

When you need
to be sure



2023 full year results
Earnings release

SGS



Strong organic growth of 8.1% in 2023

Strategy 2027 to drive growth and profitability

Ad hoc announcement pursuant to article 53 LR
Geneva, 26 January 2024

2023 full year results

- **Sales** of CHF 6 622 million, supported by a strong organic¹ growth of 8.1% driven by all business lines. This included a double-digit increase in Business Assurance (prev. Knowledge) and high single-digit growth in Natural Resources and Industries & Environment.
- **Adjusted operating income¹** of CHF 971 million, representing an organic¹ growth of 6.3%. The adjusted operating income margin¹ on sales was 14.7%, representing a decline of 0.7 percentage points compared to prior year, of which 0.5 percentage points was attributable to adverse currency impact.
- **Cash flow from operating activities** of CHF 1 123 million, leading to **free cash flow¹** of CHF 604 million, up 25.6%. This was driven by lower net working capital requirements and capital expenditures.

“In 2023, SGS delivered superior organic growth and a significant increase in free cash flow, thanks to the breadth of its portfolio. All our business lines and regions contributed to this performance, with particularly strong growth in sustainability services, cybersecurity, ESG assurance and consulting. This represents a powerful platform to build on.

As we transition into an exciting new chapter for SGS, I want to assure Géraldine Picaud, our CEO Designate, of my full and unwavering support.”

Frankie Ng, Chief Executive Officer

Launch of Strategy 2027: Accelerating growth, building trust

Today, SGS launches its Strategy 2027 – ‘Accelerating growth, building trust’, to drive profitable growth, streamline the organization and deliver attractive returns for stakeholders. It is based on three powerful value drivers: Growth, Performance & Agility and Strong Financial Profile.

- **Growth:** The Group will capitalize on the strong 4% to 5% underlying annual momentum of the CHF 190 billion Testing, Inspection & Certification industry and invest in segments and regions where greater opportunities exist, such as sustainability and digital services as well as in North America.
- **Performance & Agility:** SGS will implement a cost-disciplined operating model and a corporate-light structure. The simplification is expected to create cost savings of CHF 100 million resulting in a new run rate reached at the end of 2025. A new Executive Committee of 12 members will be appointed to foster accountability.
- **Strong Financial Profile:** SGS will ensure disciplined value creation maintaining a solid investment grade credit rating, which allows some significant headroom for potential additional debt drawings. Together with strong multi-year free cash flow and the proposal put forward by the Board for shareholders to receive the 2023 dividend in shares or cash, this will allow the company to fund growth through accretive and synergistic acquisitions and ensure that SGS continues to offer attractive shareholder remuneration.

Mid-term 2027 objectives

Strategy 2027 will shift gears towards growth of the top and bottom line. The Group targets the following objectives over the next four years.

- **Organic¹ sales growth** of 5% to 7% annually.
- Significant improvement of **at least 1.5 percentage points in adjusted operating income margin¹** on sales by 2027.
- **Cash conversion¹** to exceed 50% by 2027.

“I am convinced that the new strategy will capture the best opportunities for SGS in a structurally growing Testing, Inspection and Certification industry. It lays out powerful targets to foster solid and resilient growth, profitability and cash generation. Today, we are kicking off this new phase and I am excited to work together with our highly skilled teams to drive the future of SGS.”

Géraldine Picaud, Chief Executive Officer Designate

(CHF million)	2023	2022	Change in %	CCY ¹ 2022	CCY ¹ % change
Sales	6 622	6 642	-0.3	6 129	8.0
Operating income (EBIT)	857	898	-4.6	794	7.9
Operating income margin	12.9%	13.5%		13.0%	
Adjusted operating income¹	971	1 023	-5.1	914	6.2
Adjusted operating income margin ¹	14.7%	15.4%		14.9%	
Profit attributable to equity holders of SGS SA	553	588	-6.0		
Basic EPS (CHF)²	3.00	3.15	-4.8		
Free cash flow¹	604	481	25.6		
Return on invested capital¹	22%	22%			
Net debt¹	2 839	2 823			

