

Company Review

Sector:

Business Services

Event:

Company review

Fair value NZB:

CHF 2177

Rating:

Buy

Price Target:

CHF 1900

Analyst:

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Date:

10 February 2011

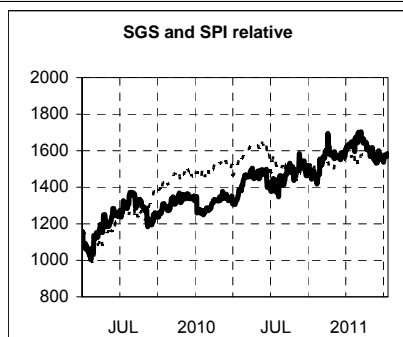
The forgotten stock

FY 2010 figures supported our bullish stance on the shares at all levels. Organic sales growth is converging back towards double digit rates, as the group's optimistic outlook behind cyclical divisions tends to suggest; Operating leverage surprised on the upside with margins reaching an all time high of 19% in H2 2010. Investors will remember management downplayed margin expansion in H2 2010 last September.

We believe upward revisions on the projected organic sales growth forecasts 2011-13E are still possible at market level. We see substantial upside on margin estimates over the same period. Operational leverage has been averaging nearly two times sales growth over the past 10 years for SGS. This has especially been the case in periods of double-digit organic sales growth. This does not appear to be factored in current market estimates for 2011-12E, considering that the projected average underlying operating leverage stands at between 0.8x and 1.2x (adjusted for investment plan). Our y/y EBITA progression 2011-12E stands at c11% and c23% respectively (post cCHF 40m investments in 2011, cCHF 50m in 2012). This compares to consensus EBITA growth of c3% and c15% for 2011-12E, respectively. We believe this is too conservative and think margin expansion could – again – surprise on the upside in 2011-12E. This is particularly true for H1 2011, which will be confronted with easy comps 2010 and will not be affected by investment costs. Our 2011-12E estimates are, on average, 12% above consensus.

On a relative basis, all VTIC stocks experienced share price consolidation from the peak reached in November of last year. SGS has been among the worst performers in the past 12 months among VTIC names. 2011 earnings momentum stabilized and upward revisions on consensus estimates could be a matter of fact short term, also on the back of supportive news flow in the coming quarters at VTIC peers. Following the latest pullback, valuation has become even more attractive for SGS, currently trading on less than 9x projected 2012E EBITDA, well below historical average. This offers attractive entry level for such a quality pick in the Business Service space. BUY, PT CHF1900.

Market cap.	CHF m	11872	Key figures	2009	2010	2011E	2011E	2012E	CAGR
Last price	CHF	1583	(CHF)						07-12E
52 week high	CHF	1709	Net revenues (m)	4712	4757	5344	6234	7025	7.4
52 week low	CHF	1302	Growth rate (%)	-2.2	1.0	12.3	16.7	12.7	
YTD performance	%	0.9	EBITDA (m)	1,037	1,073	1,193	1,456	1,688	9.9
Economic value	CHF	2177	Margin (%)	22.0	22.5	22.3	23.4	24.0	
Soft factor ded.	%	0.0	EBIT (m)	814	848	943	1,162	1,357	10.3
Fair value NZB	CHF	2177	Margin (%)	17.3	17.8	17.7	18.6	19.3	
Div. ranking shs	m	7.6	Net profit (m)	566	588	675	831	950	10.7
Symbols	SGSN.VX, SGSN VX		Dividend	60.0	65.0	58.5	62.4	66.6	5.6



EPS revision	2009	2010	2011E	2012E	2013E	CAGR
EPS new	75.5	77.6	89.1	109.8	125.5	11.1
EPS old			82.8	88.0	109.2	
% change			7.7	24.7	14.9	

Valuation (x)	2009	2010	2011E	2012E	2013E
P / E	16.2	19.4	17.9	14.5	12.7
P / CEPS	15.2	18.3	16.9	13.9	12.2
P / BV	4.4	5.5	5.3	4.6	3.9
EV / EBITDA	9.5	10.6	10.0	8.2	7.0
Dividend yield (%)	4.9	4.3	3.7	3.9	4.2

■ Investment summary

FY 2010 figures supported our bullish stance on the shares at all levels.

Organic sales growth is converging back towards double digit rates, as the group optimistic outlook behind cyclical divisions tend to suggest; operating leverage surprised on the upside with margins reaching an all time high of 19% in H2 2010, implying y/y margin expansion of nearly 70bp (adjusted). This was achieved on modest sales growth of less than 1% in H2 2010. Investors will remember management downplayed margin expansion in H2 2010 last September.

We believe the market is underestimating the operating leverage at VTIC companies in combination with stronger-than-expected sales momentum (pricing / volume / mix), disciplined cost spending. This has been averaging 2.0x times sales growth over the past decade, especially in times of double-digit organic sales growth. In addition to this we note that most VTIC companies have implemented cost cutting or restructuring, which suggests that organic growth rates similar to the ones observed in the past cycle could lead to higher operating leverage. Moreover some of the group businesses acquired since December 2010 (i.e. Vehicle Inspection in Spain/Argentina) are assumed to bear better than group operating margins. This should eventually result in an accretive effect at group level in 2011. All of this does not appear to be factored into current market estimates for 2011–12E considering that the projected average underlying operating leverage stands at between 0.8 and 1.2x over that period (by stripping out costs inherent to the group investment plan).

A squeeze on group margins has been re-confirmed by management for the current year in the occasion of the FY 2010 result presentation, though not quantified. In parallel, SGS elaborated on the phasing of the investment plan 2014 totaling CHF 150m. We understand more than CHF 50m investments will not be likely in 2011 (we are factoring CHF 40m in our estimates). This will impact modestly on the first half of the year, with full impact on H2 2011. The remaining CHF 110m investment plan will be split evenly between 2012-13 (we estimate CHF 60m in 2012E and CHF 50 in 2013E).

As investors will recall, we were looking for 2/3 of the investment plan charged to 2011 and the remainder to 2012 (please refer to our latest report on 18 October 2010). All of this leads us to believe SGS is downplaying expectations for 2011–12E margins, seen recovering back to the 2010E level by end 2012E at the earliest. We expect margins for 2011–13E to surpass current market expectations.

Visibility on cash flow generation remains at high levels for the current year according to management, despite a transitional year 2010 with sales growth below historical average. This resulted in a special dividend payout of CHF 35 (fourth year in a row that SGS distributes special dividends). On the back of the aforementioned factors (sales recovery, better than expected operating leverage, visibility on FCF generation) we believe special dividends could remain a topic over the 2011-14 periods.

M&A - acceleration has already been evident in the past 2 months, with 7 acquisitions closed since December 2010. We foresee CAPEX spending 2011-12E at 7-8% of sales vs. 6% historical and are projecting acquisitions to contribute to sales growth by 4-5% in 2011-12E (for 2011 2% already locked in on last December's acquisition). We think the group will mostly focus on bolt-on non-margin dilutive acquisitions, and we believe it has cancelled large expensive deals from its shopping list.

Conclusion and recommendation

Verification Testing Inspection and Certification (VTIC) stocks experienced share price consolidation from the peak reached in November of last year. Sector valuation is high at 16-17x times 2012E earnings but not particularly stretched for an industry increasing sales in the low teens organically, with substantial revenue and cash flow generation visibility (6 to 12 month backlogs combined with structural drivers). We believe that multiple expansion could increase from here and converge towards the historical average of 18–20x.

We expect news flow to remain supportive in the coming quarters. Q4 2010 figures at Intertek and Bureau Veritas should point to further sequential acceleration in sales growth.

Among VTIC names, SGS has been one of the worst performers in the past 12 months. All names in VTIC underperformed the MSCI Europe index YTD.

We highlight earnings momentum on 2011 stabilized for SGS and the shares have found a bottom with FY 2010 result publication which showed better than expected margin expansion despite limited sales leverage.

SGS is trading at less than 15x forward 2012E P/E and 8x EV/EBITDA, below historical average. A reasonable DCF on SGS yields economic value in excess of CHF 2,000. Our 2011-12E EPS are, on average, 12% above consensus. We reiterate our BUY and PT of CHF 1900.

Fig. 1: Upcoming sector catalysts

Date	Event
28 February 2011	Bureau Veritas, FY 2011
7 March 2011	Intertek, FY 2010
26-27 May 2011	SGS Investor Day in Canada

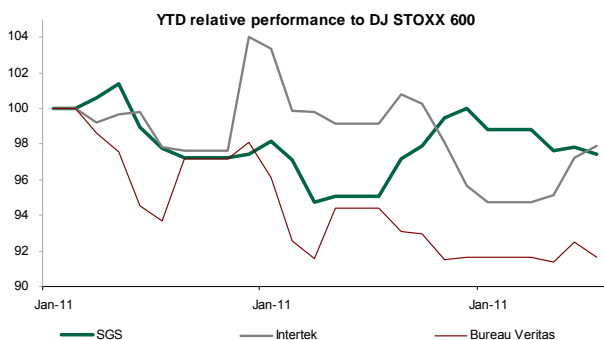
Source: Company data

■ Share-price performance and valuation

Share-price performance

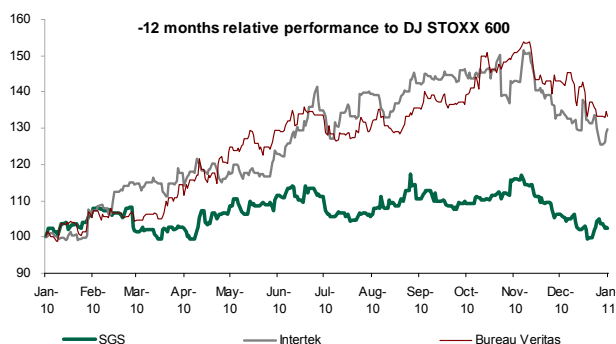
On a relative basis, Verification Testing Inspection and Certification (VTIC) stocks experienced share price consolidation from their peaks reached in November of last year. Among VTIC names, SGS has been one of the worst performer in the past 12 months, whilst for all names in VTIC year-to-date performance has been low in relation to DJ EU Stoxx Index. By putting VTIC stocks in a broader context, we note Bureau Veritas and Intertek widely outperformed Business services stocks on a 12 months basis, posting relative performances between +35-40%. SGS, however, underperformed, with a modest +6% relative performance.

Fig. 2: Relative YTD performance (indexed)



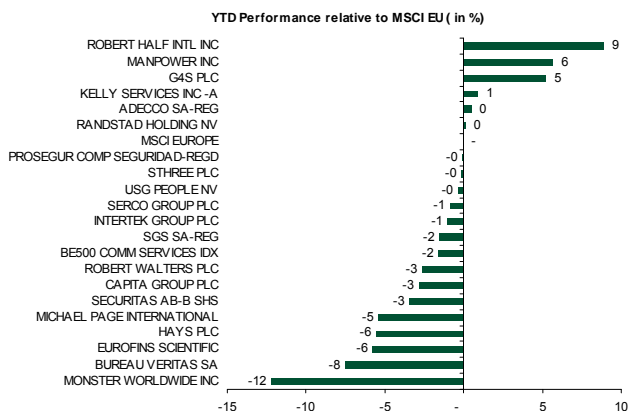
Source: Bloomberg, NZB

Fig. 3: Relative 12 months performance (indexed)



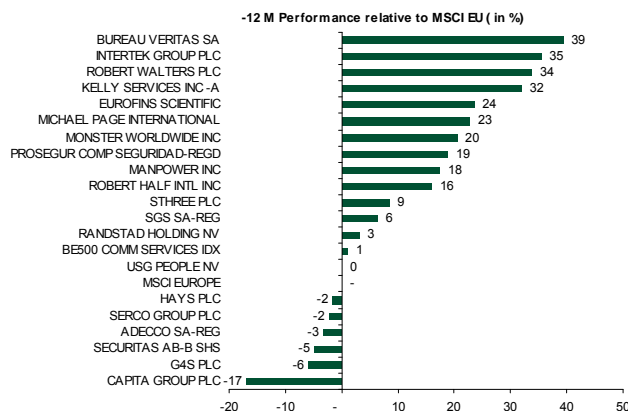
Source: Bloomberg, NZB

Fig. 4: Relative YTD performance (indexed)



Source: Bloomberg, NZB

Fig. 5: Relative 12 months performance (indexed)



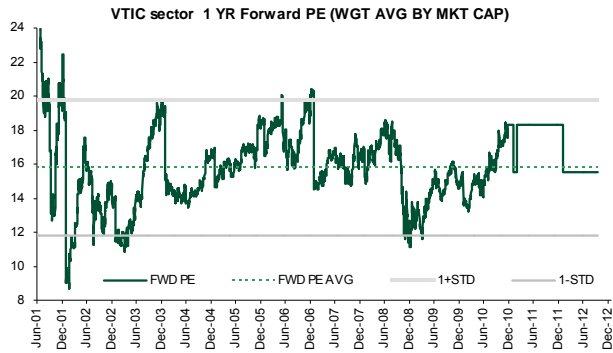
Source: Bloomberg, NZB

Absolute and relative valuation

Sector valuation (weighted average by market capitalization) on projected 2012E earnings is broadly in line with the high-teen average observed historically. The same applies to EV/EBITDA multiples. This is practically full, though not overly stretched considering that mid- to -high cycle multiples have ranged in the high teens - low 20s times earnings and in the low teens on EBITDA, excluding peak levels.

