

Moody's

INVESTORS SERVICE

NEW ISSUER REPORT

SGS SA

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Summary Rating Rationale

On 12 March 2015, we assigned a first-time A3 long-term rating to SGS SA (SGS or the company). The outlook on the rating is stable.

SGS is the global leader in the testing, inspection and certification market. The company is headquartered in Geneva, Switzerland and is listed on the Swiss Stock Exchange. The company's market capitalisation was CHF14.7 billion as at 16 March 2015. In the year ended 31 December 2014 the company reported revenues of CHF5,883 million and EBITDA of CHF1,245 million.

» The A3 rating is supported by: (1) the company's the long-term track record of positive organic growth and strong long-term growth fundamentals; (2) high levels of sector and geographic diversity; (3) the company's leading market position and market leading growth rates, profitability and sector diversification; and (4) the low leverage, high operational cash generation and solid liquidity profile. It also reflects: (1) its exposure to oil & gas and minerals markets which are partially impacted by industry investment cycles and commodity prices; (2) the exposure to emerging market currencies and risks of ongoing currency depreciation against the Swiss franc; and (3) higher levels of competition and price pressure within lower added value field testing and inspection services.

» Long-term track record of positive organic growth and strong growth fundamentals

SGS has delivered positive organic revenue growth over each of the last 10 years. This is driven by long term growth fundamentals of the industry, with increasing regulation and demand for independent testing, alongside the requirement for improving product quality amongst consumers in emerging markets.

» Low leverage, high operational cash generation and solid liquidity profile

Financial metrics are strong with low leverage of 2.0x gross debt to EBITDA and 1.1x net debt to EBITDA at 31 December 2014 (on a Moody's adjusted basis). The company is highly cash generative which Moody's expects to continue, with reducing capital expenditure levels after a period of increased investment and an increasing focus on working capital management.

Institutional Investor

#1 US Credit Rating Agency: 2012, 2013, 2014

**ASIAMONEY
FIXED INCOME
POLL 2014**

#1 Asia Credit Rating Agency: 2012, 2013, 2014

**FIXED INCOME
POLL 2014
FinanceAsia**

Most Influential Credit Rating Agency: 2013, 2014

**SMITH'S
2014 Municipal
All-Star Team**

#1 US Municipal Research Team in Smith's All-Star Voting: 2014

**KANGAROO
AWARDS
2014**

Australia's Rating Agency of the Year: 2014

» **Exposure to oil and gas and minerals markets**

Approximately 39% of SGS's revenues derive from the oil & gas, chemicals and minerals markets, which are partially impacted by industry investment cycles and commodity prices. Whilst the recent oil price reduction is expected to impact results in 2015, the effect is likely to be limited given the company's relatively low exposure to upstream activities and expected growth in other segments.

» **Translation of emerging market currencies and risks of ongoing currency depreciation against the Swiss franc**

The recent appreciation of the Swiss franc following the removal of its peg to the euro is expected to have a negative translation impact of approximately 10% on revenues and operating profit in 2015. The company is also impacted by the translation of emerging markets cash flows where high levels of inflation are likely to put ongoing pressure on currency depreciation against the Swiss franc, although this is mitigated by high growth rates in these regions.

Overview of the Capital Structure

EXHIBIT 1

SGS SA Capital Structure at 31 December 2014

			Rebased (2)	
	CHF million	EBITDA multiple (1)	CHF million	EBITDA multiple (3)
Existing Corporate Bonds	1,668		1,668	
Other Debt	22		22	
Total Debt (reported)	1,690	1.4x	1,690	1.5x
Operating Leases capitalised	924		830	
Pensions	176		176	
Total Debt (Moody's adjusted)	2,790	2.0x	2,696	2.2x
Cash	1,341		1,305	
Net Debt (reported)	349	0.3x	385	0.3x
Net Debt (Moody's adjusted)	1,449	1.1x	1,391	1.1x

(1) Based on reported EBITDA of CHF1,245 million and Moody's adjusted EBITDA of CHF1,379 million for the year ended 31 December 2014

(2) EBITDA, operating leases, pensions and cash balances recalculated based on estimated 10% appreciation of the Swiss franc against SGS's currency basket on 12 March 2015

(3) Based on currency adjusted reported EBITDA of CHF1,118 million and Moody's adjusted EBITDA of CHF1,238 million for the year ended 31 December 2014