Financial review

- **Sales** of CHF 6 622 million, up 8.1% organic¹, were driven by double-digit growth in Business Assurance (prev. Knowledge) and high single-digit growth in Natural Resources and Industries & Environment. Significant FX headwinds led to a reported -0.3% variation compared to prior year.
- **Adjusted operating income (AOI)¹** reached CHF 971 million, an increase of 6.2% at constant currency¹ compared to prior year. A significant strengthening of the Swiss Franc against the majority of currencies led to a decline of 5.1% compared to 2022. The adjusted operating income margin on sales was 14.7%, representing a decline of 0.7 percentage points compared to prior year, of which 0.5 percentage points was attributable to adverse currency impact.
- An **effective tax rate (ETR)** of 26% reflected a normalization of non-tax-deductible expenses.
- **Profit attributable to equity holders** achieved CHF 553 million compared to CHF 588 million in prior year, a reduction of 6.0% driven by the strengthening of the Swiss Franc.
- **Basic earnings per share²** was CHF 3.00, a decrease of 4.8% compared to prior year.
- **Free cash flow (FCF)¹** of CHF 604 million compared to CHF 481 million in 2022, driven by lower net working capital requirements and capital expenditures.
- **Return on invested capital (ROIC)¹** remained stable at 22% compared to 2022, representing an industry-leading level of returns.
- **Net debt¹** at 31 December 2023 amounted to CHF 2 839 million including lease liabilities, an increase of CHF 16 million compared to December 2022. SGS successfully refinanced maturing debt, by issuing a 4-year bond of CHF 240 million and an 8-year bond of CHF 260 million in November 2023.

Operational review

- Our innovative **sustainability services** delivered excellent growth across all business lines.
- SGS holds a prime position in the growing **cybersecurity** market, illustrated by the strong double-digit growth at Brightsight.
- **Business Assurance** (prev. Knowledge) delivered a record performance with solid double-digit organic revenue growth and profitability. This was driven by new sustainability services including business health checks and gap assessments as well as social audits and ESG assurance.
- High single-digit growth in **Industries & Environment** driven by safety, supply chains, renewable energy and sustainability services.
- Accelerating demand for critical minerals and battery metal testing, as well as services to support the energy transition, including biofuels, drove growth in **Natural Resources** to nearly 10% at constant currency¹.
- Strong sales momentum in Food for **Health & Nutrition** offset softness in Health Science and Cosmetics & Hygiene.

Innovation Leadership

- SGS continued to lead the way in bringing highly innovative solutions to its customers.
- The Group brought a step-change to biodiversity surveys with environmental DNA (E-DNA) sampling and analysis. E-DNA is a cost- and time-effective way to detect rare and evasive genetic material released into the environment.
- The Company developed SGS Green Marks to certify environmental claims that cover a range of key attributes such as bio-based content, biodegradability, recycled content, industrial compostability and hazardous substances.
- SGS developed cutting-edge laboratory capabilities to measure microplastics and marine litter from micrometers to centimeters.
- The Group consolidated its authority in the growing field of digital technology. In cybersecurity, it continued to expand the range of industrial activities to support and protect client networks and data. In Artificial Intelligence, it delivered the first Artificial Intelligence Management System certification in the industry and several highly respected SGS experts contributed to the prestigious World Summit AI 2023.

Corporate Sustainability: best-in-class position

- The Group celebrates a decade of outstanding performance in corporate sustainability by securing once again a top spot in the prestigious Dow Jones Sustainability Index for both the World and Europe categories.
- Our 2027 sustainability targets ensure that SGS continues to lead the way in its contributions to the environment, society and governance.
 - **Environment:** Material progress by 2027 towards our 28% reduction in Scope 3 greenhouse gas emissions.
 - **Social:** At least one third of leadership positions held by women, and 7 million of training hours per year to employees, clients and communities by 2027.
 - **Governance:** 93% customer satisfaction score by 2027.

Dividend

The SGS Board of Directors will recommend to the Annual General Meeting (to be held on 26 March 2024) the approval of an optional scrip dividend of CHF 3.20 per share. Subject to the approval of a capital increase, shareholders can elect to receive the dividend in the form of shares or in cash. Shares will be sourced from shares already held by SGS (Treasury shares) and from the issuance of new shares in the proposed capital increase. The shares will be delivered at a discount, and the share dividend will be a tax- and cost-effective option for shareholders.

Outlook 2024

- Mid to high single-digit organic¹ growth.
- Relunched M&A program.
- Improvement in adjusted operating income margin¹ on sales.
- Strong free cash flow¹ generation.

Upcoming investor events

- 26 March 2024: Annual General Meeting
- 26 April 2024: Q1 2024 sales update
- 24 July 2024: Half-year 2024 results
- 25 October 2024: Q3 2024 sales update
- November 2024: Capital Markets Day
- 11 February 2025: Full-year 2024 results

Conference call

A live webcast presentation for analysts and investors will be held today at 10:30am. Details can be found at <https://www.sgs.com/en/events/2024/01/sgs-2023-full-year-results> together with presentation slides. A recording of the webcast will be available later in the day.