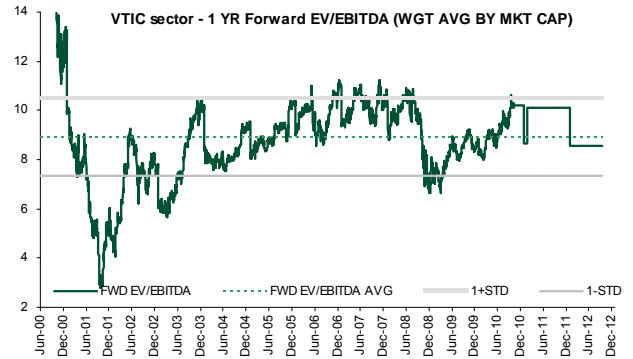
On a relative basis, the VTIC sector has been trading at an average (normalized) 25%–30% premium to the broad market (DJ EU Stoxx Index). Even from that perspective we highlight that the valuation premium is back to normalized levels on projected 2011–12E multiples, as well as EBITDA. In addition, we highlight that the broad market's forward multiples are depressed by financials, which are currently trading well below their historical average.

Fig. 6: VTIC sector 1-year-forward P/E*



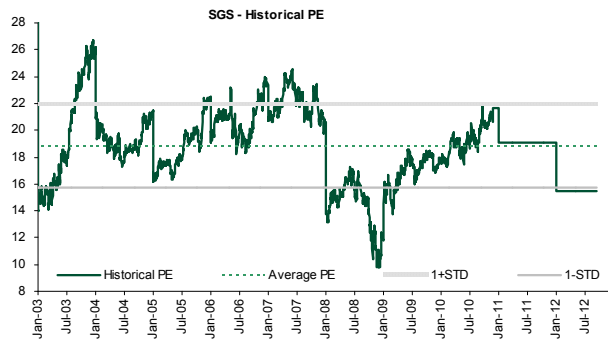
Source: NZB, industry data (*weighted average by market cap)

Fig. 7: VTIC sector 1-year-forward EV/EBITDA*



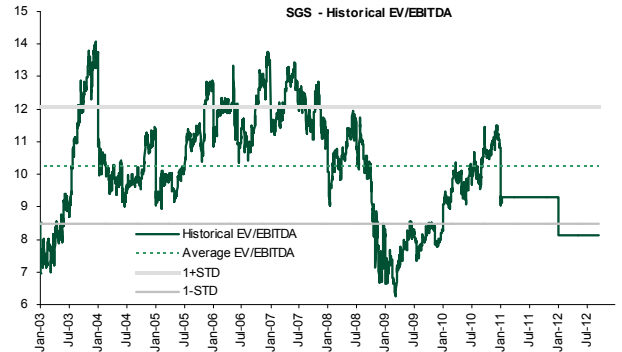
Source: NZB, industry data (*weighted average by market cap)

Fig. 8: SGS forward P/E (NZB estimates)



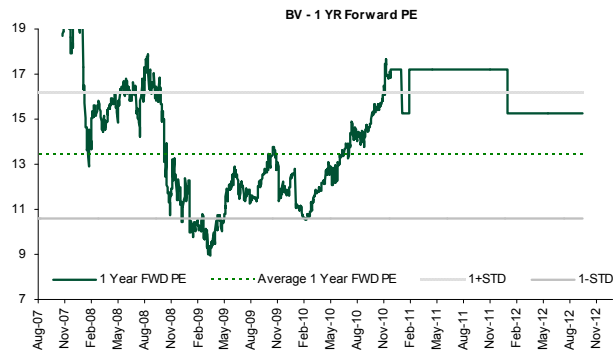
Source: NZB, Thomson

Fig. 9: SGS forward EV/EBITDA (NZB estimates)



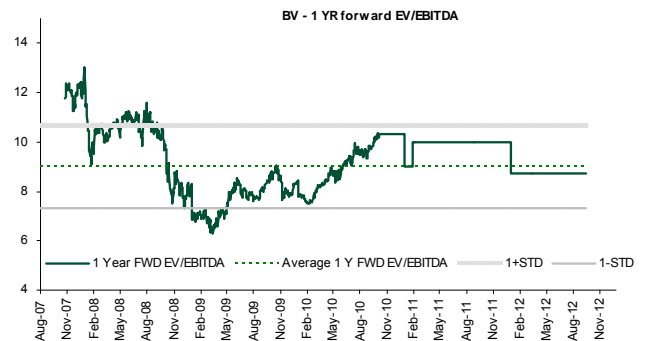
Source: NZB, Thomson

Fig. 10: BV forward P/E (consensus est.)



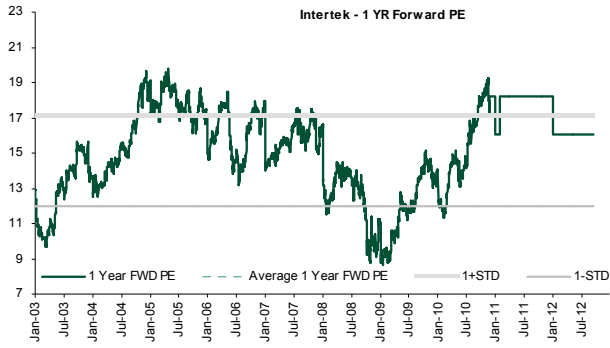
Source: NZB, Thomson

Fig. 11: BV forward EV/EBITDA (consensus est.)



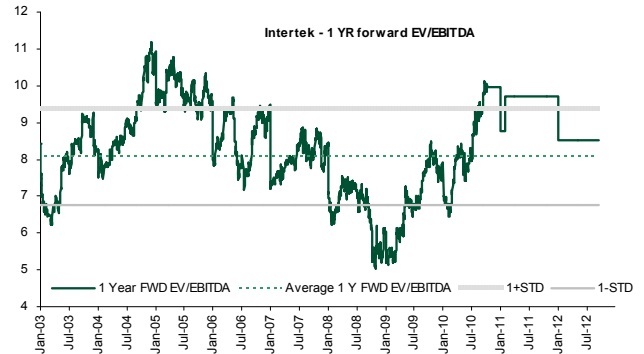
Source: NZB, Thomson

Fig. 12: Intertek forward P/E (consensus est.)



Source: NZB, Thomson

Fig. 13: Intertek forward EV/EBITDA (consensus est.)

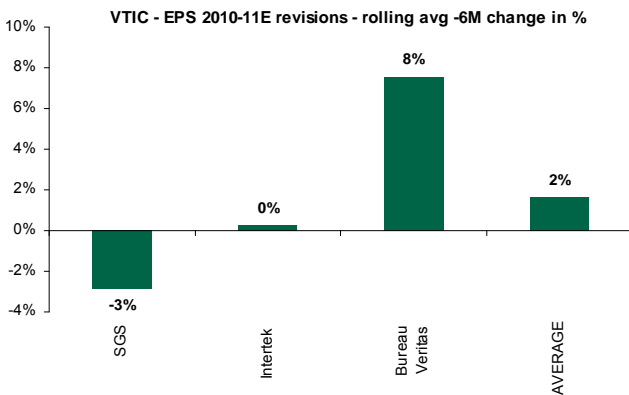


Source: NZB, Thomson

Earnings momentum

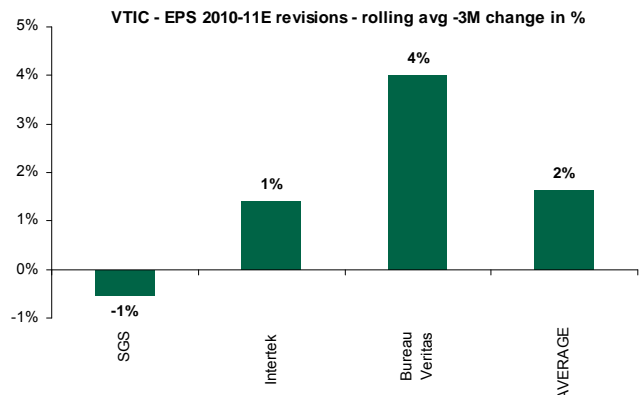
Earnings momentum has been moderately supportive for VTIC stocks over the past 3 and 6 months, considering a +2% uptick on average. Bureau Veritas enjoyed the sharpest upward revisions of 2010-11E earnings estimates over the past 3 and 6 months, followed by Intertek. SGS suffered from minor earnings downgrades, particularly by the end of last year on 2010 earnings. Nevertheless, 2011 estimates have somewhat remained stable over the last 3 and 6 months. This is noticeable in the following charts.

Fig. 14: VTIC – earnings momentum EPS 2010–11E*



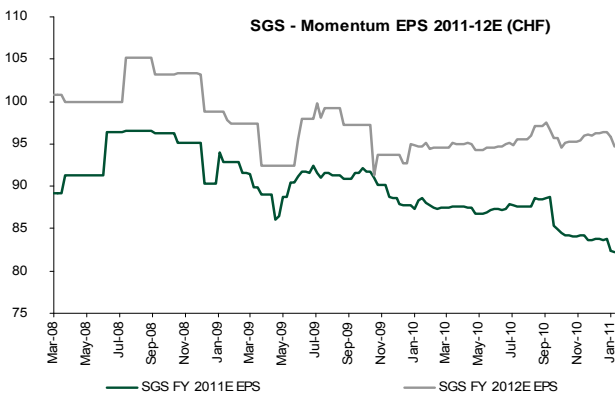
Source: Bloomberg, NZB, Thomson - *SGS – 2011-12E

Fig. 15: VTIC – earnings momentum EPS 2010–11E*



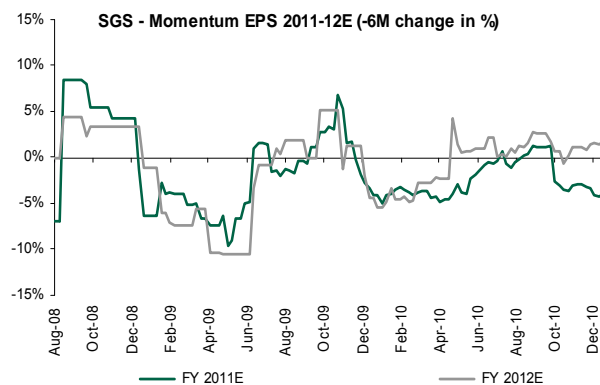
Source: Bloomberg, NZB, Thomson - *SGS – 2011-12E