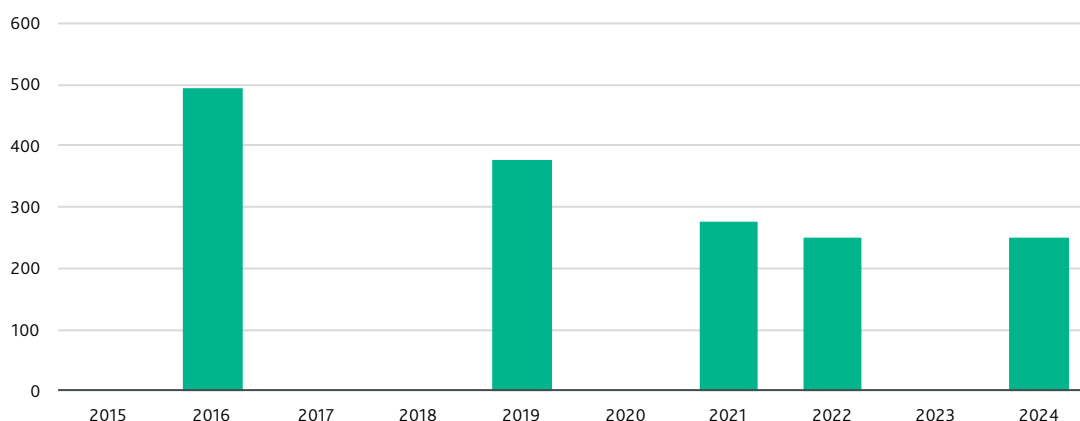
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

The company has a conservative financial structure with low leverage and significant cash balances. Gross leverage at 31 December 2014 was 1.4x on a reported basis and 2.0x on a Moody's adjusted basis after including capitalized operating leases and pension liabilities. Balance sheet cash amounted to CHF1,341 million at 31 December 2014 with net leverage of 0.3x (reported) and 1.1x (Moody's adjusted).

On 15 January 2015 the Swiss National bank removed the Swiss franc's peg to the Euro resulting in substantial appreciation of the Swiss franc. The effect of the removal of the peg is calculated by the company to reduce revenues and EBITDA by approximately 10% compared to 2014. After rebasing the company's results there is an adverse effect on leverage of 0.1-0.2x due to the denomination of debt in Swiss francs as shown in the above table.

The company's existing bonds mature between 2016 and 2023, with CHF492 million due in 2016, as shown in the exhibit below:

EXHIBIT 2

Bond Maturities (CHF Million)

Source: Company

The company has announced plans to buy back up to CHF750 million of ordinary shares by December 2016. The company maintains a solid liquidity position with CHF600 million of committed working capital facilities available until 2017 in addition to balance sheet cash.

Corporate Profile

Overview

SGS is the global leader in the testing, inspection and certification (TIC) market. The company is headquartered in Geneva, Switzerland and is listed on the Swiss Stock Exchange. The company's market capitalisation was CHF14.7 billion as at 16 March 2015.

SGS operates a network of over 1,650 offices and laboratories worldwide and employs over 80,000 staff. Its business is divided into 10 divisions across a diverse range of sectors and geographies. Revenues for the year ended 31 December (FY) 2014 are spread across Europe, Middle East and Africa (EMEA) (46%), Asia Pacific (30%) and Americas (24%). Emerging markets in total represent approximately 50% of revenues and are a key driver of growth due to increasing trade flows, improving product quality standards and growth in private consumption.

Whilst there is broad sector diversity, there is also some sector concentration with oil & gas representing approximately 27% of FY2014 revenues, with upstream oil exploration and production representing around 4% of revenues. Other commodities represent approximately 19% of revenues through the agricultural and mining sectors, and consumer products are a further circa 19% of revenues.

The business has sought to shift its service mix away from field services and inspection, where there is greater competition and price pressure, towards higher added value upstream laboratory testing. This has been supported by a series of small scale acquisitions. Between 2010 and 2014 the company acquired 72 companies adding CHF624 million of revenues and CHF112 million of EBIT. Its total acquisition spend was CHF915 million over this period representing an average price multiple of 8.2x. The company intends to continue making small to medium-sized in-fill acquisitions whilst retaining price discipline in the face of competition, with the larger industry players engaged in a similar strategy. There is a well established M&A team with a good record of successful integration of acquisitions.

Profitability varies across the divisions driven by geography and levels of upstream activities. Emerging markets tend to see lower levels of price pressure and stronger margins. Upstream testing activities vary from around 20% of revenues in the agricultural and industrial divisions to around 80% within consumer products.

There are relatively limited direct synergies between divisions, although there are opportunities for cross-selling of services, and there is a commonality of laboratory technology and testing competencies across divisions which ensures consistency of service delivery. The scope and global scale of the business helps to sustain a very strong reputation and brand within the market. This is supported by a rigorous control culture and internal audit processes to ensure the integrity of employees and the testing results.

The largest customers include oil majors, national governments, retailers and energy companies. Customer concentration is very low with the largest single customer representing 1.4% of FY2014 revenues and top 20 representing only 10.4%. Customer contracts are typically around 1-3 years but can extend to 5-10 years for longer term project-based activities, and are a combination of exclusive and multi-sourced arrangements with no specific volume guarantees. Churn rates are low at around 5% reflecting the integration of laboratories into customer operations, the significant customer-relevant data held by SGS, and the expertise and knowledge of customers built over time.

Divisional Summary

Agricultural Services (6.6% FY2014 revenues, 6.7% FY2014 adjusted operating income, 16.5% FY2014 operating margin)

SGS conducts trade inspections of agricultural products at ports, and this activity is driven largely by harvests and levels of commodity trading. It has also diversified into higher valued added upstream segments, including crop management, seed development and soil testing. Government intervention and trade restrictions or deregulation also influence the volumes of trade activity. The division also operates in the fishing industry in fish discharge control and fishmeal export monitoring, with high margin activities in Peru. This activity is temporarily curtailed as a result of a fishing ban impacting 2014 and 2015 revenues.