Report footnotes

1. Refer to Alternative Performance Measures – Appendix to this report. Free cash flow, return on invested capital and net debt calculations have been redefined.
2. On 28 March 2023, the Annual General Assembly approved a 25-1 stock split that went into effect on 12 April 2023. This split increased the number of shares issued, from 7 495 032 to 187 375 800, and reduced the nominal value per share, from CHF 1 to CHF 0.04. As a result, for comparability purpose, the Group recalculated the weighted average number of shares as well as the basic and diluted earnings per share (EPS) as of December 2022. Please refer to note 6 of the condensed consolidated financial statements and to Alternative Performance Measures – Appendix to this report.

Business line performance

Sales growth and adjusted operating income margin 2023

(CHF million)	Sales	Growth at constant currency ¹	Organic ¹ growth	Adjusted operating income ¹	Adjusted operating income margin ¹
Industries & Environment	2 190	9.0%	9.5%	248	11.3%
Natural Resources	1 583	9.6%	9.6%	228	14.4%
Connectivity & Products	1 246	4.2%	4.7%	262	21.0%
Health & Nutrition	857	3.0%	1.3%	80	9.3%
Business Assurance (prev. Knowledge)	746	15.3%	15.3%	153	20.5%
Total	6 622	8.0%	8.1%	971	14.7%

Acquisitions

	Date	Location	Business line	FTE
Seafood Testing business	17 March 2023	Spain	Health & Nutrition	2
Nutrasource	1 May 2023	Canada and USA	Health & Nutrition	69

Disposals

	Date	Location	Business line	FTE
Subsurface Consultancy business	1 March 2023	Netherlands	Industries & Environment	13
Automotive Asset Assessment and Retail Network Services Operations	1 July 2023	Multiple countries	Industries & Environment	214
Powertrain Testing Operations	1 October 2023	USA	Connectivity & Products	108

On 18 December 2023, the Group announced the signing of an agreement to divest its crop science operations. The transaction will be effective in the course of 2024 upon realization of completion conditions and does not impact the 2023 consolidated financial results.

Testing & Inspection: Industries & Environment

(CHF million)	2023	2022	% change	CCY ¹ 2022	CCY ¹ % change
Sales	2 190	2 157	1.5	2 010	9.0
Organic sales ¹ growth %	9.5				
Adjusted operating income ¹	248	224	10.7	205	21.0
Margin ¹ %	11.3	10.4		10.2	

Sales were driven by double-digit organic growth in field services & inspection, safety, supply chains and government mandates as well as high single-digit organic growth in environmental testing.

The improvement in **adjusted operating income margin** came from pricing increases and business mix evolution.

Testing & Inspection: Natural Resources

(CHF million)	2023	2022	% change	CCY ¹ 2022	CCY ¹ % change
Sales	1 583	1 583	0.0	1 444	9.6
Organic sales ¹ growth %	9.6				
Adjusted operating income ¹	228	225	1.3	193	18.1
Margin ¹ %	14.4	14.2		13.4	

Sales benefited from high single-digit growth in trade & inspection and strong performance in laboratory testing, driven by critical minerals and sustainability services. Strong double-digit growth in metallurgy and consulting also contributed to the performance.

The **adjusted operating income margin** increased as a result of improved efficiencies, the adoption of automated solutions and strategic pricing initiatives across all operations.

Testing & Inspection: Connectivity & Products

(CHF million)	2023	2022	% change	CCY ¹ 2022	CCY ¹ % change
Sales	1 246	1 311	-5.0	1 196	4.2
Organic sales ¹ growth %	4.7				
Adjusted operating income ¹	262	313	-16.3	278	-5.8
Margin ¹ %	21.0	23.9		23.2	

Sales were supported by high single-digit growth in connectivity, partly driven by a very strong performance from Brightsight, as well as by mid single-digit growth in softlines.

The **adjusted operating income margin** decrease was mainly attributable to a softer activity in wireless testing and high prior-year comparatives due to a one-off debt collection.

Testing & Inspection: Health & Nutrition

(CHF million)	2023	2022	% change	CCY ¹ 2022	CCY ¹ % change
Sales	857	892	-3.9	832	3.0
Organic sales ¹ growth %	1.3				
Adjusted operating income ¹	80	119	-32.8	109	-26.6
Margin ¹ %	9.3	13.3		13.1	

Sales increased organically thanks to high single-digit growth in food testing driven by regulations, network expansion and pricing. Excluding Covid-related testing, underlying growth in health science remained positive, despite challenging market conditions.

The **adjusted operating income margin** decrease was primarily due to the change in business mix and a slowdown in project outsourcing.