Fig. 16: SGS earnings momentum EPS 2011–12E



Source: Bloomberg, NZB, Thomson

Fig. 17: SGS revision EPS 2011–12E –6M



Source: Bloomberg, NZB, Thomson

Fig. 18: Business Services and VTIC – peer group valuation (consensus estimates)

Valuation	Curr	Last	M Cap (LC m)	P/Sales				P/E				EV/SALES				EV/EBITDA				EV/GROSS PROFIT			
				09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E
Business Services																							
SGS	CHF	1576	12328	2.6	2.4	2.2	2.0	20.4	20.4	19.2	16.6	2.5	2.5	2.3	2.1	9.4	9.4	10.6	9.1	n.m.	2.5	2.5	2.3
Intertek	GBP	18	2843	2.3	2.1	1.9	1.8	23.1	20.0	17.5	15.5	2.5	2.2	2.0	1.8	11.7	10.8	9.5	8.3	11.2	10.3	9.2	8.2
Bureau Veritas	EUR	53	5831	2.2	2.0	1.7	1.6	24.7	18.6	16.2	14.3	2.5	2.4	2.0	1.8	13.4	12.5	10.4	9.0	n.m.	n.a.	n.a.	n.a.
Eurofins	EUR	48	686	1.1	1.0	0.9	0.9	n.m.	32.2	19.8	14.5	1.4	1.4	1.3	1.1	11.8	9.7	7.6	6.2	n.m.	n.a.	n.a.	n.a.
Staffing Generalists																							
Adecco	EUR	64	12103	0.6	0.5	0.5	0.4	59.9	22.2	16.9	13.7	0.6	0.5	0.5	0.4	24.9	12.1	9.4	7.6	3.6	3.0	2.6	2.3
Randstad	EUR	42	7057	0.6	0.5	0.4	0.4	99.0	21.0	16.0	12.8	0.7	0.6	0.5	0.4	23.3	13.3	9.8	7.7	3.3	3.0	2.6	2.3
Manpower	USD	66	5375	0.3	0.3	0.3	0.2	57.6	39.5	23.9	16.4	0.3	0.3	0.3	0.2	25.6	13.6	10.0	8.1	1.8	1.7	1.6	1.4
Staffing Specialists																							
Hays	GBP	1	1683	0.6	0.6	0.5	0.4	40.1	23.8	16.4	11.9	0.7	0.6	0.5	0.5	n.a.	13.4	10.0	7.6	n.m.	2.6	2.4	2.1
Michael Page	GBP	5	1653	2.3	2.0	1.7	1.4	140.6	35.2	22.7	15.8	2.1	1.9	1.6	1.3	47.4	18.3	12.5	8.6	4.3	3.6	3.0	2.5
Sthree	GBP	4	471	1.0	0.8	0.7	0.6	30.9	20.6	13.5	10.8	0.9	0.8	0.6	0.5	15.2	10.2	7.0	5.6	2.5	2.1	1.7	1.4
Robert W	GBP	3	242	0.8	0.6	0.5	0.5	n.m.	29.3	18.4	13.2	0.7	0.6	0.5	0.4	42.5	14.2	9.7	6.8	2.2	1.5	1.3	1.1
USG People	EUR	16	1238	0.4	0.4	0.4	0.3	n.m.	24.4	15.0	10.9	0.5	0.5	0.4	0.4	28.9	12.7	8.5	6.3	2.4	2.2	2.0	1.7
Robert Half	USD	32	4678	1.5	1.3	1.1	1.0	n.m.	33.6	21.7	16.6	n.a.	1.2	1.0	0.8	n.a.	15.1	10.3	7.4	n.a.	3.0	2.5	2.0
Monster	USD	16	2068	2.3	1.9	1.6	1.5	n.m.	n.m.	18.9	14.7	2.2	1.7	1.3	1.1	80.9	9.7	6.6	5.0	n.m.	n.a.	n.a.	n.a.
Others																							
G4S	GBP	3	3740	0.5	0.5	0.5	0.5	17.1	12.6	11.8	10.6	0.6	0.6	0.5	0.5	8.2	7.9	7.3	6.7	3.4	3.3	3.0	2.8
Securitas	SEK	77	28073	0.4	0.5	0.4	0.4	13.5	12.7	12.0	10.9	0.6	0.6	0.5	0.5	7.8	7.9	7.4	6.7	3.1	3.2	3.0	2.8
Prosegur	EUR	44	2688	1.2	1.1	1.0	1.0	16.9	16.5	14.1	12.7	1.4	1.2	1.1	1.0	10.2	8.6	7.8	6.9	n.m.	1.2	1.1	1.0
Capita	GBP	7	4136	1.5	1.5	1.4	1.3	20.2	15.6	14.4	13.0	1.4	1.4	1.3	1.1	12.9	10.7	9.8	8.6	6.6	6.3	5.8	5.1
Serco	GBP	6	2720	0.7	0.6	0.6	0.5	20.5	16.4	14.6	12.8	0.6	0.5	0.5	0.4	10.8	9.6	8.6	7.4	5.2	4.7	4.3	3.7
Average VTIC¹⁾																							
				2.4	2.2	2.0	1.8	22.2	19.8	18.0	15.7	2.5	2.5	2.2	2.0	11.0	10.6	10.4	9.0	n.m.	2.7	2.5	2.3
Average Staffing¹⁾				0.8	0.7	0.6	0.6	37.0	19.5	14.2	10.7	0.5	0.6	0.5	0.4	18.3	9.7	7.1	5.5	n.m.	1.9	1.6	1.4
Global Business services				1.6	1.5	1.3	1.2	29.6	19.6	16.1	13.2	1.5	1.5	1.3	1.2	14.7	10.2	8.7	7.2	n.m.	2.3	2.1	1.8
¹⁾ Weighted avg by market cap																							
SGS P/D to VTIC				7	7	9	8	-8	3	7	6	1	4	7	8	-15	-11	2	1	n.m.	-5	0	1
SGS P/D to Business Services				59	63	65	65	-31	4	19	26	69	68	75	78	-36	-7	21	26	n.m.	11	21	24
Adecco P/D to Staffing				-25	-29	-27	-25	62	14	19	28	29	-8	-5	0	36	25	32	38	n.m.	60	61	66
Adecco P/D to Bus. S.				-61	-66	-65	-65	103	13	5	3	-57	-65	-65	-65	70	19	7	4	n.m.	32	27	27

Source: IBES consensus for all estimates - NZB, Bloomberg, industry data

Sector operating margins are projected to expand further in 2011–12E on sales leverage, mix, and tightened cost structures. SGS is an exception here, given the group's 2014 Investment Plan.

Fig. 19: Business Services and VTIC – margins and growth (consensus estimates)

Margins / Growth in %	EBITDA m				EBIT m				NET m				Sales q				EBITDA q				EPS q						
	09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E	09	10E	11E	12E			
Business Services																											
VTIC																											
SGS	26.0	27.0	22.2	23.3	17.3	17.6	17.1	17.8	17.3	12.4	12.1	12.7	6	1	8	11	5	5	16	15	5	0	7	15			
Intertek	21.0	20.5	20.9	21.3	15.9	15.8	16.3	16.5	9.3	10.6	11.1	11.5	23	9	9	9	9	27	6	11	11	22	16	14			
Bureau Veritas	18.4	19.0	19.3	19.8	15.3	16.1	16.3	16.7	9.5	10.7	10.7	11.2	4	10	16	8	13	13	17	11	15	25	15	13			
Eurofins	11.6	14.2	16.5	18.1	5.5	7.6	10.1	11.5	-1.8	3.2	4.9	6.1	1	6	7	8	-7	31	25	19	-91	1221	62	37			
Staffing Generalists																											
Adecco	2.6	4.4	5.0	5.5	1.7	3.7	4.3	4.9	0.1	2.3	2.8	3.2	-26	25	10	9	-62	115	25	20	-75	182	31	24			
Randstad	2.8	4.2	5.0	5.6	0.8	2.4	3.5	4.3	0.6	2.4	2.9	3.3	-12	14	12	9	-53	73	32	23	227	395	31	26			
Manpower	1.2	2.2	2.7	3.0	0.6	1.8	2.3	2.9	-0.1	0.7	1.1	1.5	-26	17	12	12	-74	106	37	25	-72	53	65	46			
Staffing Specialists																											
Hays	3.5	4.5	5.5	6.3	3.0	3.8	4.8	5.5	0.3	2.3	3.1	3.7	10	12	12	13	-44	44	35	31	-58	59	45	38			
Michael Page	4.5	10.3	12.5	14.9	2.9	8.6	10.8	13.0	1.7	5.9	7.6	9.0	-26	16	18	18	-78	168	44	40	-87	288	55	44			
Sthree	5.8	7.4	9.1	9.4	4.5	6.2	8.0	8.3	3.0	4.1	5.4	5.6	-9	18	17	20	18	51	44	24	9	59	52	25			
Robert W	1.8	3.9	5.0	6.1	0.6	3.0	4.0	5.1	0.1	2.0	2.7	3.6	-11	37	13	12	-76	205	44	37	-96	1584	59	39			
USG People	1.9	3.9	5.1	6.0	0.0	2.2	3.7	4.8	-1.0	1.6	2.6	3.2	-25	3	9	9	-76	113	44	28	n.m.	n.m.	63	37			
Robert Half	5.4	7.7	9.5	10.7	3.6	6.2	8.6	10.1	2.1	3.7	5.0	5.8	5	15	15	14	31	66	42	28	83	115	55	30			
Monster	2.7	17.3	20.3	22.3	-4.6	8.3	12.6	n.a.	-3.5	4.7	8.6	7.3	1	22	13	8	-68	667	33	18	-275	-709	98	28			
Others																											
G4S	9.1	9.0	9.1	9.1	6.0	6.5	6.6	6.7	2.9	4.1	4.2	4.3	18.2	5.0	3.6	5.7	19.6	4.1	4.3	6.2	12.0	41.3	6.6	11.6			
Securitas	7.5	7.5	7.5	7.7	5.8	5.8	5.8	6.0	3.4	3.5	3.6	3.8	10.8	-2.4	4.0	4.4	3.4	-2.4	4.6	6.7	6.4	3.8	6.3	9.8			
Prosegur	13.5	13.5	13.8	14.0	10.7	10.8	11.0	11.3	6.9	6.4	7.1	7.5	6.6	14.9	5.5	5.8	14.9	15.2	7.7	7.3	22.1	5.4	16.9	11.3			
Capita	14.2	16.6	16.7	16.7	11.1	13.6	14.0	13.9	7.0	9.6	9.8	10.1	10.1	2.3	5.7	9.2	2.7	19.6	6.4	9.0	25.7	25.8	8.5	10.9			
Serco	7.2	7.2	7.3	7.4	5.3	5.8	6.0	6.1	3.3	3.8	4.0	4.2	27.1	8.6	6.4	8.7	37.5	9.1	7.6	10.6	36.5	24.6	12.5	13.5			
Average VTIC¹⁾																											
				19.2	20.2	19.7	20.6	13.5	14.3	14.9	15.6	8.6	9.2	9.7	10.4	8.6	6.5	9.9	9.1	9.6	13.9	17.3	13.8	-12.2	315.6	24.4	19.6
Average Staffing¹⁾				3.2	6.6	8.0	9.0	1.3	4.6	6.3	6.5	0.3	3.0	4.2	4.6	-11.9	18.0	13.2	12.3	-48.2	160.8	37.9	27.3	-38.4	225.1	55.5	33.6
Global Business Serv.				11.2	13.4	13.8	14.8	7.4	9.4	10.6	11.1	4.5	6.1	6.9	7.5	-1.7	12.2	11.5	10.7	-19.3	87.4	27.6	20.6	-25.3	270.3	39.9	26.6
¹⁾ Weighted avg by market cap																											
SGS P/D to VTIC				35	34	12	13	28	23	1																	

Fig. 20: Business Services and VTIC – yields and returns (consensus estimates)