Minerals (11.9% of revenues, 10.4% adjusted operating income, 14.1% operating margin)

The minerals division provides inspection, testing and certification services to the mining sector covering metallurgical testing and geotechnical surveys across the entire process from exploration to production, transportation and site closure. The division has moved upstream from its traditional base in trade inspection in ports to geochemistry and mineral analysis. It is impacted by levels of exploration, development and capital expenditure which are driven by commodity prices for gold and coal (together representing 70% of the division), as well as iron ore, copper and other metals. Reductions in commodity prices have affected the division over the last two years with a 47% fall in global exploration capex.

Oil, gas and chemicals (20.4% of revenues, 15.3% adjusted operating income, 12.0% operating margin)

The oil, gas and chemicals (OGC) division covers the entire value chain from exploration and production to refining and retail. In the upstream segment it provides equipment testing and calibration, production fluids analysis and sample management for wells. In refining it undertakes sample management, loss control, oil and chemicals analysis and fuel testing, whilst in retail and distribution it offers calibration services, facility audits and trade inspection. Approximately 4% of group sales relate to upstream activities which are exposed capital expenditure budgets and oil price fluctuations, whilst the remaining business is more stable and driven by trade volumes and oil demand, although does also experience an element of price pressure in tighter markets.

Life Science Services (3.6% of revenues, 2.1% adjusted operating income, 9.4% operating margin)

The Life Science Services division provides analytical and clinical trial testing capabilities, along with process management to biopharmaceutical, biotechnology, medical device and healthcare-related industries. The industry is heavily regulated however there is strong competition and the division has underperformed for some years as a result of an unsuccessful acquisition in 2006 (which was closed in 2013) and in 2014 due to quality issues in its UK laboratories.

The company is likely to take strategic action to address the division's underperformance in the next 2 years, through the sale of the clinical research segment, and merger of the remaining business with the consumer testing division.

Consumer Testing Services (18.6% of revenues, 28.5% adjusted operating income, 24.7% operating margin)

SGS tests a broad range of consumer products including toys, textiles, food, electronic equipment, cosmetics, personal care, household appliances, furniture and automotive parts. Overall the division is experiencing strong growth in emerging markets. This reflects both global trade and local consumers' increasing demand for higher product quality and safety standards. Asia represents 25% of divisional revenues and 60% of divisional EBIT. SGS has recently won contracts in Greater China testing products for local consumption which is expected to grow rapidly alongside growing Chinese consumer spend. Electronic equipment growth is substituting a reduction in demand for toys testing reflecting changes in consumer preferences.

Systems and Services Certification (7.1% of revenues, 7.8% adjusted operating income, 17.8% operating margin)

This division issues certifications largely in relation to compliance with ISO standards. The certificate confirms that a product or service meets certain environmental, safety and security standards. The division is showing strong growth in emerging markets as certification standards develop whilst business conditions in Europe are more difficult. The ISO9000 family of quality management standards is expected to be updated in December 2015 and this transition has caused a temporary slowdown in demand.

Industrial Services (16.6% of revenues, 12.9% adjusted operating income, 12.5% operating margin)

The Industrial Services Division provides testing, certification and asset integrity services to ensure health, safety and quality and efficiency standards within oil and gas, power generation, renewable energy,

construction, transportation and manufacturing sectors. Oil and gas represents approximately 35% of the division and is focused on pipelines, upstream and midstream assets.

Environmental Services (5.8% of revenues, 3.6% adjusted operating income, 10.0% operating margin)

SGS conducts laboratory testing for contaminants in air, soil and water. The division serves water authorities, mining, shale gas and broader industrial hygiene sectors. It has been impacted by the decline in the mining sector over the last two years which has been offset by growth across its other segments.

Automotive Services (5.2% of revenues, 6.5% adjusted operating income, 20.5% operating margin)

The Automotive Services division carries out statutory vehicle inspections in Europe, Africa, and North and South America. It also provides product testing and inspection to automotive manufacturers.

Government and Institutions Services (4.2% of revenues, 6.2% adjusted operating income, 23.2% operating margin)

The Government and Institutions Services division is focused on trade compliance, customs inspection for the verification of quality and quantity of imports and exports and the collection of customs duties. Government mandated services have expanded to technical solutions including tax collection systems in Ghana, verification of mobile termination charges and haulage truck tracking. The division is experiencing strong emerging market growth from the expansion of product conformity programmes and improving national standards.

Ownership and Management Strategy

The company's largest shareholders are the family of August Von Finck (15%) and Belgian industrial holding vehicle Groupe Bruxelles Lambert (15%). The company is expected to continue along its existing strategic path, with the ongoing shift towards higher added value upstream activities and growth in emerging markets. The acquisition strategy will continue to focus on small to medium-sized in-fill targets whilst maintaining price discipline. Management rule out the possibility of global mergers with the larger players which they see as dissynergistic. Acquisitions of between 10 and 20 per annum are expected at a cost of CHF100 - 200 million each year.