Certification: Business Assurance (prev. Knowledge)

(CHF million)	2023	2022	% change	CCY ¹ 2022	CCY ¹ % change
Sales	746	699	6.7	647	15.3
Organic sales ¹ growth %	15.3				
Adjusted operating income ¹	153	142	7.7	129	18.6
Margin ¹ %	20.5	20.3		19.9	

Sales were driven by double-digit growth in management system certification, ESG assurance services and customized audits. Consulting enjoyed very strong double-digit growth.

The **adjusted operating income margin** increase was driven by strong sales growth and by a positive mix effect.

Condensed consolidated financial statements

Condensed consolidated income statement

For the period ended 31 December 2023

(CHF million)	Notes	2023	2022
Sales	4	6 622	6 642
Salaries and wages		-3 316	-3 331
Subcontractors' expenses		-400	-399
Depreciation, amortization and impairment		-545	-521
Gain on business disposals		7	-
Other operating expenses		-1 511	-1 493
Operating income (EBIT)	4	857	898
Financial income		29	20
Financial expenses		-86	-71
Share of profit of associates and joint ventures		2	2
Profit before taxes		802	849
Taxes		-205	-219
Profit for the period		597	630
<i>Profit attributable to:</i>			
Equity holders of SGS SA		553	588
Non-controlling interests		44	42
Basic earnings per share (in CHF)²	6	3.00	3.15
Diluted earnings per share (in CHF)²	6	2.99	3.15

Condensed consolidated statement of comprehensive income

For the period ended 31 December 2023

(CHF million)	2023	2022
Actuarial gains/losses on defined benefit plans	50	-20
Income tax on actuarial gains/losses	-8	5
Items that will not be subsequently reclassified to income statement	42	-15
Exchange differences	-238	-148
Items that may be subsequently reclassified to income statement	-238	-148
Other comprehensive loss for the period	-196	-163
Profit for the period	597	630
Total comprehensive income for the period	401	467
<i>Attributable to:</i>		
Equity holders of SGS SA	364	430
Non-controlling interests	37	37

2. On 28 March 2023, the Annual General Assembly approved a 25-1 stock split that went into effect on 12 April 2023. This split increased the number of shares issued, from 7 495 032 to 187 375 800, and reduced the nominal value per share, from CHF 1 to CHF 0.04. As a result, for comparability purpose, the Group recalculated the weighted average number of shares as well as the basic and diluted earnings per share (EPS) as of December 2022 – refer to note 6 and to Alternative Performance Measures – appendix to this report.

Condensed consolidated statement of financial position

For the period ended 31 December 2023

(CHF million)	Notes	2023	2022
Assets			
Non-current assets			
Property, plant and equipment		823	907
Right-of-use assets		506	577
Goodwill		1 636	1 755
Other intangible assets		275	350
Investments in joint ventures, associates and other companies		16	20
Deferred tax assets		185	153
Other non-current assets		191	125
Total non-current assets		3 632	3 887
Current assets			
Inventories		57	59
Unbilled sales and work in progress		223	210
Trade receivables		940	988
Other receivables and prepayments		213	223
Current tax assets		127	132
Cash and cash equivalents		1 569	1 623
Total current assets		3 129	3 235
Total assets		6 761	7 122
Equity and liabilities			
Capital and reserves			
Share capital	5	7	7
Reserves		723	954
Treasury shares		-271	-279
Equity attributable to equity holders of SGS SA		459	682
Non-controlling interests		69	81
Total equity		528	763
Non-current liabilities			
Loans and other financial liabilities		3 040	2 833
Lease liabilities		384	442
Deferred tax liabilities		73	79
Defined benefit obligations		66	47
Provisions		91	96
Total non-current liabilities		3 654	3 497
Current liabilities			
Trade and other payables		634	671
Contract liabilities		221	228
Current tax liabilities		176	165
Loans and other financial liabilities		841	1 009
Lease liabilities		143	162
Provisions		41	58
Other creditors and accruals		523	569
Total current liabilities		2 579	2 862
Total liabilities		6 233	6 359
Total equity and liabilities		6 761	7 122