Yield and Return	Payout (%)			Div Yield (%)			PEG ratio (09-12E)			ROIC (%)			EV/IC				Conversion rate							
	09	10E	11E	12E	09	10E	11E	12E	10E	11E	12E	10E	11E	12E	08	09	10E	11E	12E	09	10E	11E	12E	
Business Services																								
VTIC																								
SGS	39	61	56	54	1.9	3.2	3.4	3.7	1.7	1.6	1.4	33	38	43	7.2	6.1	6.1	6.1	6.1	n.a.	19%	19%	18%	19%
Intertek	13	32	32	31	0.6	1.6	1.8	2.0	1.4	1.2	1.1	41	46	51	8.2	8.0	7.9	7.7	7.5	72%	73%	76%	77%	
Bureau Veritas	37	33	33	34	1.6	1.8	2.0	2.3	1.1	0.9	0.8	n.m.	n.m.	n.m.	n.a.	17.7	18.8	18.3	17.7	n.a.	n.a.	n.a.	n.a.	
Eurofins	89	9	7	6	0.2	0.3	0.4	0.4	0.2	0.1	0.1	n.m.	n.m.	n.m.	3.3	4.4	4.8	4.7	4.5	n.a.	8%	10%	12%	
Staffing Generalists																								
Adecco	122	41	41	41	1.2	1.1	1.5	1.8	0.3	0.3	0.2	15	19	23	3.3	3.0	3.1	3.0	2.9	10%	21%	24%	27%	
Randstad	n.m.	59	49	42	n.m.	2.8	3.1	3.3	0.2	0.2	0.1	8	13	18	2.2	2.7	2.7	2.6	2.5	4%	13%	19%	23%	
Manpower	34	44	27	19	0.6	1.1	1.2	1.2	0.7	0.4	0.3	n.m.	n.m.	n.m.	2.7	2.7	3.0	3.0	3.0	4%	10%	13%	16%	
Staffing Specialists																								
Hays	137	114	81	62	3.6	4.8	4.9	5.2	0.5	0.3	0.3	n.m.	n.m.	n.m.	15.6	n.m.	n.m.	n.m.	n.m.	14%	17%	21%	24%	
Michael Page	81	54	37	29	0.6	1.5	1.6	1.8	0.3	0.2	0.2	25	38	53	8.3	9.1	9.4	9.3	9.0	6%	17%	21%	25%	
Sthree	75	65	47	47	2.3	3.2	3.4	4.3	0.5	0.3	0.2	35	54	67	6.0	6.5	6.6	6.5	6.5	13%	17%	22%	22%	
Robert W	n.m.	44	29	23	0.5	1.5	1.6	1.8	0.1	0.1	0.1	5	8	12	4.5	5.4	5.5	5.4	5.2	2%	8%	11%	14%	
USG People	n.m.	24	31	33	n.m.	1.0	2.1	3.0	n.a.	n.a.	n.m.	n.m.	n.m.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0%	10%	17%	22%	
Robert Half	30	59	40	31	0.4	1.8	1.9	1.9	0.5	0.3	0.3	n.m.	n.m.	n.m.	6.3	n.a.	n.a.	n.a.	n.a.	10%	16%	22%	26%	
Monster	n.m.	0	0	0	n.m.	n.m.	n.m.	n.m.	n.m.	(0.1)	(0.0)	n.m.	n.m.	n.m.	6.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Others																								
G4S	24	36	37	37	1.3	2.9	3.1	3.5	0.7	0.6	0.6	41	43	46	5.9	6.0	6.0	5.8	5.6	27%	30%	30%	31%	
Securitas	52	51	52	50	3.9	4.0	4.3	4.6	1.9	1.8	1.7	82	86	93	38.6	12.2	12.0	11.7	11.3	31%	32%	32%	33%	
Prosegur	9	37	36	36	0.5	2.3	2.5	2.9	1.5	1.3	1.1	46	50	54	7.0	7.4	7.2	7.0	6.6	n.a.	11%	11%	12%	
Capita	21	45	46	46	1.1	2.9	3.2	3.5	1.1	1.0	0.9	197	215	234	n.a.	35.5	35.2	34.2	33.0	40%	48%	50%	50%	
Serco	9	22	22	22	0.4	1.3	1.5	1.7	1.0	0.9	0.8	86	95	105	12.7	14.4	14.0	13.6	12.8	36%	39%	41%	41%	
Average VTIC1)	44	33	32	31	1.1	1.7	1.9	2.1	1.1	1.0	0.8	37.1	42.3	47.4	6.2	9.1	9.4	9.2	9.0	0.7	0.3	0.3	0.4	
Average Staffing1)	80	51	38	33	1.3	2.1	2.4	2.7	0.4	0.2	0.2	17.9	26.5	34.6	6.2	4.9	5.0	5.0	4.8	0.1	0.1	0.2	0.2	
Global Business Serv.	62	42	35	32	1.2	1.9	2.1	2.4	0.7	0.6	0.5	27.5	34.4	41.0	6.2	7.0	7.2	7.1	6.9	0.4	0.2	0.3	0.3	
1) Weighted avg by market cap																								
SGS P/D to VTIC	-12	81	76	73	79	87	79	75	60	69	68	-11	-10	-8	16	-33	-35	-34	-32	n.a.	-43	-47	-47	
SGS P/D to Business S.	-37	45	60	70	61	68	60	54	134	173	179	20	11	6	17	-13	-15	-14	-12	n.a.	-21	-32	-34	
Adecco P/D to Staffing	54	-18	8	26	-10	-46	-37	-33	-17	10	19	-17	-28	-32	-46	-39	-38	-39	-40	41	45	28	23	
Adecco P/D to Bus. S.	97	-1	18	28	-1	-41	-31	-25	-55	-57	-59	-46	-44	-43	-46	-57	-57	-57	-58	-75	-13	-10	-6	

Source: IBES consensus for all estimates, NZB, Bloomberg, industry data

NZB vs. market estimates

Fig. 21 summarizes our estimates versus the consensus. Our 2011-12E estimates 12% above consensus on average.

Fig. 21: Business Services and VTIC – where are we different?

Market Cons. vs		Sales (LOC)			EBIT (LOC)			EPS (LOC)			Net Debt (LOC)		
NZB estimates	Cur	10E	11E	12E	10E	11E	12E	10E	11E	12E	10E	11E	12E
Business Services													
SGS	CHF	4,757	5,144	5,693	836	878	1,016	77	82	95	-259	-201	-282
Intertek	GBP	1,353	1,473	1,606	214	241	266	0.9	1.0	1.2	163	83	-5
Bureau Veritas	EUR	2,902	3,354	3,638	468	546	607	2.9	3.3	3.7	1,079	885	686
Eurofins	EUR	680	728	787	52	73	91	1.5	2.4	3.3	250	231	204
Staffing Generalists													
Adecco	EUR	18,520	20,429	22,193	684	879	1,077	2.2	2.9	3.6	687	296	-152
Randstad	EUR	14,097	15,834	17,304	343	551	737	2.0	2.6	3.3	875	646	364
Manpower	USD	18,837	21,024	23,457	339	474	669	1.7	2.8	4.0	256	282	344
Staffing Specialists													
Hays	GBP	3,013	3,370	3,816	116	161	211	0.1	0.1	0.1	152	161	143
Michael Page	GBP	832	984	1,159	72	107	150	0.2	0.2	0.3	-87	-114	-166
Sthree	GBP	559	656	786	34	53	65	0.2	0.3	0.4	-47	-51	-55
Robert W	GBP	413	468	526	12	19	27	0.1	0.2	0.2	-13	-16	-25
USG People	EUR	3,091	3,366	3,657	69	125	174	0.7	1.1	1.5	275	214	141
Robert Half	USD	3,662	4,218	4,802	227	361	483	0.9	1.5	1.9	-396	-531	-912
Monster	USD	1,112	1,254	1,354	92	158	178	0.4	0.8	1.1	-204	-395	-569
Others													
G4S	GBP	7,356	7,620	8,057	477	501	540	0.2	0.2	0.3	1,501	1,331	1,160
Securitas	SEK	61,167	63,632	66,449	3,542	3,718	4,008	6.0	6.4	7.0	8,204	7,191	5,909
Prosegur	EUR	2,512	2,651	2,804	271	293	316	2.6	3.1	3.4	233	152	27
Capita	GBP	2,747	2,905	3,172	374	406	442	0.4	0.5	0.5	744	603	429
Serco	GBP	4,313	4,588	4,985	251	276	305	0.3	0.4	0.4	265	174	18
SGS - NZB estimates		4,757	5,344	6,234	848	943	1,162	78	89	110	-259	-158	-164
Δ to IBES Consensus in %		0	4	9	1	7	14	0	8	16	0	-21	-42

Source: IBES consensus for all estimates except SGS, Intertek, BV, industry data

■ Currencies – another shave off in 2011

SGS is the only VTIC company reporting in CHF. After a -2% shave off reported in 2010, 2011 should again be impacted by the strength of the Swiss Franc. This is summarized in the following table in which we have reported quarterly movements in CHF, EUR and GBP. Light red cells highlight negative quarterly changes below -5%, grey between -5% and 0%, dark green between 0% and +15% and light green above +15%.

The strength of the CHF against most currencies is causing concern, especially for SGS. We are projecting a -2.5% shave-off in 2010. Taking current spot rates and projecting them in 2011, FX should also remain unresponsive next year with a negative impact toward the mid-single digits. We are forecasting a -5% currency impact for SGS for 2011E.

Fig. 22: Currencies – translation impact on companies reporting in CHF

Translation impact to CHF		2010									2011E							
		Q1	Q2	H1	Q3	9M	Q4	H2	FY	Q1	Q2	H1	Q3	9M	Q4	H2	FY	
EUR	EURO SPOT	-2.3	-6.9	-4.6	-12.1	-7.1	-11.5	-11.8	-8.2	-11.5	-8.2	-9.9	-3.1	-7.7	-3.1	-3.1	-6.6	
USD	US DOLLAR SPOT	-7.9	-0.3	-4.2	0.2	-2.8	4.1	2.1	-1.1	-11.4	-15.4	-13.4	-12.0	-12.9	-12.0	-12.0	-12.7	
CNY	CHINA RENMINBI SPOT	-7.7	-0.2	-4.0	1.0	-2.4	4.9	2.9	-0.7	-8.1	-12.4	-10.3	-9.4	-10.0	-9.4	-9.4	-9.9	
AUD	AUSTRALIAN DOLLAR SPOT	25.3	15.7	20.3	1.4	13.6	-3.3	-1.0	9.0	-1.1	-3.3	-2.2	5.3	0.2	5.3	5.3	1.4	
CAD	CANADIAN DOLLAR SPOT	10.2	13.1	11.7	3.8	9.0	3.7	3.7	7.7	-6.6	-11.9	-9.3	-5.4	-8.1	-5.4	-5.4	-7.4	
GBP	BRITISH POUND SPOT	0.1	-4.0	-2.0	-7.4	-3.9	-3.3	-5.4	-3.7	-7.9	-8.1	-8.0	-5.9	-7.3	-5.9	-5.9	-7.0	
TWD	TAIWAN DOLLAR SPOT	-1.9	3.7	0.9	2.1	1.3	4.5	3.3	2.0	-2.6	-7.3	-5.0	-2.4	-4.2	-2.4	-2.4	-3.7	
BRL	BRAZILIAN REAL SPOT	18.3	15.3	16.8	5.3	12.7	2.0	3.6	9.8	-4.1	-8.9	-6.6	-6.0	-6.4	-6.0	-6.0	-6.3	
HKD	HONG KONG DOLLAR SPOT	-8.0	-0.7	-4.4	-0.4	-3.1	3.6	1.6	-1.5	-11.6	-15.5	-13.6	-11.9	-13.1	-11.9	-11.9	-12.8	
IDR	INDONESIAN RUPIAH SPOT	15.6	15.0	15.3	10.4	13.6	8.9	9.6	12.4	-9.1	-14.5	-11.9	-11.7	-11.8	-11.7	-11.7	-11.8	
THB	THAI BAHT SPOT	-1.0	6.9	2.9	5.0	3.6	7.0	6.0	4.4	-5.6	-11.3	-8.5	-7.5	-8.2	-7.5	-7.5	-8.0	
PHP	PHILIPPINES PESO SPOT	-4.5	4.5	-0.1	3.8	1.2	4.8	4.3	2.0	-7.2	-12.3	-9.8	-6.9	-8.9	-6.9	-6.9	-8.4	
JPY	JAPANESE YEN SPOT	-4.9	5.4	0.1	6.9	2.3	6.7	6.8	3.4	-1.4	-4.5	-2.9	-5.2	-3.7	-5.2	-5.2	-4.1	
INR	INDIAN RUPEE SPOT	-	6.6	3.3	4.1	3.5	4.1	4.1	3.7	-10.9	-15.6	-13.3	-10.1	-12.3	-10.1	-10.1	-11.7	
MXN	MEXICAN PESO SPOT	3.6	5.6	4.7	1.9	3.7	4.3	3.1	3.9	-5.7	-11.5	-8.7	-4.3	-7.2	-4.3	-4.3	-6.5	
ZAR	S. AFRICAN RAND SPOT	21.9	11.6	16.4	1.3	11.0	1.2	1.2	8.4	-7.1	-10.9	-9.0	-5.3	-7.8	-5.3	-5.3	-7.2	
HUF	HUNGARIAN FORINT SPOT	6.8	-3.2	1.7	-16.6	-4.7	-16.1	-16.3	-7.6	-11.8	-6.5	-9.2	2.9	-5.5	2.9	2.9	-3.5	
RON	NEW ROMANIAN LEU SPOT	1.1	-6.8	-2.9	-13.2	-6.3	-11.8	-12.5	-7.7	-14.5	-9.8	-12.2	-2.5	-9.2	-2.5	-2.5	-7.6	
RUB	RUSSIAN RUBLE SPOT	4.9	5.8	5.4	0.8	3.9	-1.3	-0.2	2.6	-10.2	-13.0	-11.6	-7.0	-10.1	-7.0	-7.0	-9.3	