The current CEO Chris Kirk is retiring after 8 years to be replaced by Frankie Ng, current head of the Industrials division. Chris Kirk has delivered strong results during his tenure after a period of CEO instability in the past. This is the first Group CEO role for Frankie Ng and we have not yet had the opportunity to assess his detailed strategic vision for the company, which will be delivered later in 2015. However he has been with the company for over 20 years and delivered impressive performance in the Consumer Testing and Industrial divisions, and was a key initiator in shifting the divisions to high growth segments. He has indicated a focus on greater alignment of divisions with end markets, and reorganization of the decentralised cost base to drive synergies in back office functions.

The CFO Carla De Geyseler joined in 2014 from Vodafone Netherlands where she was CFO. Her immediate focus is on driving cost and working capital savings.

The company has adopted a financial policy to distribute the majority of its surplus cash and cash generation through dividends and the share buy-back programme. However the company retains significant

levels of liquidity headroom, its distributions and acquisitions are discretionary and the group remains strongly cash generative at an operational level. It has generated approximately CHF3.3 billion of cash in the last 6 years, prior to acquisitions, distributions, financing and currency movements, representing an average conversion rate of approximately 47% of EBITDA over this period.

Summary Rating Rationale

SGS's A3 issuer rating reflects: (1) the long-term track record of positive organic growth and strong long-term growth fundamentals; (2) high levels of sector and geographic diversity; (3) the company's leading market position and market leading growth rates, profitability and sector diversification; and (4) the low leverage, high operational cash generation and solid liquidity profile.

It also reflects: (1) its exposure to the oil & gas and minerals markets which are partially impacted by industry investment cycles and commodity prices; (2) the exposure to emerging market currencies and risks of ongoing currency depreciation against the Swiss franc; and (3) higher levels of competition and price pressure within lower added value field testing and inspection services.

Key Rating Considerations

Long-term track record of positive organic growth and strong long-term growth fundamentals

The company has delivered highly stable performance over the cycle with positive organic growth in each of the last 10 years, including organic growth of 1.3% in 2009. This reflects the high sector, geographic and customer diversity and its entrenched positions with customers. Customer retention rates are high at around 95% supported by the company's strong reputation, the low relative cost of its services and integration of upstream laboratory activities into customer operations. Whilst SGS is vulnerable to downturns in specific industries, this is mitigated by its broad diversity and the fundamental growth trajectory of TIC services.

The medium-term industry outlook remains positive. Growth continues to be driven by increasing regulation and regulatory demand for independent testing, growth in outsourcing, increasing product standards, growth of middle class consumption in emerging markets, increasing global trade, GDP growth and export volumes. The continued commercialisation of testing of China is also a significant component of growth as 80% of laboratories remain state-owned. These factors have historically generated underlying growth in the mid to high single digits and we expect growth SGS's markets in the range 5-6% CAGR.

High levels of sector and geographic diversity

SGS is divided into 10 divisions operating across a diverse range of sectors and geographies. Revenues for FY2014 are spread across Europe, Middle East and Africa (EMEA) (46%), Asia Pacific (30%) and Americas (24%). Emerging markets in total represent approximately 50% of revenues and are a key driver of growth due to increasing trade flows, improving product quality standards and growth in private consumption.

The largest customers include oil majors, national governments, retailers and energy companies. Customer concentration is very low with the largest single customer representing 1.4% of FY2014 revenues and top 20 representing only 10.4%. The diversity of revenues has enabled the company to achieve long-term positive organic growth at a group level with relatively limited exposure to more cyclical capital investment cycles.

Leading market position and market leading growth rates, profitability and diversification

SGS is the global leader in the TIC market, with the highest levels of growth, profitability and sector diversity. Bureau Veritas and Intertek (both unrated) are the #2 and #3 players respectively and closest competitors in terms of sector coverage, and SGS has the lowest exposure to upstream oil and gas segments amongst the top three companies. The company also competes with a number of more sector focused operators such as Eurofins (food and biopharma), ALS Group (minerals and life sciences), Core Labs (oil and gas) and Applus (automotive and industrial) (all unrated). Beyond the major players the market is highly fragmented with over 25,000 commercial laboratories as well as in-house and government-run operations.