Condensed consolidated statement of changes in equity

For the period ended 31 December 2023

(CHF million)	Share capital	Treasury shares	Capital reserve	Cumulative translation adjustments	Cumulative losses/gains on defined benefit plans net of tax	Retained earnings and Group reserves	Attributable to:		
							Equity holders of SGS SA	Non-controlling interests	Total equity
Balance at 1 January 2022	7	-8	130	-1 342	-190	2 520	1 117	85	1 202
Profit for the period	-	-	-	-	-	588	588	42	630
Other comprehensive income for the period	-	-	-	-143	-15	-	-158	-5	-163
Total comprehensive income for the period	-	-	-	-143	-15	588	430	37	467
Dividends paid	-	-	-	-	-	-599	-599	-43	-642
Share-based payments	-	-	18	-	-	-	18	-	18
Movement in non-controlling interests	-	-	-	-	-	-8	-8	2	-6
Movement on treasury shares	-	-271	-4	-	-	-1	-276	-	-276
Balance at 31 December 2022	7	-279	144	-1 485	-205	2 500	682	81	763
Balance at 1 January 2023	7	-279	144	-1 485	-205	2 500	682	81	763
Profit for the period	-	-	-	-	-	553	553	44	597
Other comprehensive income for the period	-	-	-	-231	42	-	-189	-7	-196
Total comprehensive income for the period	-	-	-	-231	42	553	364	37	401
Dividends paid	-	-	-	-	-	-590	-590	-44	-634
Share-based payments	-	-	24	-	-	-	24	-	24
Movement in non-controlling interests	-	-	-	-	-	-25	-25	-5	-30
Movement on treasury shares	-	8	-4	-	-	-	4	-	4
Balance at 31 December 2023	7	-271	164	-1 716	-163	2 438	459	69	528

Condensed consolidated cash flow statement

For the period ended 31 December 2023

(CHF million)	2023	2022
Profit for the period	597	630
Non-cash and non-operating items	824	812
Increase in working capital	-55	-162
Taxes paid	-243	-250
Cash flow from operating activities	1 123	1 030
Purchase of property, plant and equipment and other intangible assets	-298	-329
Disposal of property, plant and equipment and other intangible assets	15	8
Acquisition of businesses	-12	-67
Proceeds from disposal of businesses	22	2
Cash paid on other non-current assets	-1	-3
Proceeds received from investments in joint ventures, associates and other companies	8	1
Interest received	24	19
Cash flow used by investing activities	-242	-369
Dividends paid to equity holders of SGS SA	-590	-599
Dividends paid to non-controlling interests	-44	-43
Transaction with non-controlling interests	-34	-9
Cash paid on treasury shares	-10	-268
Proceeds from corporate bonds	500	500
Payment of corporate bonds	-501	-251
Interest paid	-82	-64
Payment of lease liabilities	-178	-183
Proceeds from borrowings	105	469
Payment of borrowings	-5	-
Cash flow used by financing activities	-839	-448
Currency translation	-96	-70
Decrease/increase in cash and cash equivalents	-54	143
Cash and cash equivalents at beginning of year	1 623	1 480
Decrease/increase in cash and cash equivalents	-54	143
Cash and cash equivalents at end of the period	1 569	1 623

Notes to the condensed consolidated financial statements

1. Activities of the Group

SGS SA and its subsidiaries (the "Group") operate around the world under the name SGS. The head office of the Group is located in Geneva, Switzerland. SGS is the global leader in testing, inspection and certification (TIC) services supporting international trade in agriculture, minerals, petroleum and consumer products. It also provides these services to governments, international institutions and customers engaged in the industrial, environmental and life sciences sectors.

2. Basis of preparation and significant events

Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with the measurement and recognition criteria of IFRS Accounting Standards.

Many countries and industries are facing challenges, including inflation, rising interests, deteriorating credit and liquidity concerns. These 2023 condensed consolidated financial statements were prepared with particular attention to (i) the impairment of non-current assets, (ii) the appropriateness of the allowances for trade receivables, unbilled sales and work in progress, as well as (iii) the level of provision for risks.

Stock-split

On 28 March 2023, the Annual General Assembly approved a 25-1 stock split that went into effect on 12 April 2023. This split increased the number of shares issued, from 7 495 032 to 187 375 800, and reduced the nominal value per share, from CHF 1 to CHF 0.04.

As a result, for comparability purposes, the Group recalculated the basic and diluted earnings per share (EPS) as of December 2022 and discloses it in note 6.

3. Changes to the Group's accounting policies

The accounting policies used in the preparation and presentation of the condensed consolidated financial statements are consistent with those used in the Group's consolidated financial statements.

Several new standards, amendments and interpretations were adopted effective 1 January 2023 but have no material impact on the Group's consolidated financial statements.