Revenues	2010									2011E							
	Q1	Q2	H1	Q3	9M	Q4	H2	FY	Q1	Q2	H1	Q3	9M	Q4	H2	FY	
SGS FX impact	-0.9	-0.7	-0.8	-3.9	-1.9	-2.7	-3.3	-2.5	-7.8	-8.5	-8.2	-4.6	-7.0	-4.6	-4.6	-5.0	

Source: NZZ, Bloomberg

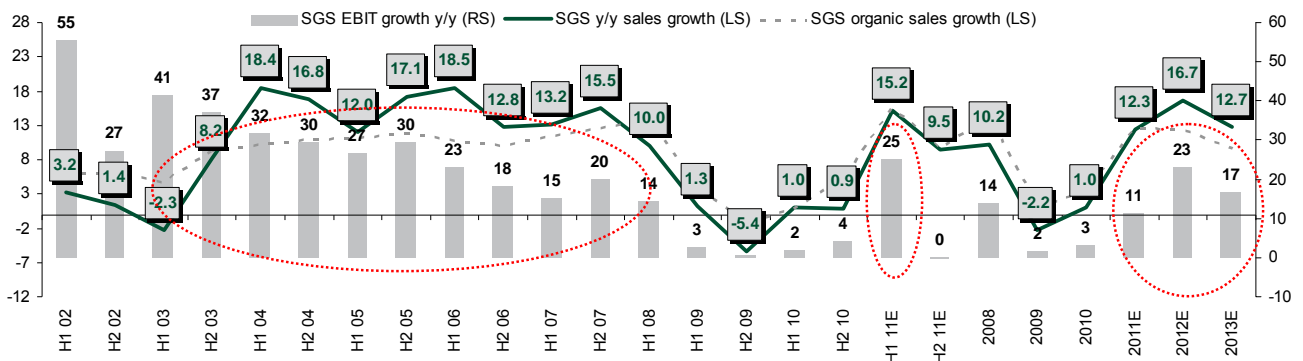
■ **Operating leverage underestimated**

H2 2010 margins reached an all time high of 19.1%, implying margin expansion of nearly 60bp y/y (adjusted). A squeeze on margins 2011 has been re-confirmed by management, though not quantified. We highlight that in the company investment plan 2014 totaling CHF 150m which started this year, management suggests that this will be equally split between fiscal years 2011-13E. We understand that for 2011 it is unlikely that SGS will spend more than CHF 50m investments (we estimate CHF 40m). Additionally, we estimate most of the impact will be skewed on H2 2011. Presuming our estimates for sales growth 2011-13E are correct (please refer to our note published on 18 October 2010), combined with our FX assumptions (on page 9), we draw the following conclusion:

- In periods of double digit y/y sales growth, leverage on operating profit has been closer to 2.0x corresponding to growth in excess of +20% for EBIT. Current market estimates are more in the region of 0.8-1.2x. We think this is overly conservative.
- Under this rationale, by stripping out costs inherent in SGS's investment plan in 2011, underlying EBIT should increase by more than 20%, to above CHF 1bn from CHF 848m in 2010. By deducting CHF 40m investment plan, the group EBIT should be more in the region of CHF 950-1000m (NZZ forecast CHF 943m vs. consensus CHF 870m, 8% differential). Under the same rationale, 2012 EBIT would be at cCHF 1200m (NZZ forecast CHF 1162m, consensus CHF 1016m, 14% differential).

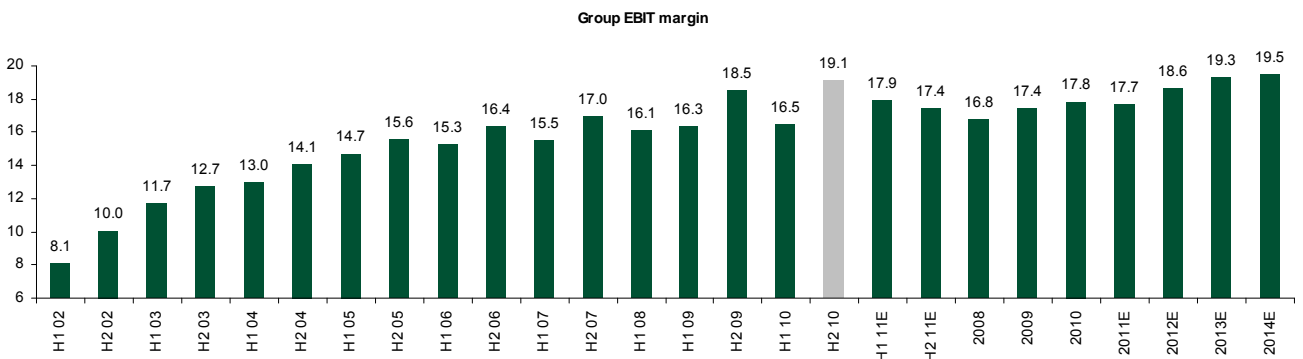
All in all, we look for a modest margin dip of -15bp to 17.7%, vs. market expectations of approximately -50-60bp. We are forecasting a margin expansion of 150bp in H1 2011, followed by -165bp consolidation in H2 2011.

Fig. 23: SGS: y/y sales growth vs. margin improvements 2002-2013E



Source: SGS; industry data, NZZ

Fig. 24: SGS – EBIT margin development 2002-2014E



Source: SGS; industry data, NZZ

■ Review of FY 2010 - strong margin expansion!

Sales of CHF 4757m were marginally below our CHF 4825m estimate and consensus expectation of CHF 4798m. Admittedly our +6.8% organic growth in H2 2010 was at the higher end of consensus expectations of between 5.2-6.5%. Underlying EBIT was of CHF 848m (17.8% margin, up 40bp y/y, 19% margin in H2 2010, up more than 60bp y/y), vs. our CHF 847m and higher than consensus CHF 835m estimate. Net profit of CHF 588m compared to our CHF 606m and consensus of CHF 597m. As such, figures were all in all broadly in line with expectations.

Organic growth of +3.2% was broadly in line with market expectations of approx. 3% in FY 2010 (range 3.0%-3.5%). We expected 3.9%. By adjusting organic growth for the Automotive contract terminated in 2010, the group organic growth in FY 2010 would have been in excess of +5%. This would imply organic growth of in the mid-high single digits in H2 2010.

H2 2010 figures provided evidence of sequential acceleration, from -1.1% in H2 2009 and +1.0% in H1 2010. FX shaved off 3.1% and acquisitions added +0.9% in FY 2010.

Margins and cash flow generation: margins surprised on the upside at over 19% in H2 2010 and vs. our 18.6% in H2 2010 and margin of 17.6% in FY 2010. This compares to margins of 17.3% in 2009 and 18.4% in H2 2009 (underlying). Operating cash flow was in line with our expectations. Dividends of CHF 65 include CHF 35 special dividend (fourth year in a row) and were higher than our and market expectations of CHF 45.

Outlook

The company expects improvements in top line growth compared to 2010. Operating performance will improve with trading profit above 2010's level (reflected in market numbers already). Growth is expected to be well beyond 2010.

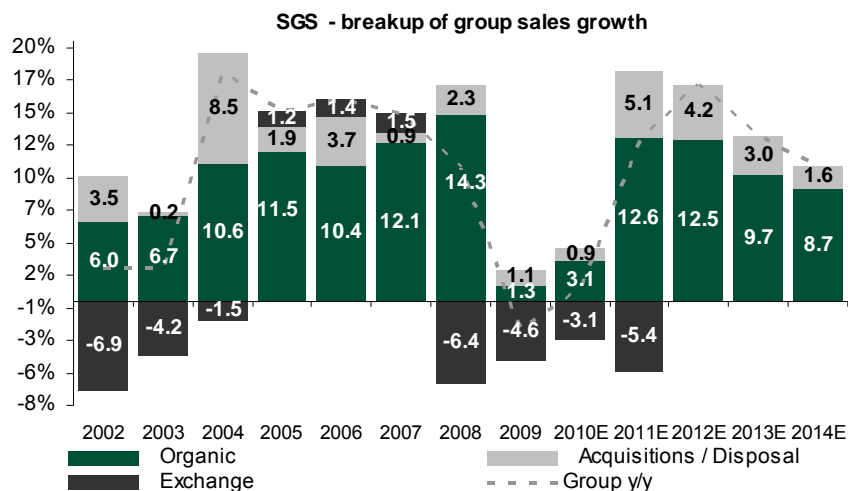
■ Divisional outlook: NZB estimates

We believe that the group enjoys good visibility in terms of organic sales growth developments in its key divisions - Minerals, Oil & Gas, Consumer Testing, Industrial and Agricultural - which account for 80% of group sales and are expected to make up 75% of the group's CAGR over the 2010–14E period. Our divisional forecasting will focus on these divisions in particular.

We are projecting a sales CAGR of around 12% between 2011E and 2014E. This is modestly above the group's target CAGR of 11.3%. Market estimates are factoring in less than 10% organic sales growth over the same period. One should also not forget the very easy 2010 comps. This is particularly true for H1 2011E.

Acquisitions: We are forecasting CHF 0.7bn of revenues stemming from acquisitions for the 2011–14E period in line with group guidance. The phasing of acquisitions has not been disclosed by SGS. Nevertheless, we only factor in bolt-on acquisitions, almost equally split over the four-year period from 2011 through 2014, or some +3% incremental per annum. We assume that acquisitions will be partly financed through cash generation and debt, considering the current favorable conditions on debt markets (SGS issued a CHF 400m bond in July 2010).

Fig. 25: Breakdown of group sales growth 2002–2014E



Source: NZB, SGS, industry data

Operating margins: We are above management guidance for the 2011–13E period considering operating leverage and assuming that acquisitions should not be dilutive.