EXHIBIT 3

Comparison of SGS with its quoted peers

Company - in CHFm (equivalent)	Period	Sales	LTM growth of reported sales	EBITDA	EBITDA margin	EBIT	EBIT margin	EV/ EBITDA	Net Debt/ EBITDA	Debt/ EBITDA	Market value at 13 March 2015
SGS	12/31/2014	5,883	0.9%	1,245	21.5%	969	16.5%	12.3x	0.3x	1.4x	14,729
Bureau Veritas SA	12/31/2014	5,065	6%	941	19%	680	13%	12.7x	2.4x	2.7x	9,469
Intertek Group	12/31/2014	3,155	-4%	604	19%	458	15%	11.1x	1.6x	1.9x	6,138
ALS	09/30/2014	1,217	2.8%	247	20.3%	168	13.8%	9.8x	2.7x	3.0x	2,113
MISTRAS Group	11/30/2014	640	21%	59	9.3%	31	4.8%	11.4x	2.5x	2.7x	523
Eurofins Scientific	06/30/2014	1,593	6%	286	17.9%	208	13.1%	16.0x	2.7x	4.4x	4,181
Applus Services	12/31/2014	1,966	2.4%	225	11%	114	6%	10.1x	3.5x	4.3x	1,476
Core Laboratories	12/31/2014	993	1.1%	343	34.5%	318	32.0%	14.2x	1.0x	1.0x	4,560

Source: FactSet

SGS is the leading player in the majority of its divisions including OGC (the company estimates approximately 30% global market share in FY2014), minerals (45%), consumer testing (10%), agricultural (60%), automotive (20%) and systems and services certification (10%), and with a circa 5% share in the fragmented industrial segment.

Low leverage and high operational cash generation

Leverage is low with Moody's-adjusted gross leverage of 2.0x at 31 December 2014, after adjusting for pensions and operating leases. The company retains significant cash balances of over CHF1.3 billion at 31 December 2014 and net leverage is only 1.1x on a Moody's adjusted basis and 0.3x on a reported basis. We expect gross leverage to increase in 2015 to slightly above 2.0x (Moody's adjusted) as a result of adverse currency movements following the removal of the Swiss franc's Euro peg. We expect net leverage to increase to around 1.4x in 2015 (Moody's adjusted) due to currency movements and the impact of the company's proposed share buyback programme. These levels remain moderate given the strength of company's long-term performance.

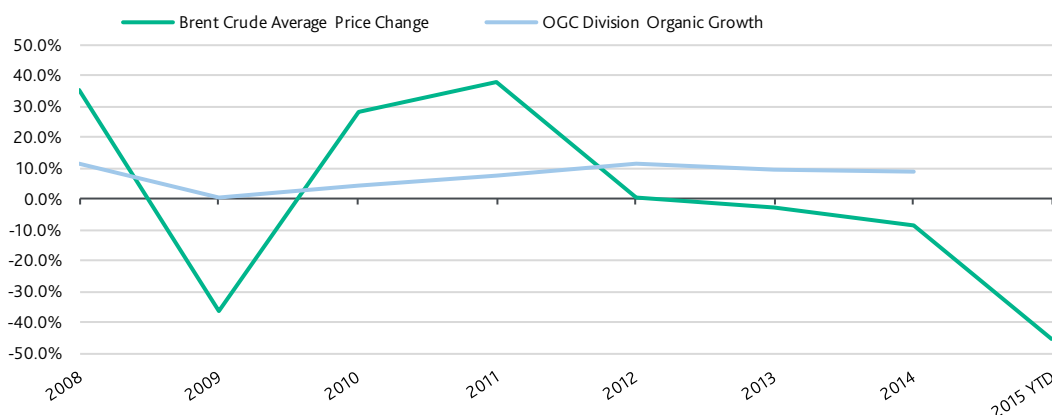
SGS generates a relatively high level of cash with operating cash flow, prior to working capital and capex, of around 70-80% of EBITDA from 2009-2014. We expect some improvements in cash flows over the next 1-2 years as capital expenditure levels are reducing following a period of increased investment. We also note the objective of the company to increase its focus on working capital management.

Exposure to oil and gas and minerals markets

Whilst there is a broad sector diversity SGS is exposed to certain commodity markets, in particular in oil and gas, mining and agriculture. Oil and gas revenues represent approximately 27% of group revenues mainly within the OGC services and industrial services divisions. This is spread across the entire value chain from exploration and production, distribution, refining and retail. Approximately 4% of group revenues are derived from the upstream exploration and production segment which is most exposed to variations in the oil price. Revenues across the remainder of activities are mainly driven by the number of plant installations and levels of oil production and consumption. These are significantly more stable with continued growth in production in the current year despite the oil price decrease and a forecast of long term growth in consumption. Nevertheless the depressed oil price is causing some stress across the supply chain with the refinery segment seeing increased price pressure.

