, amortization and impairment	499	517	519
EBITDA	1 476	1 312	1 318

Adjusted earnings before interest, tax, depreciation and amortization (adjusted EBITDA)

Adjusted EBITDA is the EBITDA adjusted for non-recurring items and those adjustments made for adjusted operating income as defined above.

(CHF million)	December 2021	December 2020	December 2020 CCY ¹
Operating income	977	795	799
Depreciation, amortization and impairment	499	517	519
EBITDA	1 476	1 312	1 318
Restructuring costs ¹	15	59	59
Gain on business disposals	–	(63)	(63)
Transaction and integration costs	24	16	15
Adjusted EBITDA	1 515	1 324	1 329

1. Restructuring costs excluding impairment of fixed and intangible assets.

Adjusted profit attributable to shareholders

Adjusted profit attributable to equity holders of SGS SA is the profit attributable to equity holders excluding:

- Amortization and impairment expenses on intangibles arising as a result of acquisitions
- Impairment expenses on goodwill
- Restructuring costs which consist of restructuring costs including impairment charges arising from the implementation of restructuring plans
- Gains and losses from sale of businesses
- Acquisition and divestment-related expenses including integration costs
- Other non-recurring items may include non-operational items such as certain regulatory, compliance and legal costs, certain asset write-downs/impairments
- The tax effect of all the elements mentioned above
- The non-controlling interests' effect of all the elements mentioned above except for the impairment of goodwill

(CHF million)	December 2021	December 2020
Profit attributable to equity holder of SGS SA	613	480
Amortization and impairment of acquired intangibles	39	31
Restructuring costs	15	84
Goodwill impairment	–	37
Gain on business disposals	–	(63)
Transaction and integration costs	24	16
Tax impact	(17)	(4)
Portion attributable to non-controlling interests	(4)	(16)
Adjusted profit attributable to equity holders of SGS SA	670	565

Adjusted basic earnings per share (adjusted basic EPS)

While basic EPS reflects the earnings from operations for each share of SGS SA, adjusted basic EPS is the 'adjusted profit attributable to equity holders' (see above) divided by the average number of shares outstanding during the reporting period.

(CHF million)	December 2021	December 2020
Adjusted profit attributable to equity holders of SGS SA	670	565
Weighted average number of shares ('000)	7 488	7 489
Adjusted basic earnings per share (CHF)	89.46	75.44

Adjusted diluted earnings per share (adjusted diluted EPS)

While basic EPS reflects the earnings from operations for each share of SGS SA, adjusted diluted EPS is the 'adjusted profit attributable to equity holders' (see above) divided by the diluted weighted average number of shares outstanding during the reporting period.

(CHF million)	December 2021	December 2020
Adjusted profit attributable to equity holders of SGS SA	670	565
Weighted average number of shares ('000)	7 488	7 489
Number of dilutive shares ('000)	12	27
Adjusted dilutive earnings per share (CHF)	89.32	75.17

Free cash flow (FCF)

The free cash flow is deemed an important measure by management as it shows the ability to generate cash after the investment in assets necessary to support the existing operating activities. SGS defines the free cash flow as cash from operating activities net of capital expenditure. It is calculated as follows based on amounts disclosed in the consolidated statements of cash flow.

(CHF million)	December 2021	December 2020
Cash flow from operating activities	1 169	1 186
Purchase of property, plant and equipment and Other intangible assets	(336)	(259)
Disposal of property, plant and equipment and Other intangible assets	5	13
Operating lease outflows	(203)	(182)
Free cash flow	635	758

Operating net working capital (ONWC) as a percentage of revenues

Operating net working capital is one of the performance measures used by senior management and analyzed internally by each division. It excludes tax-related assets and liabilities as well as restructuring and group provisions.

ONWC is calculated based on the end of period balance sheet positions and is divided by revenue for the last 12 months preceding the reporting date.

The ratio is compared to prior period at historical currency.

(CHF million)	December 2021	December 2020
Revenue for the last 12 months	6 405	5 604
Operating net working capital	(154)	(138)
Assets (ONWC):	1 246	1 148
Inventories	59	57
Unbilled revenues and work in progress	175	160
Trade receivables	928	856
Other operating receivables	84	75
Liabilities (ONWC):	1 400	1 286
Trade payables	368	322
Contract liabilities	221	189
Other creditors and accruals	595	551
Other operating payables	216	224
Operating net working capital in % of revenue	(2.4%)	(2.5%)

Return on invested capital (ROIC)

Return on invested capital is a measure of performance that combines profitability and capital efficiency. Management is closely following this KPI in order to evaluate capital allocation.

$$\text{ROIC} = \frac{\text{Profit for the last 12 months}}{(\text{Non-current assets excluding right-of-use assets} + \text{net working capital}) \text{ as at end of period}}$$

The return on invested capital is calculated as follows, and amounts can be reconciled to the consolidated statements of financial position as well as the consolidated income statements:

(CHF million)	December 2021	December 2020	SYNLAB Analytics & Services (A&S)	December 2020 excl. A&S acquisition
Profit for the last 12 months	655	505		505
Non-current assets	3 448	3 205	627	2 578
Non-current assets	4 053	3 795	659	3 136
Right-of-use assets	(605)	(590)	(32)	(558)
Net working capital	(100)	(153)	6	(159)
Assets	1 463	1 330	54	1 276
Inventories	59	57	4	53
Unbilled revenues and work in progress	175	160	–	160
Trade receivables	928	856	31	825
Current tax assets	108	77	1	76
Other receivables and prepayments	204	188	18	170
Less derivative assets	(11)	(8)	–	(8)
Liabilities	1 563	1 483	48	1 435
Trade payables	368	322	36	286
Other payables	319	336	–	336
Provisions	60	85	–	85
Contract liabilities	221	189	3	186
Other creditors and accruals	595	551	9	542
ROIC	19.6%	16.5%		20.9%

On 31 December 2020, the Group has made a significant acquisition, SYNLAB Analytics & Services, adding a total of CHF 627 million of non-current assets to its consolidated statements of financial position. As this acquisition did not have any impact on the Group's profit for the last 12 months, ROIC excluding SYNLAB Analytics & Services is also disclosed separately for December 2020.

Net debt

Net debt represents the net level of financial debt contracted by SGS with external parties excluding lease liabilities. Net debt is defined as cash and marketable securities less loans and other financial liabilities.

Amounts can be found in the condensed consolidated balance sheet and the computation is as follows:

(CHF million)	December 2021	December 2020
Cash and marketable securities	1 480	1 775
Marketable securities	–	9
Cash and cash equivalents	1 480	1 766
Loans and Other financial liabilities	3 171	3 253
Non-current loans and other financial liabilities	2 889	2 390
Current loans and other financial liabilities	282	863
Net debt	1 691	1 478

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