4. Analysis of operating income

(CHF million)	2023	2022
Adjusted operating income¹	971	1 023
Amortization and impairment of acquired intangibles	-55	-37
Restructuring costs	-21	-46
Goodwill impairment	-18	-
Gain on business disposals	7	-
Transaction and integration costs	-5	-13
Other non-recurring items	-22	-29
Operating income	857	898

1. Refer to Alternative Performance Measures – Appendix to this report.

2023

(CHF million)	Sales	Adjusted operating income ¹	Amortization and impairment of acquired intangibles	Restructuring costs	Goodwill impairment	Gain on business disposals	Transaction and integration costs	Other non-recurring items	Operating income by business
Industries & Environment	2 190	248	-15	-11	-18	3	-2	-16	189
Natural Resources	1 583	228	-1	-6	-	-	-	-2	219
Connectivity & Products	1 246	262	-5	-1	-	4	-1	-2	257
Health & Nutrition	857	80	-31	-2	-	-	-2	-	45
Business Assurance (prev. Knowledge)	746	153	-3	-1	-	-	-	-2	147
Total	6 622	971	-55	-21	-18	7	-5	-22	857

2022

(CHF million)	Sales	Adjusted operating income ¹	Amortization and impairment of acquired intangibles	Restructuring costs	Transaction and integration costs	Other non-recurring items	Operating income by business
Industries & Environment	2 157	224	-19	-15	-6	-29	155
Natural Resources	1 583	225	-1	-10	-1	-	213
Connectivity & Products	1 311	313	-5	-12	-1	-	295
Health & Nutrition	892	119	-9	-6	-4	-	100
Business Assurance (prev. Knowledge)	699	142	-3	-3	-1	-	135
Total	6 642	1 023	-37	-46	-13	-29	898

All segment sales reported above are from external customers. The adjusted operating income¹ represents the profit earned by each segment. This is the main measure reported to the chief operating decision makers for the purposes of resource allocation and assessment of segmental performance.

Restructuring costs

The Group incurred a pre-tax restructuring charge of CHF 21 million (2022: CHF 46 million). Total restructuring costs comprised personnel reorganization of CHF 15 million (2022: CHF 26 million) as well as fixed asset impairment of CHF 2 million (2022: CHF 2 million) and other charges of CHF 4 million (2022: CHF 18 million).

Other non-recurring items

The Group reported as non-recurring items a charge of CHF 22 million in 2023 (2022: CHF 29 million), including intangible impairment of CHF 16 million and other charges of CHF 6 million (2022: CHF 16 million of fixed assets impairment in addition to incurred personnel costs for CHF 3 million and other charges for CHF 10 million).

1. Refer to Alternative Performance Measures – Appendix to this report.

5. Share capital and treasury shares

Shareholders approved a 25-1 share split which went into effect on 12 April 2023.

	Shares In circulation	Treasury shares	Total shares issued	Total share capital (CHF million)
Balance at 1 January 2022	7 491 672	3 360	7 495 032	7
Treasury shares released into circulation	3 381	-3 381	-	-
Treasury shares purchased for equity compensation plans	-12 500	12 500	-	-
Treasury shares purchased for cancellation	-113 499	113 499	-	-
Balance at 31 December 2022	7 369 054	125 978	7 495 032	7
Treasury shares released into circulation	1 964	-1 964	-	-
Balance at 12 April 2023 before share split	7 371 018	124 014	7 495 032	7
Share split 25-1	176 904 432	2 976 336	179 880 768	-
Balance at 12 April 2023 after share split	184 275 450	3 100 350	187 375 800	7
Treasury shares released into circulation	35 665	-35 665	-	-
Balance at 31 December 2023	184 311 115	3 064 685	187 375 800	7

6. Earnings Per Share

	2023	2022 Restated	2022 Published
Profit attributable to equity holders of SGS SA (CHF million)	553	588	588
Weighted average number of shares (million)	184	186	7
Basic earnings per share (CHF)	3.00	3.15	78.86
	2023	2022 Restated	2022 Published
Profit attributable to equity holders of SGS SA (CHF million)	553	588	588
Diluted weighted average number of shares (million)	185	187	7
Diluted earnings per share (CHF)	2.99	3.15	78.67

7. Significant shareholders

As at 31 December 2023, Groupe Bruxelles Lambert (acting through Serena SARL and URDAC) held 19.31% (December 2022: 19.11%), BlackRock Inc. held 5.18% (December 2022: 5.18%) and UBS Fund Management (Switzerland) AG held 3.03% (December 2022: below 3%) of the share capital and voting rights of the company. At the same date, the Group held 1.64% of the share capital of the company (December 2022: 1.68%).

8. Exchange rates

The main currency for the Group were translated at the following exchange rates into Swiss Francs.