EXHIBIT 4

Annual Changes in Average Oil Prices and OGC Division Organic Growth

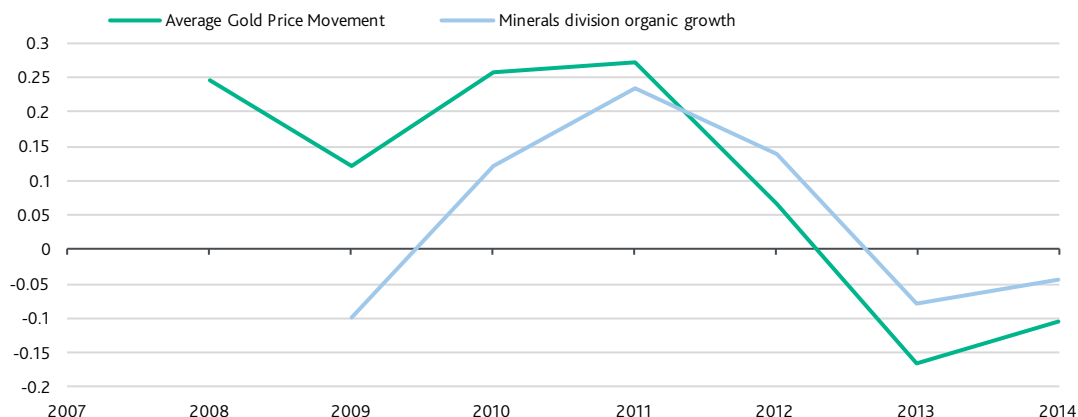


Source: Bloomberg, Company, Moody's analysis

Despite the limited exposure to upstream capex, performance of the OGC division is has a degree of correlation to the oil price, although it still achieved a positive 0.1% organic growth in 2009 when average prices fell by 36%. This was to an extent also linked to the global economic downturn and the division has shown strong growth thereafter, with a lag effect of up to 12 months for oil price increases to flow through to revenue growth. Since 2009 the division has expanded its activities in upstream services and the impact of the current oil price downturn is expected to be more significant in the current year. Industry analysts views of the current oil price impact on the OGC division vary from -5% organic revenues in 2015, to +5%. A 5% reduction implies a circa 25% cut in upstream business or approximately CHF60 million sales effect, or approximately -1% impact on group revenues.

Minerals services is the division with the greatest volatility in performance, as it has gradually moved upstream from trade inspection to geochemistry services for exploration. It is highly correlated to global exploration capex and hence to commodity prices for gold, iron ore, coal and other metals. Organic revenue growth has swung from a low of -9.9% in 2009 and +23.5% in 2011 and the division has reported organic revenues declines in the last 2 years following a 47% cut in exploration capex.

EXHIBIT 5

Annual Changes in Average Gold Price and Minerals Division Organic Growth

Source: Bloomberg, Company, Moody's analysis

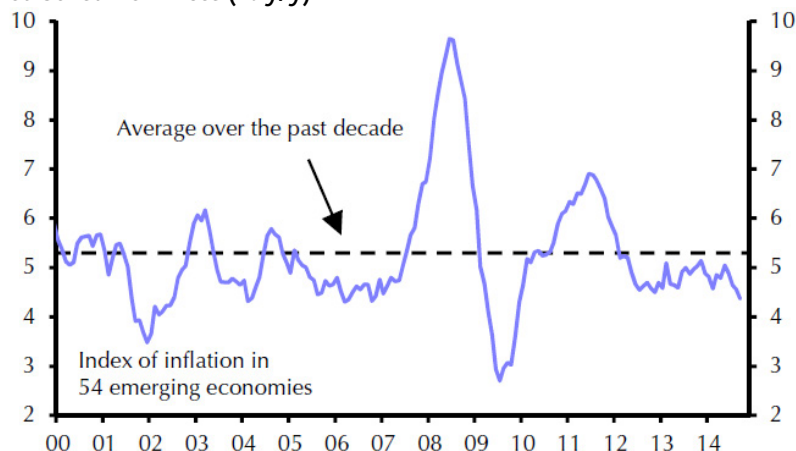
Gold in particular is a key driver of the division's performance as shown in the above table. Prices have started to stabilise since mid-2014 and this has been evident in results, with organic revenue declines improving to -1.1% in the second half of 2014 compared to -7.6% in the first half. The company overall benefits from sector diversity: a 10% fall in minerals revenue equates circa CHF70 million or a 1.2% reduction in group revenues. EBIT margins in the minerals division are also impacted by the downturn given price pressure and the fixed costs of the business, and these have fallen by over 4.6% since 2012, with the minerals division EBIT falling by CHF63 million over this period (c 6.7% of group EBIT). However overall minerals represent only 10.4% of FY2014 group adjusted EBIT and the division's performance has been offset by growth in other segments.

Exposure to emerging market currencies and risks of ongoing currency depreciation against the Swiss franc

Currency movements have had a significant impact on historic results with very limited trading in CHF (approximately CHF20 million revenues and CHF100 million costs in FY2014). Adverse currency movements have been experienced in each year since 2009 except for 2012. The appreciation of the Swiss franc following the removal of its euro peg in January 2015 will have a further impact on FY2015 revenues of approximately 10% at current spot rates.

The largest currency exposures are to the euro (28% of FY2014 revenues), USD 14%, and the Chinese renminbi 11%, and around half of currency flows are in emerging markets. The high emerging markets exposure is likely to give rise to continued adverse currency effects given the higher inflation rates in these economies. A basket of emerging market economies shows inflation running in the mid 4% area over the last two years, with a resulting impact on currency depreciation of emerging markets currencies against the Swiss franc.

EXHIBIT 6

Emerging Market Consumer Prices (% y/y)

Source: Capital Economics

We estimate that inflation effects accounted for approximately 2.5% of the annual organic revenue growth reported in 2013 and 2014. Part of this benefit will be lost through currency depreciation although the company seeks to limit the impact through both inflation and currency indexation in a proportion of its contracts. We estimated that SGS will continue to experience currency depreciation at an average rate of 1-2% per annum.

