

SGS

# Half Year Alternative Performance Measures

2022





## Appendix to the 2022 Half year results

### For the period ended 30 June 2022

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 condensed 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, and are available following this link:

[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 are excluded for the 12 months prior to the divestiture.

The effect of changes in foreign exchange rates is calculated as the current year revenue converted at the current year's average exchange rates, less the prior period revenue converted at the current year's exchange rates.

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

A numerical reconciliation of this APM is included below:

(CHF million)

<b>Revenue June 2021</b>	<b>3 094</b>	
Currency impact	(47)	
<b>Revenue June 2021 CCY<sup>1</sup></b>	<b>3 047</b>	
<b>Growth in value and in % at CCY<sup>1</sup></b>		
Organic	176	5.8%
Acquisitions	32	1.0%
<b>Revenue June 2022</b>	<b>3 255</b>	<b>6.8%</b>

1. Constant currency (CCY).

#### 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 division 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 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

(CHF million)	June 2022	June 2021
<b>Operating income</b>	<b>423</b>	<b>430</b>
Amortization and impairment of acquired intangibles	19	19
Restructuring costs	10	1
Transaction and integration costs	6	7
<b>Adjusted operating income</b>	<b>458</b>	<b>457</b>

#### Adjusted operating income margin (AOI margin)

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

(CHF million)	June 2022	June 2021	June 2021 CCY
Adjusted operating income	458	457	451
Revenue	3 255	3 094	3 047
<b>Adjusted operating income margin</b>	<b>14.1%</b>	<b>14.8%</b>	<b>14.8%</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 2022	June 2021	June 2021 CCY
<b>Operating income</b>	<b>423</b>	<b>430</b>	<b>425</b>
Depreciation, amortization and impairment	255	248	244
<b>EBITDA</b>	<b>678</b>	<b>678</b>	<b>669</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.

(CHF million)	June 2022	June 2021	June 2021 CCY <sup>1</sup>
<b>Operating income</b>	<b>423</b>	<b>430</b>	<b>425</b>
Depreciation, amortization and impairment	255	248	244
<b>EBITDA</b>	<b>678</b>	<b>678</b>	<b>669</b>
Restructuring costs <sup>1</sup>	10	1	1
Transaction and integration costs	6	7	6
<b>Adjusted EBITDA</b>	<b>694</b>	<b>686</b>	<b>676</b>

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

**Adjusted profit attributable to shareholders**

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

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

(CHF million)	June 2022	June 2021
<b>Profit attributable to equity holder of SGS SA</b>	<b>276</b>	<b>272</b>
Amortization and impairment of acquired intangibles	19	19
Restructuring costs	10	1
Transaction and integration costs	6	7
Tax impact	(7)	(6)
Portion attributable to non-controlling interests	(1)	(1)
<b>Adjusted profit attributable to equity holders of SGS SA</b>	<b>303</b>	<b>292</b>

**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)	June 2022	June 2021
<b>Adjusted profit attributable to equity holders of SGS SA</b>	<b>303</b>	<b>292</b>
Weighted average number of shares ('000)	7 489	7 485
<b>Adjusted basic earnings per share (CHF)</b>	<b>40.37</b>	<b>38.87</b>

**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)	June 2022	June 2021
<b>Adjusted profit attributable to equity holders of SGS SA</b>	<b>303</b>	<b>292</b>
Diluted weighted average number of shares ('000)	7 504	7 491
<b>Adjusted dilutive earnings per share (CHF)</b>	<b>40.30</b>	<b>38.84</b>

### Free cash flow (FCF)

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

(CHF million)	June 2022	June 2021
<b>Cash flow from operating activities</b>	<b>263</b>	<b>342</b>
Purchase of property, plant and equipment and other intangible assets	(156)	(150)
Disposal of property, plant and equipment and other intangible assets	6	3
Operating lease outflows	(102)	(102)
<b>Free cash flow</b>	<b>11</b>	<b>93</b>

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

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

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

The ratio is compared to prior period at historical currency.

(CHF million)	June 2022	June 2021
<b>Revenue for the last 12 months</b>	<b>6 566</b>	<b>6 048</b>
<b>Operating net working capital</b>	<b>115</b>	<b>(4)</b>
<b>Assets (ONWC):</b>	<b>1 404</b>	<b>1 349</b>
Inventories	60	59
Unbilled revenues and work in progress	242	207
Trade receivables	975	951
Other operating receivables	127	132
<b>Liabilities (ONWC):</b>	<b>1 289</b>	<b>1 353</b>
Trade payables and other operating payables	531	582
Contract liabilities	229	234
Other creditors and accruals	529	537
<b>Operating net working capital in % of revenue</b>	<b>1.8%</b>	<b>(0.1%)</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.

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

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

(CHF million)	June 2022	June 2021
<b>Profit for the last 12 months</b>	<b>659</b>	<b>618</b>
<b>Non-current assets</b>	<b>3 405</b>	<b>3 434</b>
Non-current assets	4 015	4 066
Right-of-use assets	(610)	(632)
<b>Net working capital</b>	<b>170</b>	<b>45</b>
<b>Assets</b>	<b>1 635</b>	<b>1 573</b>
Inventories	60	59
Unbilled revenues and work in progress	242	207
Trade receivables	975	951
Current tax assets	107	105
Other receivables and prepayments	278	257
Less derivative assets	(27)	(6)
<b>Liabilities</b>	<b>1 465</b>	<b>1 528</b>
Trade payables and other payables	646	690
Provisions	61	67
Contract liabilities	229	234
Other creditors and accruals	529	537
<b>ROIC</b>	<b>18.4%</b>	<b>17.8%</b>

**Net debt**

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

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

(CHF million)	June 2022	December 2021
<b>Cash and marketable securities</b>	<b>1 118</b>	<b>1 480</b>
Cash and cash equivalents	1 118	1 480
<b>Loans and Other financial liabilities</b>	<b>3 481</b>	<b>3 171</b>
Non-current loans and other financial liabilities	2 522	2 889
Current loans and other financial liabilities	959	282
<b>Net debt</b>	<b>2 363</b>	<b>1 691</b>



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