			Statement of financial position		Income statement	
			period-end rates		period average rates	
			2023	2022	2023	2022
Australia	AUD	100	57.38	62.70	59.73	66.33
Canada	CAD	100	63.53	68.20	66.59	73.40
Chile	CLP	100	0.10	0.11	0.11	0.11
China	CNY	100	11.83	13.29	12.70	14.20
Eurozone	EUR	100	93.02	98.47	97.17	100.52
Korea	KRW	100	0.06	0.07	0.07	0.07
United Kingdom	GBP	100	107.16	111.47	111.69	118.01
Russia	RUB	100	0.94	1.31	1.07	1.43
Taiwan	TWD	100	2.74	3.01	2.89	3.21
USA	USD	100	84.11	92.43	89.87	95.44

Alternative Performance Measures

Appendix to the 2023 full year results

For the period ended 31 December 2023

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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 decisions and managing the operations. These alternative performance measures are disclosed in the integrated report, the half year report and other external communications to investors, and are available following this link:

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 sales growth (Organic)

Organic sales 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 contribute to the evolution of sales and adjusted operating income from one period to another.

For the purpose of calculating the organic sales, 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 sales converted at the current year's average exchange rates, less the prior period sales converted at the current year's exchange rates.

Organic sales is then divided by the prior period sales at constant currency in order to derive the percentage growth.

A numerical reconciliation of this APM is included below:

(CHF million)

Sales 2022	6 642	
Currency impact	-513	
Sales 2022 at constant currency	6 129	
Growth in value and in % at constant currency		
Organic	495	8.1%
Acquisitions	21	0.3%
Disposals	-23	-0.4%
Sales 2023	6 622	8.0%

Adjusted operating income (AOI)

The adjusted operating income 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 operating income 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 business disposals.
- 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 and certain asset write-downs/impairments.

(CHF million)	2023	2022
Operating income	857	898
Amortization and impairment of acquired intangibles	55	37
Restructuring costs	21	46
Goodwill impairment	18	–
Gain on business disposals	–7	–
Transaction and integration costs	5	13
Other non-recurring items	22	29
Adjusted operating income	971	1 023

Adjusted operating income margin (AOI margin)

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

(CHF million)	2023	2022	CCY 2022
Adjusted operating income	971	1 023	914
Sales	6 622	6 642	6 129
Adjusted operating income margin	14.7%	15.4%	14.9%

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)	2023	2022	CCY 2022
Operating income	857	898	794
Depreciation, amortization and impairment	545	521	487
EBITDA	1 402	1 419	1 281

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)	2023	2022	CCY 2022
Operating income	857	898	794
Depreciation, amortization and impairment	545	521	487
EBITDA	1 402	1 419	1 281
Restructuring costs ³	18	44	41
Gain on business disposals	-7	-	-
Transaction and integration costs	5	13	12
Other non-recurring items ⁴	6	13	13
Adjusted EBITDA	1 424	1 489	1 347

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 termination costs as well as 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 and 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)	2023	2022
Profit attributable to equity holder of SGS SA	553	588
Amortization and impairment of acquired intangibles	55	37
Restructuring costs	21	46
Goodwill impairment	18	-
Gain on business disposals	-7	-
Transaction and integration costs	5	13
Other non-recurring items	22	29
Tax impact	-21	-21
Portion attributable to non-controlling interests	-1	-3
Adjusted profit attributable to equity holders of SGS SA	645	689

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

4. Other non-recurring items excluding impairment of fixed and intangible assets.

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)	2023	2022 Restated ²	2022 Published
Adjusted profit attributable to equity holders of SGS SA	645	689	689
Weighted average number of shares (million)	184	186	7
Adjusted basic earnings per share (CHF)	3.49	3.70	92.46

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)	2023	2022 Restated ²	2022 Published
Adjusted profit attributable to equity holders of SGS SA	645	689	689
Diluted weighted average number of shares (million)	185	187	7
Adjusted diluted earnings per share (CHF)	3.48	3.69	92.24

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. In 2023, management embedded financial interests paid and financial interests received in the free cash flow calculation. It is now calculated as follows based on amounts disclosed in the condensed consolidated statements of cash flow.

(CHF million)	2023	2022 Restated	2021 Restated
Cash flow from operating activities	1 123	1 030	1 169
Purchase of property, plant and equipment and other intangible assets	-298	-329	-336
Disposal of property, plant and equipment and other intangible assets	15	8	5
Lease payments	-178	-183	-179
Interests paid	-82	-64	-66
Interests received	24	19	17
Free cash flow	604	481	610

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(CHF million)	2022	2021
Cash flow from operating activities	1 030	1 169
Purchase of property, plant and equipment and other intangible assets	-329	-336
Disposal of property, plant and equipment and other intangible assets	8	5
Operating lease outflows	-202	-203
Free cash flow	507	635

2. On 28 March 2023, the Annual General Assembly approved a 25-1 stock split that went into effect on 12 April 2023. This split increased the number of shares issued, from 7 495 032 to 187 375 800, and reduced the nominal value per share, from CHF 1 to CHF 0.04. As a result, for comparability purpose, the Group recalculated the weighted average number of shares as well as the basic and diluted earnings per share (EPS) as of December 2022 – refer to note 6 of the condensed consolidated financial statements.