Higher levels of competition and price pressure within lower added value field testing and inspection services

SGS has seen a slight decline in profit margin over the last four years, with reported adjusted operating margin reducing from 17.8% in 2010 to 16.1% in 2014. Several different factors contribute to this: (1) price pressure in field testing activities which represent between 20% and 80% of divisional revenues; (2) competition within mature markets in Europe and North America; and (3) price pressure and operational leverage in cyclical sectors of oil and gas and minerals. This is partly offset by growth in higher added value upstream services, and faster growth in higher margin emerging markets.

EBIT margins vary significantly by region from 7.0% in the Americas, 13.3% in EMEA and 28.0% in APAC in FY2014. Since 2010 margins have fallen by 2.5ppts in the Americas, 1.5ppts in EMEA and a lower 0.6ppts in APAC, with these effects partially offset by mix from faster emerging markets growth. Margins trends in minerals and OGC divisions have a very significant effect, falling by 5.1ppts and 2.6ppts respectively since 2010. Over this period the remainder of the business was relatively stable, margins reducing by only 0.5ppts. Whilst margins trends are somewhat cyclical, the oil and gas business has seen margin declines during a period of expansion as it remains relatively highly exposed to trade-related field testing, representing circa 40% of divisional revenues. We would expect more significant margin declines at a group level in 2015 due to the impact of the reduced oil price on the OGC division, and very low margin compression thereafter, as the company continues to focus on higher added value services and emerging markets.

Loss of reputation through quality issues or lack of control

The company's reputation as a trusted provider is critical to its success and any decline in its standing, through poor quality of testing or weakness in the control environment could have a material impact. In particular, field testing and inspection of products in transit could be impacted by corrupt practices or the taking of bribes by staff to misrepresent results.

The company has a strong control culture to protect its reputation. It operates staff rotation, has a matrix reporting structure with local country managers and divisional heads, and carries out internal audit procedures including random inspections, and issuing anonymous samples to test quality and accuracy of results. Quality issues have been limited and likely to be isolated to individual laboratories or regions. This occurred in the Life Science division in the UK in 2014, and it has not appeared to have had any wider effect on the rest of the business.

The company is at risk of claims for damages from customers as a result of test failures. Contracts typically limit the company's exposure to approximately 10x contract income. SGS maintains insurance cover for catastrophic events and bears the costs of the remainder of claims. It typically has approximately 200 claims open at any time with damages typically in the range CHF200-300k, and annual payout is relatively low at around CHF15 million per annum.

Liquidity

The company has a solid liquidity position with balance sheet cash of CHF1,341 million at 31 December 2014. This includes CHF356 million of cash held within subsidiaries, mainly in its Chinese joint venture for which cash is repatriated annually. It also has CHF600 million committed facilities available until 31 December 2017.

The company plans to partially distribute its cash balances through the CHF750 million share buyback programme during 2015 and 2016. CHF492 million of its existing bonds mature in 2016, which we expect to be refinanced by further bond issues. We expect SGS to maintain minimum cash balances of approximately CHF500-750 million through to 2016 which results in total headroom including committed facilities and excluding cash in subsidiaries of circa CHF750 – 1,000 million.

Rating Outlook

The stable outlook reflects primarily the very solid positioning in the A3 category and Moody's view that the company will generate continued positive organic growth, that the long-term growth outlook of the industry is sustained and that the company maintains conservative financial policies with low leverage and sufficient liquidity.

What Could Change the Rating – Up

Positive pressure on the ratings could arise if (1) Moody's-adjusted leverage falls comfortably below 2x on a sustainable basis; (2) EBITDA margins remain stable; and (3) the company maintains a conservative financial policy.

What Could Change the Rating – Down

Negative ratings pressure could develop if (1) Moody's-adjusted leverage increases above 2.5x on a sustainable basis; (2) there is a material decline in EBITDA margins; or (3) the company adopts more aggressive financial policies in relation to leverage, shareholder distributions and/or liquidity.

Other Considerations

The principal methodology used in rating SGS was the Business and Consumer Service Industry Rating Methodology published in December 2014. Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

Rating Factors

EXHIBIT 7

Rating Factor – SGS Group

Business and Consumer Service Industry Grid ^{[1][2]}	Current FY 12/31/2014		Moody's 12-18 Month Forward View As of 3/4/2015 ^[3]	
Factor 1 : Scale (20%)	Measure	Score	Measure	Score
a) Revenue (USD Billion)	\$6.40	Baa	\$5.7 - \$6.0	Baa
Factor 2 : Business Profile (20%)				
a) Demand Characteristics	A	A	A	A
b) Competitive Profile	A	A	A	A
Factor 3 : Profitability (10%)				
a) EBITA Margin	17.50%	Ba	17% - 17.5%	Ba
Factor 4 : Leverage and Coverage (40%)				
a) Debt / EBITDA	2.0x	Baa	2x - 2.2x	Baa
b) EBITA / Interest	11.0x	A	11x - 12x	A
c) RCF / Net Debt	39.10%	Baa	23% - 26%	Ba
Factor 5 : Financial Policy (10%)				
a) Financial Policy	A	A	A	A
Rating:				
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned				A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 12/31/2014; Source: Moody's Financial Metrics™

