

2020 FULL YEAR ALTERNATIVE PERFORMANCE MEASURES

Appendix to the 2020 Full Year Results

For the period ended 31 December 2020

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 deem 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

CONSTANT CURRENCY (CCY)

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

ORGANIC REVENUE GROWTH (ORGANIC)

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

For the purpose of calculating the organic revenue, the results from acquisitions are excluded for the 12 months following the date of a business combination, while results generated by a divested unit are excluded for the 12 months prior to the divestiture.

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

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

A numerical reconciliation of this APM is included below:

(CHF million)

REVENUE DECEMBER 2019	6 600	
Currency impact	(452)	
REVENUE DECEMBER 2019 CCY¹	6 148	
GROWTH IN VALUE AND IN % AT CCY¹		
Organic	(401)	(6.5%)
Acquisitions	45	0.7%
Disposals	(188)	(3.0%)
REVENUE DECEMBER 2020	5 604	(8.8%)

1. Constant currency (CCY)

ADJUSTED OPERATING INCOME (AOI)

The adjusted operating income that is disclosed in our financial highlights and our segment disclosures in Note 4 of our 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)	December 2020	December 2019
OPERATING INCOME	795	1 082
Amortization and impairment of acquired intangibles	31	36
Restructuring costs	84	89
Goodwill impairment	37	21
Gain on business disposals	(63)	(268)
Transaction and integration costs	16	19
Other non-recurring items ¹	–	84
ADJUSTED OPERATING INCOME	900	1 063

1. 2019 included mainly tax provisions of CHF 33 million, impairment of fixed and intangible assets of CHF 24 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)	December 2020	December 2019	December 2019 CCY
Adjusted operating income	900	1 063	978
Revenue	5 604	6 600	6 148
ADJUSTED OPERATING INCOME MARGIN	16.1%	16.1%	15.9%

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)	December 2020	December 2019	December 2019 CCY
OPERATING INCOME	795	1 082	994
Depreciation, amortization and impairment	517	548	516
EBITDA	1 312	1 630	1 510

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)	December 2020	December 2019	December 2019 CCY
OPERATING INCOME	795	1 082	994
Depreciation, amortization and impairment	517	548	516
EBITDA	1 312	1 630	1 510
Restructuring costs ¹	59	80	73
Gain on business disposals	(63)	(268)	(253)
Transaction and integration costs	16	19	18
Other non-recurring items ²	–	60	60
ADJUSTED EBITDA	1 324	1 521	1 408

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 for 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:

(CHF million)	December 2020	December 2019
PROFIT ATTRIBUTABLE TO EQUITY HOLDER OF SGS SA	480	660
Amortization and impairment of acquired intangibles	31	36
Restructuring costs	84	89
Goodwill impairment	37	21
Gain on business disposals	(63)	(268)
Transaction and integration costs	16	19
Other non-recurring items ¹	–	84
Tax impact	(4)	25
Portion attributable to non-controlling interests	(16)	–
ADJUSTED PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF SGS SA	565	666

1. 2019 included mainly tax provisions of CHF 33 million, impairment of fixed and intangible assets of CHF 24 million and the remeasurement of the defined benefit obligation of the Swiss pension fund of CHF 10 million

ADJUSTED BASIC EARNINGS PER SHARE (ADJUSTED BASIC EPS)

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

(CHF million)	December 2020	December 2019
ADJUSTED PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF SGS SA	565	666
Weighted average number of shares ('000)	7 489	7 552
ADJUSTED BASIC EARNINGS PER SHARE (CHF)	75.44	88.17

FREE CASH FLOW (FCF)

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

The FCF definition has been modified in 2020 and now includes operating lease outflows. Therefore, in the table below, the 2019 comparable shows a FCF of CHF 673 million instead of CHF 870 million published in the 2019 full year results report.

(CHF million)	December 2020	December 2019
CASH FLOW FROM OPERATING ACTIVITIES	1 186	1 149
Purchase of property, plant and equipment and other intangible assets	(259)	(290)
Disposal of property, plant and equipment and other intangible assets	13	11
Operating lease outflows	(182)	(197)
FREE CASH FLOW	758	673

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 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 revenue for the last twelve months preceding the reporting date.

The ratio is compared to prior period at historical currency.

(CHF million)	December 2020	December 2019
REVENUE FOR THE LAST 12 MONTHS	5 604	6 600
OPERATING NET WORKING CAPITAL	(138)	19
ASSETS (ONWC):	1 148	1 265
Inventories	57	45
Unbilled revenues and work in progress	160	195
Trade receivables	856	953
Other operating receivables	75	72
LIABILITIES (ONWC):	1 286	1 246
Trade payables	322	336
Contract liabilities	189	155
Other creditors and accruals	551	574
Other operating payables	224	181
OPERATING NET WORKING CAPITAL IN % OF REVENUE	(2.5%)	0.3%

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.

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

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 the Group's profit for the last twelve months. Therefore, in the table below, the 2019 comparable shows a ROIC of 25.2% instead of 25.5% published in the 2019 full year result.

On 31 December 2020 the Group has made a significant acquisition, SYNLAB Analytics & Services, adding a total of CHF 627 million of non-current assets to its consolidated statement of financial position. As this acquisition did not have any impact on the Group's profit for the last 12 months, ROIC excluding SYNLAB Analytics & Services is also disclosed for December 2020 as a better comparable value to the one disclosed in 2019.

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

(CHF million)	December 2020	SYNLAB Analytics & Services (A&S)	December 2020 excl. A&S acquisition	December 2019
PROFIT FOR THE LAST 12 MONTHS	505	–	505	702
NON-CURRENT ASSETS EXCL. RIGHT-OF-USE ASSETS	3 205	627	2 578	2 752
Non-current assets	3 795	659	3 136	3 363
Right-of-use assets	(590)	(32)	(558)	(611)
NET WORKING CAPITAL	(153)	6	(159)	33
ASSETS	1 330	54	1 276	1 474
Inventories	57	4	53	45
Unbilled revenues and work in progress	160	–	160	195
Trade receivables	856	31	825	953
Current tax assets	77	1	76	77
Other receivables and prepayments	188	18	170	219
Less derivative assets	(8)	–	(8)	(15)
LIABILITIES	1 483	48	1 435	1 441
Trade payables	322	36	286	336
Other payables	336	–	336	302
Provisions	85	–	85	74
Contract liabilities	189	3	186	155
Other creditors and accruals	551	9	542	574
ROIC	16.5%	–	20.9%	25.2%

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 and is how we have presented 2020 net debt.

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.

This change had an effect of CHF 2 million, 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 million instead of CHF 764 million published in 2019 reports.

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

(CHF million)	December 2020	December 2019
CASH AND MARKETABLE SECURITIES	1 775	1 475
Marketable securities	9	9
Cash and cash equivalents	1 766	1 466
LOANS AND OTHER FINANCIAL LIABILITIES	3 253	2 237
Non-current loans and other financial liabilities	2 390	2 199
Current loans and other financial liabilities	863	38
NET DEBT	1 478	762

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