Following management comments post FY 2010 figures, we expect the development program funding of CHF 150m to be evenly split between 2011–13E (CHF c40m in 2011, CHF 50 in 2012E, 60 in 2013E). This will mostly explain the fall in profitability mirrored by the SGS Plan. We look for -15bp margin drop in 2011E (consensus -40bp) and expect 2012E margins to be at 18.6% (+90bp y/y).

We are factoring CHF 500m of CAPEX p.a. as of 2011E, or 8% of group sales (up from 5%–6% on average in the last cycle). This is broadly in line with SGS's guidance.

CTS (15% of group sales, 21% of group EBITA, margin of 24%)

We remain confident about growth and margin sustainability at CTS, the largest sales and profitability driver for SGS. Growth in Softlines, Hardlines and E&E testing is expected to remain firm in 2011–14E on the back of an ongoing shift of production to emerging markets, heightened consumer awareness of quality and safety and growing demand from retailers for certified products.

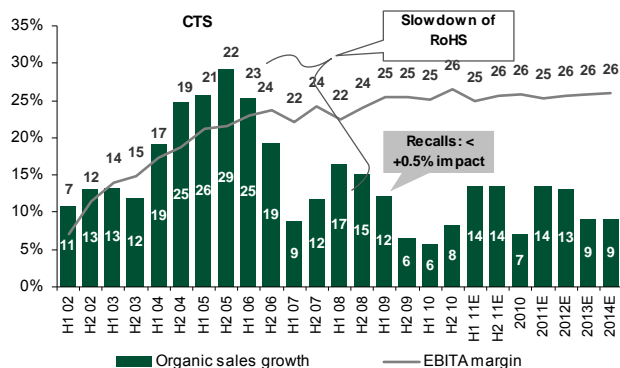
In summary, we expect an organic sales CAGR of approx. 12% for 2010–14E, with margins stable at high levels of approx. 25% on average over that period.

OGC (20% of group sales, 19% of group EBITA, margin of 15%)

Strong fundamental drivers such as rising petroleum prices are set to result in increasing exploration and cost optimization activities, which should provide support to divisional sales growth. The Oil, Gas & Chemicals Services division should continue to benefit from the volatility experienced by the oil market, which in turn implies greater trading activity and thus additional inspection activities to avoid incurring losses. Increased outsourcing of all kinds of lab and testing services by major oil and refinery companies should also support divisional sales.

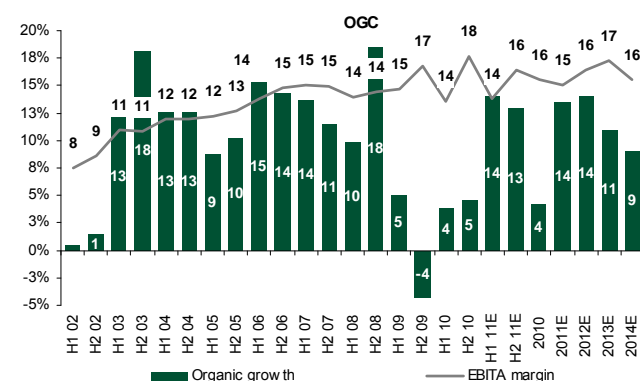
In summary, we expect an organic sales CAGR of approx. 13% for 2010-14E and margins of approx. 15% on average over that period.

Fig. 26: CTS – sales and margin forecasts



Source: NZB, SGS, industry data

Fig. 27: OGC – sales and margin forecasts



Source: NZB, SGS, industry data

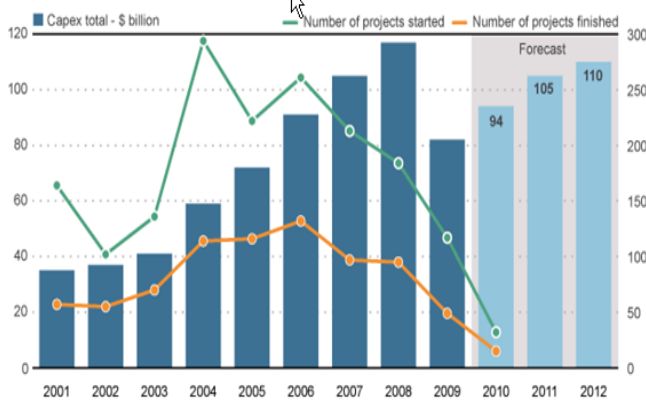
MIN (13% of group sales, 14% of group EBITA, margin of 18%)

The management’s tone remains bullish on exploration and extraction spending by mining firms, seen to return to 2008 levels. This is set to underpin divisional sales growth in the current and coming years.

According to the Raw Material Group (RMG) “Capital spending on new mines is on the rise and could reach a fresh peak in 2011 considering supplies of some metals could remain tight for some years as companies play catch-up after the global economic downturn. Miners hunkered down during the financial crisis and in their quest to save cash and pay off debt, capital expenditure was slashed, delaying numerous projects. Copper supply in particular will struggle to meet the recovery in demand, with problems including falling ore grades and strikes exacerbated by delays to new production. Record high gold prices have encouraged increased spending on gold projects, but money is also being poured into iron ore, copper and nickel. RMG estimates that out of a total of 2,980 projects which were in the pipeline over the next 10 to 15 years, some 67 are on hold. Around 5% of feasibility stage projects have stalled and almost 10 percent of construction phase mines.”

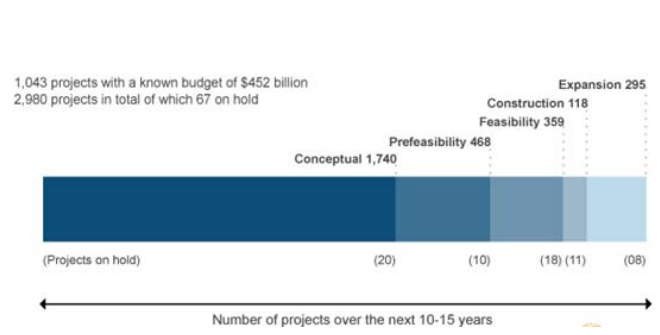
In summary, we expect an organic sales CAGR of 16% for 2010–14E with margins expanding to over 20% by the end of that period.

Fig. 28: Global mining CAPEX spending and new projects



Source: RMG, Industry data

Fig. 29: OGC – sales and margin forecasts



Source: RMG, SGS, industry data

IND (14% of group sales, 14% of group EBITA, margin of 17%)

The Industrial Services division boasts an interesting portfolio of activities with a good growth track record. SGS looks for an improvement in project activity in 2011 from continued economic recovery. Geographical expansion should also contribute to margin and sales expansion at divisional level. M&A activity should also contribute to sales growth.

In summary, we expect an organic sales CAGR of 14% for 2010–14E and a margin improvement of 30bp p.a. over that period.

AGRI (8% of group sales, 7% of group EBITA, margin of 15%)

This division should continue to be positively affected by the outlook for crop yields and by the latest sharp rise in commodity prices. These are expected to remain firm in 2011, according to the WTO, supporting demand for inspection due to concerns about trading losses. New food safety standards, introduced last year, should represent a catalyst behind divisional sales. Yield improvement should also represent a solid driver behind crop research.

In summary, we expect an organic sales CAGR of 10% for 2010–14E and a margin of 16% in 2014E.

Fig. 30: SGS – 2011–13E divisional assumptions

Revenues in CHFm	H1 08	H1 09	H2 09	H1 10	H2 10	H1 11E	H2 11E	2008	2009	2010	2011E	2012E	2013E
Agricultural Services	167	176	180	170	174	198	187	358	356	344	385	443	509
Mineral Services	321	262	275	291	325	377	414	632	536	616	791	991	1170
Oil, Gas & Chemicals Serv.	456	469	482	480	476	551	498	985	951	957	1049	1225	1380
Consumer Testing Serv.	343	392	399	407	414	450	454	733	790	821	904	1071	1198
Industrial Serv.	352	371	372	368	370	439	341	739	744	738	780	891	991
Environmental Serv.	143	140	148	137	142	147	132	296	288	278	279	307	337
Systems and Services Certification	174	176	192	189	198	198	226	367	367	386	424	477	531
Automotive Serv.	145	139	128	100	95	125	162	293	266	195	287	344	399
Life Science Serv.	99	100	100	98	96	109	100	204	200	194	209	234	253
Government & Institutions Serv.	98	103	111	112	117	116	120	212	214	229	235	250	257
Total group	2,298	2,327	2,385	2,352	2,406	2,710	2,634	4,818	4,712	4,757	5,344	6,234	7,025
Organic sales growth in %	H1 08	H1 09	H2 09	H1 10	H2 10	H1 11E	H2 11E	2008	2009	2010	2011E	2012E	2013E
Agricultural Services	5.4	9.7	-0.9	-3.1	2.8	19.0	5.2	8.3	4.0	-0.1	12.0	10.0	8.0
Mineral Services	29.0	-12.5	-8.1	5.6	18.5	18.0	25.6	19.8	-10.3	12.2	22.0	19.0	14.0
Oil, Gas & Chemicals Serv.	9.9	5.0	-4.2	3.8	4.6	14.0	13.0	14.3	0.1	4.2	13.5	14.0	11.0
Consumer Testing Serv.	16.5	12.1	6.5	5.6	8.4	13.5	13.5	15.7	9.1	7.0	13.5	13.0	9.0
Industrial Serv.	16.1	4.8	-0.4	-3.3	2.1	22.0	-3.9	15.7	2.1	-0.6	9.0	11.0	9.0
Environmental Serv.	9.3	4.3	-1.9	-4.4	1.6	13.0	-2.7	9.8	1.1	-1.3	5.0	8.0	10.0
Systems and Services Certification	7.8	5.4	3.8	7.8	8.0	7.8	16.0	9.4	4.6	7.9	12.0	9.0	8.0
Automotive Serv.	22.2	0.2	-8.8	-25.0	-18.3	25.0	-5.7	22.3	-4.3	-21.8	10.0	13.0	10.0
Life Science Serv.	6.2	6.5	-0.1	1.2	4.0	12.0	4.9	8.6	3.1	2.6	8.5	7.0	4.0
Government & Institutions Serv.	9.5	9.5	4.7	10.6	7.9	9.0	8.0	10.5	6.9	9.2	8.5	6.0	3.0
Total group	10.0	1.3	-5.4	1.0	0.9	15.2	9.5	10.2	-2.2	1.0	12.3	16.7	12.7
- Organic	14.1	3.9	-1.1	0.9	5.3	15.6	9.6	14.3	1.3	3.1	12.6	12.5	9.7
- External	1.9	1.8	0.5	0.7	1.1	4.0	6.2	2.3	1.1	0.9	5.1	4.2	3.0
- Currencies	-6.0	-4.4	-4.8	-0.6	-5.5	-4.4	-6.3	-6.4	-4.6	-3.1	-5.4	0.0	0.0