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures

Source: Moody's Financial Metrics

Appendix A: Peer Comparison

There are no direct TIC market peers within the rated universe. Within the wider business services category the following companies are comparable within the A2, A3 and Baa1 rating categories:

Cintas Corporation No.2 (A2 – Stable) is the largest provider of uniform programmes in North America as well as a provider of entrance mats, restroom products and services, first aid, safety and fire protection products and services, document management services and branded promotional products to business customers.

Sime Darby Berhad (A3 – Stable) is one of Malaysia's largest listed conglomerate, with over 100,000 employees and with a strong presence in China, Australasia and SE Asia. It reports five core business areas: (1) Plantation; (2) Industrial; (3) Motors; (4) Property; and (5) Energy & Utilities.

Jardine Strategic Holdings Limited (A3 – Stable) and Jardine Matheson Holdings Limited (unrated) - collectively, the Jardine Group - are the co-holding companies of a diversified Asian-based conglomerate. It has a significant presence in engineering and construction, transport services, insurance broking, property investment and development, retailing, restaurants, luxury hotels, motor vehicles and related activities, financial services, heavy equipment, mining, and agribusiness.

Ecolab, Inc. (Baa1 – Stable) headquartered in St. Paul, Minnesota, is a leader in water, hygiene and energy technologies and services that provide and protect clean water, safe food, abundant energy and healthy environments. Ecolab delivers programmes and services to the food, energy, healthcare, industrial and hospitality markets in more than 170 countries. Ecolab acquired oil services company Champion Technologies and its related company Corsicana Technologies for USD2.3 billion in April 2013.

Experian Finance plc (Baa1 – Stable) is the world's largest provider of credit report data and information solutions, particularly the credit histories of individuals and businesses. It also provides analytical tools to clients and helps businesses to target marketing offers and automate decision making. The company provides its solutions and services in the Americas, Europe, the Middle East, Africa and Asia.

Comparison of SGS and Rated Peers

	SGS	Cintas Corporation No.2	Sime Darby Berhad	Jardine Strategic Holdings Limited	Experian	Ecolab
Long term issuer rating	A3	A3	A3	A3	Baa1	Baa1
Outlook	Stable	Stable	Stable	Stable	Stable	Stable
Date as of:	12-Mar-15	30-Jun-14	17-Dec-14	12-Aug-14	30-Sep-14	12-Jan-15
Date	12-18 Months Forward View	12-18 Months Forward View	LTM 30 Sept 2014	LTM 30 June 2014	12-18 Months Forward View	12-18 Months Forward View
Revenue (USD Billion)	5.7 - 6.0	4.4 - 4.7	13.4	31.7	5.1 - 5.3	14.7 - 15.0
Demand Characteristics	A	N/A	A	N/A	A	N/A
Competitive Profile	A	N/A	Baa	N/A	Baa	N/A
EBITA Margin	17 - 17.5%	15.4%	9.8%	14.3%	33 - 35%	16.6% ⁽²⁾
Debt / EBITDA	2.0 - 2.2x	1.7 - 1.9x	2.4x	2.7x	2.1 - 2.3x	2.4 - 2.6x
Net Debt / EBITDA ⁽¹⁾	1.4x	0.9x	1.5x	2.0x	2.4x	2.7x
EBITA / Interest	11 - 12x	8.4x ⁽²⁾	7.9x	8.3x	11 - 13x	6.5x ⁽²⁾
RCF / Net Debt	23 - 26%	41 - 45%	34.5%	31.3%	30 - 32%	23 - 27%
Financial Policy	A	A	A	N/A	Baa	Baa

(1) - Net Debt / EBITDA ratios are at latest reporting date

(2) - at latest reporting date

Source: Moody's Financial Metrics

Appendix B: Analysis of Moody's adjusted EBITDA

Analysis of Moody's adjusted EBITDA		
Year ended 31 December 2014	Actual CHF million	Rebased (1) CHF million
Reported EBITDA for the year ended 31 December 2014	1,245	1,118
Operating Leases	154	138
Exceptional items added back	-20	-18
Pro Forma EBITDA (Moody's adjusted)	1,379	1,238

(1) - EBITDA and operating leases recalculated based on estimated 10% appreciation of the Swiss franc against SGS's currency basket on 12 March 2015

Source: Moody's Financial Metrics

Moody's Related Research

Credit Opinions:

- » [SGS SA](#)
- » [Cintas Corporation No. 2](#)
- » [Sime Darby Berhad](#)
- » [Jardine Strategic Holdings Limited](#)
- » [Experian Finance plc](#)
- » [Ecolab, Inc.](#)

Rating Methodology:

- » [Business and Consumer Services Industry Rating Methodology, December 2014 \(177952\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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