Cash conversion

Cash conversion ratio provides management with a measurement of the Group's ability to convert operational results in cash. The ratio is calculated by comparing the free cash flow to the EBITDA minus lease payments.

(CHF million)	2023	2022	2021
EBITDA	1 402	1 419	1 476
Lease payments	-178	-183	-179
EBITDA minus lease payments	1 224	1 236	1 297
Free cash flow	604	481	610
Cash conversion	49%	39%	47%

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

Operating net working capital is one of the performance measures used by senior management and analyzed internally. 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 divided by sales for the last 12 months preceding the reporting date. The ratio is compared to prior period at historical currency.

(CHF million)	2023	2022
Sales for the last 12 months	6 622	6 642
Operating net working capital	44	3
Assets (ONWC):	1 309	1 350
Inventories	57	59
Unbilled sales and work in progress	223	210
Trade receivables	940	988
Other operating receivables	89	93
Liabilities (ONWC):	1 265	1 347
Trade payables and other operating payables	521	550
Contract liabilities	221	228
Other creditors and accruals	523	569
Operating net working capital in % of sales	0.7%	0.0%

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. In 2023, management reassessed ROIC definition and amended it in accordance with the calculation: net operating income after tax for the last 12 months divided by invested capital.

The return on invested capital is calculated as follows, and amounts are reconciled to the condensed consolidated statement of financial position as well as the condensed consolidated income statement:

(CHF million)	2023	2022 Restated	2021 Restated
Operating income	857	898	977
Share of profit of associates and JV	2	2	–
Group effective tax rate	26%	26%	29%
Net operating income after tax for the last 12 months	636	666	694
Invested capital	2 827	2 974	2 883
Total equity	528	763	1 202
Net debt	2 839	2 823	2 327
Lease liabilities	–527	–604	–636
Long-term loan receivables	–4	–4	–6
Net derivatives liability (asset)	–9	–4	–4
ROIC	22%	22%	24%

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

(CHF million)	2022	2021
Profit for the last 12 months	630	655
Non-current assets	3 310	3 448
Non-current assets	3 887	4 053
Right-of-use assets	–577	–605
Net working capital	74	–100
Assets	1 600	1 463
Inventories	59	59
Unbilled sales and work in progress	210	175
Trade receivables	988	928
Current tax assets	132	108
Other receivables and prepayments	223	204
Less derivative assets	–12	–11
Liabilities	1 526	1 563
Trade payables and other payables	671	687
Provisions	58	60
Contract liabilities	228	221
Other creditors and accruals	569	595
ROIC	18.6%	19.6%

Net debt

Net debt represents the net level of financial debt contracted by SGS with external parties. In 2023, management included lease liabilities in the calculation.

Amounts can be found in the condensed consolidated statement of financial position and the computation is as follows:

(CHF million)	2023	2022 Restated	2021 Restated
Cash and marketable securities	1 569	1 623	1 480
Cash and cash equivalents	1 569	1 623	1 480
Loans and Other financial liabilities	4 408	4 446	3 807
Non-current loans and other financial liabilities	3 040	2 833	2 889
Current loans and other financial liabilities	841	1 009	282
Non-current lease liabilities	384	442	481
Current lease liabilities	143	162	155
Net debt	2 839	2 823	2 327

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(CHF million)	2022	2021
Cash and marketable securities	1 623	1 480
Cash and cash equivalents	1 623	1 480
Loans and Other financial liabilities	3 842	3 171
Non-current loans and other financial liabilities	2 833	2 889
Current loans and other financial liabilities	1 009	282
Net debt	2 219	1 691

Shareholder Information

Key dates and events

26 March 2024	Annual General Meeting
26 April 2024	Q1 2024 sales update
24 July 2024	Half-year 2024 results
25 October 2024	Q3 2024 sales update
November 2024	Capital Markets Day
11 February 2025	Full-year 2024 results

Stock listing information

Stock exchange listing	SIX Swiss Exchange, SGSN
Stock exchange trading	SIX Swiss Exchange
Common stock symbols	Bloomberg: Registered Share: SGSN.SW Reuters: Registered Share: SGSN.S Telekurs: Registered Share: SGSN ISIN: Registered Share: CH0002497458 Swiss security number: 249745

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