Source: NZB, SGS, Industry data

Fig. 31: SGS – 2011–14E divisional assumptions

Profitability and margins	H1 08	H1 09	H2 09	H1 10	H2 10	H1 11E	H2 11E	2008	2009	2010	2011E	2012E	2013E
EBITA in CHFm													
Agricultural Services	21.7	27.7	29.5	22.6	31.4	28.2	29.9	55.9	57.2	54.0	58.1	71.3	84.9
Mineral Services	63.5	37.6	49.6	51.4	66.5	79.9	72.4	125.3	87.2	117.9	152.3	204.7	255.7
Oil, Gas & Chemicals Serv.	63.8	68.5	80.7	65.1	83.8	79.9	78.0	140.3	149.2	148.9	158.0	200.5	238.3
Consumer Testing Serv.	76.7	99.8	101.3	102.3	109.6	123.2	105.5	170.3	201.1	211.9	228.7	275.3	309.0
Industrial Serv.	49.6	49.9	54.4	46.3	50.8	59.1	41.2	105.5	104.3	97.1	100.3	123.5	147.3
Environmental Serv.	12.7	13.5	20.1	12.5	17.3	14.4	13.6	31.4	33.6	29.8	27.9	33.1	37.8
Systems and Services Certification	31.3	33.6	44.0	36.3	45.3	39.6	47.9	70.0	77.6	81.6	87.5	102.8	115.9
Automotive Serv.	24.3	20.6	22.9	19.1	16.8	24.6	28.8	47.7	43.5	35.9	53.4	66.1	77.7
Life Science Serv.	11.2	11.1	17.9	12.7	16.1	14.6	14.9	27.5	29.0	28.8	29.5	33.8	37.3
Government & Institutions Serv.	15.4	17.8	21.6	19.5	22.1	21.2	26.6	35.9	39.4	41.6	47.8	50.9	52.7
Group EBITA	370	380	442	388	460	485	459	810	822	848	943	1,162	1,357
Operating margin in %	H1 08	H1 09	H2 09	H1 10	H2 10	H1 11E	H2 11E	2008	2009	2010	2011E	2012E	2013E
Agricultural Services	13.0	15.7	16.4	13.3	18.0	14.2	16.0	15.6	16.1	15.7	15.1	16.1	16.7
Mineral Services	19.8	14.4	18.1	17.7	20.5	21.2	17.5	19.8	16.3	19.2	19.3	20.7	21.9
Oil, Gas & Chemicals Serv.	14.0	14.6	16.7	13.6	17.6	14.5	15.7	14.2	15.7	15.6	15.1	16.4	17.3
Consumer Testing Serv.	22.4	25.5	25.4	25.1	26.5	27.4	23.2	23.2	25.4	25.8	25.3	25.7	25.8
Industrial Serv.	14.1	13.4	14.6	12.6	13.7	13.5	12.1	14.3	14.0	13.2	12.9	13.9	14.9
Environmental Serv.	8.9	9.6	13.6	9.2	12.2	9.8	10.2	10.6	11.7	10.7	10.0	10.8	11.2
Systems and Services Certification	18.0	19.1	23.0	19.3	22.9	20.0	21.2	19.1	21.1	21.1	20.6	21.5	21.8
Automotive Serv.	16.8	14.9	17.9	19.1	17.6	19.7	17.8	16.3	16.3	18.4	18.6	19.2	19.5
Life Science Serv.	11.3	11.1	18.0	13.0	16.8	13.3	14.9	13.5	14.5	14.9	14.1	14.4	14.7
Government & Institutions Serv.	15.7	17.3	20.6	17.4	21.3	18.3	26.5	16.9	18.7	20.3	20.3	20.4	20.5
Group EBIT margin	16.1	16.3	18.5	16.5	19.1	17.9	17.4	16.8	17.4	17.8	17.7	18.6	19.3
Bp y/y	61	22	109	16	58	139	-169	54	64	35	-15	99	67

Source: NZB, SGS, Industry data

Fig. 32: SGS – 2011–13E divisional assumptions

Operating m growth y/y	H1 08	H1 09	H2 09	H1 10	H2 10	H1 11E	H2 11E	2008	2009	2010	2011E	2012E	2013E
Agricultural Services	14.2	27.6	-13.7	-18.4	6.4	24.6	-4.7	17.4	2.3	-5.6	7.5	22.8	19.0
Mineral Services	47.0	-40.8	-19.7	36.7	34.1	55.5	8.8	27.6	-30.4	35.2	29.2	34.4	24.9
Oil, Gas & Chemicals Serv.	-2.1	7.4	5.5	-5.0	3.8	22.8	-6.9	5.2	6.3	-0.2	6.1	26.9	18.8
Consumer Testing Serv.	11.6	30.1	8.2	2.5	8.2	20.4	-3.7	12.1	18.1	5.4	7.9	20.4	12.2
Industrial Serv.	6.0	0.6	-2.7	-7.2	-6.6	27.6	-18.8	4.9	-1.1	-6.9	3.3	23.1	19.3
Environmental Serv.	7.6	6.3	7.5	-7.4	-13.9	15.0	-21.6	13.8	7.0	-11.3	-6.3	18.6	14.1
Systems and Services Certification	9.8	7.3	13.7	8.0	3.0	9.2	5.8	7.7	10.9	5.2	7.3	17.4	12.7
Automotive Serv.	48.2	-15.2	-2.1	-7.3	-26.6	28.8	71.2	41.1	-8.8	-17.5	48.6	23.8	17.6
Life Science Serv.	1.8	-0.9	9.8	14.4	-10.1	15.0	-7.6	14.1	5.5	-0.7	2.3	14.5	10.5
Government & Institutions Serv.	16.7	15.6	5.4	9.6	2.3	8.7	20.2	24.7	9.7	5.6	14.8	6.5	3.5
EBIT margin growth	14.3	2.7	0.5	2.0	4.0	25.0	-0.2	13.9	1.5	3.1	11.3	23.2	16.7

Share in Group EBITA	H1 08	H1 09	H2 09	H1 10	H2 10	H1 11E	H2 11E	2008	2009	2010	2011E	2012E	2013E
Agricultural Services	5.9	7.3	6.7	5.8	6.8	5.8	6.5	6.9	7.0	6.4	6.2	6.1	6.3
Mineral Services	17.2	9.9	11.2	13.3	14.5	16.5	15.8	15.5	10.6	13.9	16.1	17.6	18.8
Oil, Gas & Chemicals Serv.	17.2	18.0	18.3	16.8	18.2	16.5	17.0	17.3	18.1	17.6	16.7	17.3	17.6
Consumer Testing Serv.	20.7	26.3	22.9	26.4	23.8	25.4	23.0	21.0	24.5	25.0	24.2	23.7	22.8
Industrial Serv.	13.4	13.1	12.3	11.9	11.1	12.2	9.0	13.0	12.7	11.5	10.6	10.6	10.9
Environmental Serv.	3.4	3.6	4.5	3.2	3.8	3.0	3.0	3.9	4.1	3.5	3.0	2.9	2.8
Systems and Services Certification	8.5	8.8	10.0	9.4	9.9	8.2	10.4	8.6	9.4	9.6	9.3	8.8	8.5
Automotive Serv.	6.6	5.4	5.2	4.9	3.7	5.1	6.3	5.9	5.3	4.2	5.7	5.7	5.7
Life Science Serv.	3.0	2.9	4.0	3.3	3.5	3.0	3.2	3.4	3.5	3.4	3.1	2.9	2.8
Government & Institutions Serv.	4.2	4.7	4.9	5.0	4.8	4.4	5.8	4.4	4.8	4.9	5.1	4.4	3.9
EBIT margin growth	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

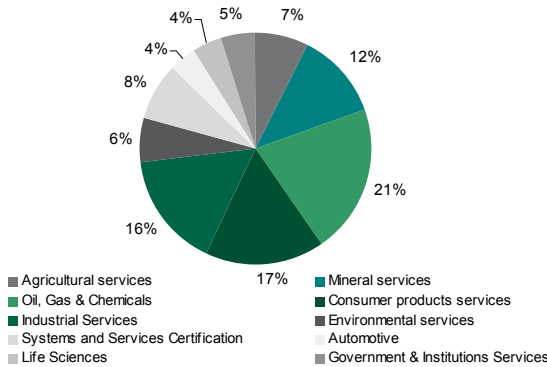
Source: NZB, SGS, Industry data

■ Appendix I

SGS: Brief group overview

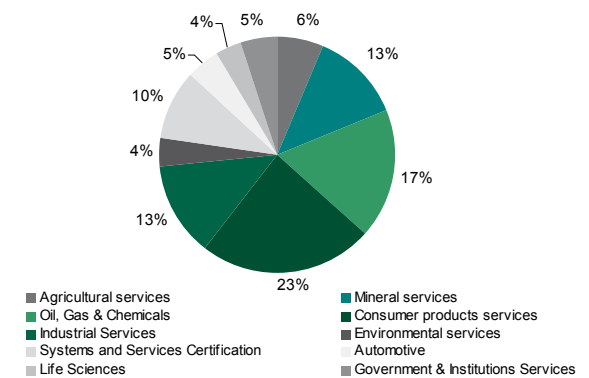
“SGS is the largest inspection, verification, testing and certification company in the world, generating CHF 5bn revenues with over 50,000 workforce. The company operates a network of more than 1,000 offices and test laboratories in the world. SGS provides inspection, verification, testing and certification services across a range of industries, from agricultural to automotive, food to forestry and many others. The group services cover all requirement and aspects of supply and value chains, from raw materials to finished goods. The group is organized into ten divisions, each one addressing a specific industry target and client requirements. Consumer Testing– Oil, Gas & Chemicals – Industrial - Mineral and System & Service Certification Services account for the lion’s share in total group sales and EBITA, with 70% and 75% contribution, respectively. Consumer Testing accounts as the group most profitable division (23.2% in 2007) – well above group average of 16.3% - followed by System & Service Certification and Mineral Services.

Fig. 33: SGS: divisional breakup of sales 2010



Source: NZB, SGS, Industry data

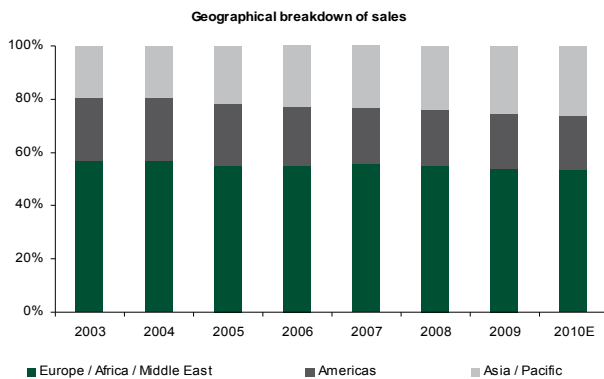
Fig. 34: SGS: divisional breakup of EBIT 2010



Source: NZB, SGS, Industry data

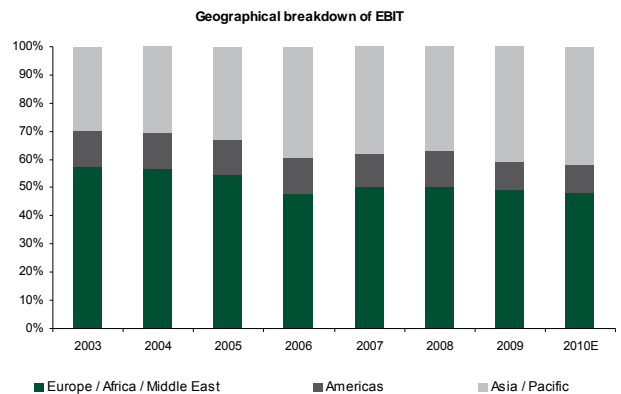
In terms of regions Europe (combined with Africa and Middle East) accounts for the nearly 50% of group profits, followed by Asia Pacific representing approximately 40% of group sales and presenting above group average profitability. Asia / Pacific represents a substantial driver behind group sales and margins, considering profitability in the region is nearly twice the group average” (source: SGS annual report).

Fig. 35: SGS: geographical breakup of sales (2003-10)



Source: NZB, SGS, Industry data

Fig. 36: SGS: geographical breakup of EBIT (2003-10)



Source: NZB, SGS, Industry data

“The group expertise and services offered span across 10 divisions:

Agricultural Services (AGRI)

SGS helps to ensure the integrity of the food chain by providing services that cover all aspects of the agricultural industry, from helping customers manage crops from seed development and soil testing through to harvesting and moving product through the global supply chain to trade inspection at export or import. Serving all of the major players in the agricultural sector, SGS services reduce risk and ensure quality and improve productivity.

Minerals Services (MIN)

The division provides a range of services from quality and quantity inspection and testing for a vast array of commodities to advanced services, which optimize the recovery of metals in processing plants. Customers in this sector rely on SGS to provide them with expert services and advice, which help them gain competitive advantage while reducing risk.

Oil, Gas and Chemicals Services (OGC)

SGS help customers protect and secure their businesses by delivering independent and accurate information through our global network of laboratories and experts. From exploration and production through midstream to consumption, SGS provide a wide range of services including blending, cargo treatment, sample management, logistics, and laboratory outsourcing, as well as tailored solutions that ensure product quality and increase flexibility for customers.

