



# 2020 HALF YEAR ALTERNATIVE PERFORMANCE MEASURES

JUNE 2020

**SGS**



A selection of winning entries from SGS employee children's creative drawing contest during lockdown.

All photos in this report represent recent pictures of SGS employees in their working environment.



# APPENDIX TO THE 2020 HALF YEAR RESULTS

FOR THE PERIOD ENDED 30 JUNE 2020

The following document presents and defines alternative performance measures (APMs), not defined by IFRS which are used by the Group to evaluate its 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 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](http://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 is 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)

<b>REVENUE JUNE 2019</b>	<b>3 341</b>	
Currency impact	(226)	
<b>REVENUE JUNE 2019 CCY<sup>1</sup></b>	<b>3 115</b>	
<b>GROWTH IN VALUE AND IN % AT CCY<sup>1</sup></b>		
Organic	(323)	(10.4%)
Acquisitions	34	1.1%
Disposals	(176)	(5.6%)
<b>REVENUE JUNE 2020</b>	<b>2 650</b>	<b>(14.9%)</b>

## ADJUSTED OPERATING INCOME (AOI)

The adjusted operating income that is disclosed in our financial highlights and our segment disclosures in Note 4 of our 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 the restructuring plan
- 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. It is computed as follows:

(CHF million)	JUNE 2020	JUNE 2019
<b>OPERATING INCOME</b>	<b>302</b>	<b>636</b>
Amortization and impairment of acquired intangibles	18	17
Restructuring costs	35	16
Goodwill impairment	35	21
Gain on business disposals	(62)	(272)
Transaction and integration costs	2	12
Other non-recurring items <sup>1</sup>	-	59
<b>ADJUSTED OPERATING INCOME</b>	<b>330</b>	<b>489</b>

1. 2019 includes mainly tax provisions of CHF 33 million and the remeasurement of the defined benefit obligation of the Swiss pension fund of CHF 10 million

### ADJUSTED OPERATING INCOME MARGIN (AOI MARGIN)

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

(CHF million)	JUNE 2020	JUNE 2019	JUNE 2019 CCY
Adjusted operating income	330	489	451
Revenue	2 650	3 341	3 115
<b>ADJUSTED OPERATING INCOME MARGIN</b>	<b>12.5%</b>	<b>14.6%</b>	<b>14.5%</b>

### 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)	JUNE 2020	JUNE 2019	JUNE 2019 CCY
<b>OPERATING INCOME</b>	<b>302</b>	<b>636</b>	<b>594</b>
Depreciation, amortization and impairment	274	274	257
<b>EBITDA</b>	<b>576</b>	<b>910</b>	<b>851</b>

### 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.

The computation is as follows:

(CHF million)	JUNE 2020	JUNE 2019
<b>OPERATING INCOME</b>	<b>302</b>	<b>636</b>
Depreciation, amortization and impairment	274	274
<b>EBITDA</b>	<b>576</b>	<b>910</b>
Restructuring costs <sup>1</sup>	26	13
Gain on business disposals	(62)	(272)
Transaction and integration costs	2	12
Other non-recurring items <sup>2</sup>	-	59
<b>ADJUSTED EBITDA</b>	<b>542</b>	<b>722</b>

1. Restructuring costs excluding impairment of fixed and intangible assets

2. 2019 includes mainly tax provisions of CHF 33 million and the remeasurement of the defined benefit obligation of the Swiss pension fund of CHF 10 million

## 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 from the impairment of goodwill.

In order to ease the reconciliation with the other APMs mentioned above, a change has been made to the presentation of this bridge previously externally disclosed. The tax effect, transaction and integration costs and the other non-recurring items appear as separate line items.

The computation is as follows:

<i>(CHF million)</i>	<b>JUNE 2020</b>	<b>JUNE 2019</b>
<b>PROFIT ATTRIBUTABLE TO EQUITY HOLDER OF SGS SA</b>	<b>171</b>	<b>377</b>
Amortization of acquired intangibles	18	17
Restructuring costs	35	16
Goodwill impairment	35	21
Gain on business disposals	(62)	(272)
Transaction and integration costs	2	12
Other non-recurring items <sup>1</sup>	-	59
Tax impact	6	50
Portion attributable to Non-controlling interests	(11)	-
<b>ADJUSTED PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF SGS SA</b>	<b>194</b>	<b>280</b>

1. 2019 includes mainly tax provisions of CHF 33 million and the remeasurement of the defined benefit obligation of the Swiss pension fund of CHF 10 million



Safe meetings at mine site, SGS Brazil.

## ADJUSTED BASIC EARNINGS PER SHARE (ADJUSTED BASIC EPS)

Basic EPS reflects the earnings from operations for each share of SGS S.A. 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.

<i>(CHF million)</i>	JUNE 2020	JUNE 2019
<b>ADJUSTED PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF SGS SA</b>	<b>194</b>	<b>280</b>
Weighted average number of shares ('000)	7 506	7 551
<b>ADJUSTED BASIC EARNINGS PER SHARE (CHF)</b>	<b>25.82</b>	<b>37.04</b>

## FREE CASH FLOW (FCF)

The free cash flow is deemed an important measure by management as it shows the capacity 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 cashflow.

<i>(CHF million)</i>	JUNE 2020	JUNE 2019
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>413</b>	<b>341</b>
Purchase of property, plant and equipment and other intangible assets	(108)	(130)
Disposal of property, plant and equipment and other intangible assets	5	5
<b>FREE CASH FLOW</b>	<b>310</b>	<b>216</b>

## OPERATING NET WORKING CAPITAL (ONWC) AS A PERCENTAGE OF REVENUES

Operating net working capital is one of the performance measures used by top management and analyzed internally by the business. 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 revenues for the last twelve months preceding the reporting date.

The ratio is compared to prior period at historical currency.

<i>(CHF million)</i>	JUNE 2020	JUNE 2019
<b>REVENUE FOR THE LAST 12 MONTHS</b>	<b>5 909</b>	<b>6 741</b>
<b>OPERATING NET WORKING CAPITAL</b>	<b>(12)</b>	<b>196</b>
<b>ASSETS (ONWC):</b>	<b>1 123</b>	<b>1 350</b>
Inventories	44	48
Unbilled revenues and work in progress	167	242
Trade receivables	788	956
Other operating receivables	124	104
<b>LIABILITIES (ONWC):</b>	<b>1 135</b>	<b>1 154</b>
Trade payables	257	299
Contract liabilities	194	127
Other creditors and accruals	480	539
Other operating payables	204	189
<b>OPERATING NET WORKING CAPITAL IN % OF REVENUE</b>	<b>(0.2%)</b>	<b>2.9%</b>

## 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.

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

The profit for the last twelve months has been presented excluding IFRS 16 impact within the financial statements for 2019 in order to be comparable with 2018 published figures. The formula has been simplified as of 2020 and is now based on Group's profit for the last twelve months. Therefore, in the table below the 2019 comparable shows a ROIC of 23.7% instead of 23.9% published in the 2019 HY results.

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:

<i>(CHF million)</i>	JUNE 2020	JUNE 2019
<b>PROFIT FOR THE LAST 12 MONTHS</b>	<b>480</b>	<b>793</b>
<b>NON-CURRENT ASSETS EXCL. RIGHT-OF-USE ASSETS</b>	<b>2 563</b>	<b>2 752</b>
Non-Current assets	3 124	3 369
Right-of-use assets	(561)	(617)
<b>NET WORKING CAPITAL</b>	<b>6</b>	<b>600</b>
<b>ASSETS</b>	<b>1 327</b>	<b>1 944</b>
Inventories	44	48
Unbilled revenues and work in progress	167	242
Trade receivables	788	956
Current tax assets	76	106
Other receivables and prepayments	259	605
Less derivative assets	(7)	(13)
<b>LIABILITIES</b>	<b>1 321</b>	<b>1 344</b>
Trade payables	257	299
Other payables	313	319
Provisions	77	60
Contract liabilities	194	127
Other creditors and accruals	480	539
<b>ROIC</b>	<b>18.7%</b>	<b>23.7%</b>

## NET DEBT

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

The net debt ratio has been presented excluding and including the IFRS 16 impact within the consolidated financial statements for 2019 in order to be comparable with 2018 published figures. The formula has been simplified as of 2020 and is now calculated based on the definition above.

This change had an effect of CHF 2 Mio, which corresponds to the short and long term finance leases, prior to the implementation of IFRS 16 on the Net Debt ratio published in 2019. This is the reason why the 2019 number in the table below shows a Net Debt of CHF 762 millions instead of CHF 764 millions published in 2019 reports.

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

<i>(CHF million)</i>	JUNE 2020	DECEMBER 2019
<b>CASH AND MARKETABLE SECURITIES</b>	<b>1 411</b>	<b>1 475</b>
Marketable securities	9	9
Cash and cash equivalents	1 402	1 466
<b>LOANS AND OTHER FINANCIAL LIABILITIES</b>	<b>2 703</b>	<b>2 237</b>
Non-current loans and other financial liabilities	2 399	2 199
Current loans and other financial liabilities	304	38
<b>NET DEBT</b>	<b>1 292</b>	<b>762</b>

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WHEN YOU NEED TO BE SURE

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