Consumer Testing Services (CTS)

From textile to appliances, furniture, food, and electronics, SGS's complete range of services ensure quality and safety of a multitude of consumer products. Customers in these distinct manufacturing industries rely on SGS inspection and testing capabilities and laboratories to help them comply with the regulatory requirements governing their products, as well as to ensure the integrity of the inputs received from their suppliers and their suppliers' suppliers.

Industrial Services (IND)

Serving customers in the energy, process and construction industries, SGS teams of engineers and technicians ensure that the quality and safety of products or installations meet applicable requirements, whether they are regulatory, voluntary or customer specific. SGS helps to improve integrity, quality and efficiency, ensure safe and healthy working conditions as well as to minimize the environmental impact of industrial activities.

Life Science Services (LSS)

Customers in the pharmaceutical and biopharmaceutical industry rely on SGS to provide them with outsourcing services on both the quality and safety of drug ingredients and the development process – from the early development stages until the commercialization of the finished product. ClinicalTrials services and Quality Control testing activities provided by SGS help improve efficiency, reduce costs, and ensure the safety of pharmaceutical products.

Systems and Services Certification (SSC)

High-performing business processes are at the heart of today's economy. The audit and certification services provided by SGS allow to enhance business processes and get out in front of the issues affecting them. With these services, they can deliver extra value, improve quality management and performance, minimize risk, and gain a real advantage over the competition.

Environmental Services (ENVI)

SGS helps governments and industry integrate environmental management into their operations by providing a comprehensive international network of laboratories and environmental experts who deliver analytical and data interpretation services at both global and local levels.

Automotive Services (AUTO)

SGS provides expert support for every participant in the automotive industry to improve performance and reduce risk. Our services focus on the design, construction and operation of motor vehicle inspection solutions throughout the world. Governments, manufacturers and financing and insurance companies, as well as consumers, rely on our independent, accurate and secure solutions to limit damages, improve remarketing of used cars, and support road safety.

Governments and Institutions Services (GIS)

SGS supports governments, institutions and partner organizations by applying trade knowledge to verify trade information, set up electronic business processing and scanning operations, and assess efficiency and legal compliance in aid delivery schemes and forestry operations. Services provided by SGS sustain the enforcement of regulations, economic growth, market visibility, and accountability for customers.

Historical background

Established in 1878, the company started by offering agricultural inspection services to grain traders in Europe. From those early beginnings, SGS grew in size and scope as its agricultural inspection services spread around the world. On 19 July 1919, the company adopted the name of Société Générale de Surveillance (today, known as SGS). During the mid-20th century, the group began to diversify and started offering inspection, testing and verification services across a variety of sectors, including industrial, minerals and oil, gas and chemicals, among others. In 1981, the company went public.

The current structure of SGS, consisting of 10 business segments operating across 10 geographical regions, was formed in 2001. From its beginnings in 1878 as a grain inspection house, the group has steadily grown into the role of industry leader (largest VTIC company globally).¹

Management and shareholder structure

EXOR and the Von Finck Family account as the historical and majority shareholders behind SGS, with approx. 15% stake each. On 11 November 2009, the von Finck family sold 40% of its total 25% stake in SGS via an accelerated book building, bringing its holding down to 15%. The placement was a success, with the 789,000 shares placed at CHF 1,282 per share (5% discount) within one trading morning (worth more than CHF 1bn). This shows that investors are still very interested in the industry. While the stock came under pressure due to some unfounded fears that the von Finck family was selling due to a weak trading performance, the market came to the realization that the reasons for the disposal were different.

Some investors claim that the von Finck family sold the stake in order to invest in new businesses (renewable energy, among others) or to prepare the family succession (August von Finck, born in 1930, has four children). We saw the placement instead as an opportunity for investors because it increased the stock's free float.

¹ Source: SGS

Now the key question surrounding SGS is whether the von Finck family will divest its remaining 15% stake in the group. We assume the family intends to divest the remaining 15%. In the past we have seen similar moves from the family, such as with Hochtief in Germany (the von Finck family held 29% of that company's shares). Given the success of the first placement, we think that the market would be able to absorb the second tranche. We do not rule out SGS participating in such a deal either given its large cash position.

In conclusion, we believe that the von Finck family's remaining stake should not be overly viewed as a negative for SGS's share price.

Fig. 37: SGS's major shareholders

Shareholder	Stake as % of outstanding shares
EXOR S.p.A	15.00%
Von Finck Family	14.96%
Bank of New York Mellon	5.05%
Capital Group	3.51%

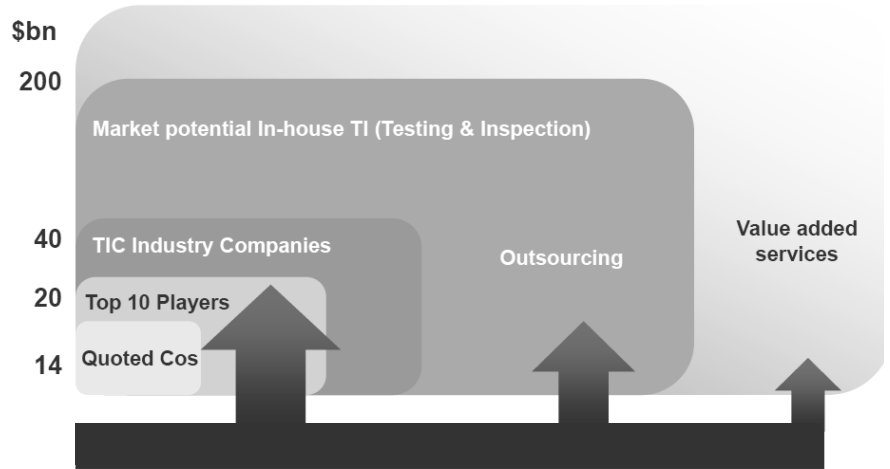
Source: Company website, Bloomberg, NZB

■ Appendix II

Overview of the VTIC market

The global verification testing inspection and certification market (VTIC) was estimated at EUR 75bn in 2009 (some players estimates its market size in excess of EUR 150m).

Fig. 38: VTIC – estimated market size



Source: Intertek, industry data

VTIC industry has experienced CAGR of between 5-6% over the past 20 years, nearly 10% on average in the past 10. The industry has tended to decouple from traditional macro indicators such as GDP or World Trade volume growth, though a minor cyclical dimension is still conserved (some 35% of sector growth). Resilience of VTIC activities is on the account of the structural drivers behind sector growth combined with the upstream expansion of testing services in the product value chain, resulting in a lower dependence from final demand.

Fig. 39: Overview of sector drivers



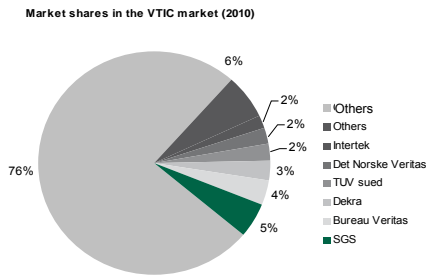
Source: Intertek, NZB

Competitive landscape

The global testing, inspection and certification remains a highly fragmented market, with less than 20% of market value estimated to be outsourced to independent companies such as SGS. SGS, Bureau Veritas, Dekra, TUV, DNV and Intertek account as the six largest players in the industry though

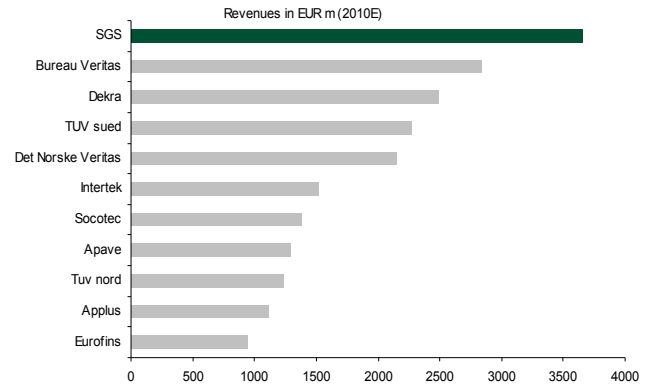
their combined share do not exceed 15%. SGS share does not exceed 5%. The industry is characterized by high barriers to entry, due to the need of an international network, extensive know-how and expertise as well as the need of accreditation from government bodies.

Fig. 40: VTIC – competitive landscape*



Source: Industry data, NZB - *Reference market EUR 75bn

Fig. 41: Top 15 VTIC players, by revenues in EUR m

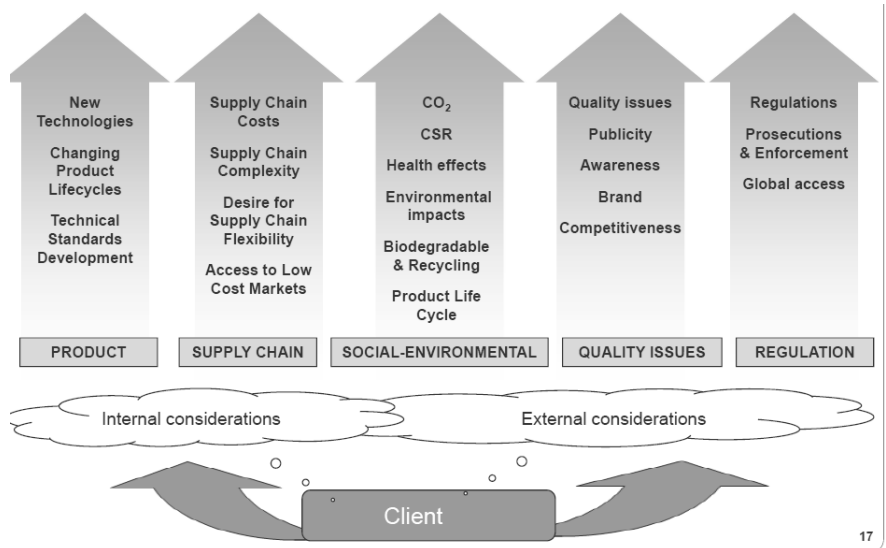


Source: Industry data, NZB

Review of activities in VTIC

Inspection services involve the examination of quantities and qualities of traded goods and commodities, from the manufacturing to final product storage, from laboratory to on-site inspection at loading/unloading. Inspection is necessary to ensure traded goods comply with the buyer’s specifications and facilitates trades by accelerating the payment between parties and the shipment of goods.

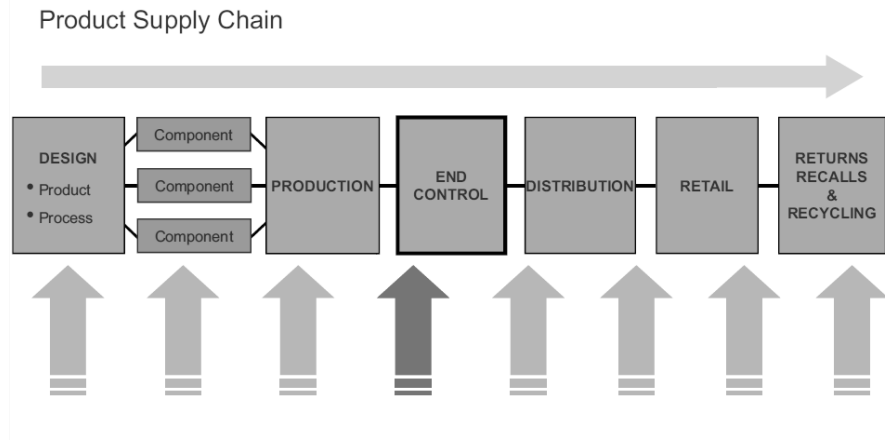
Fig. 42: Decision process on VTIC services



Source: Intertek, NZB

Verification services ensure that products and services comply with global standards and / or local regulations, in several cases from raw materials to final consumption (full supply chain coverage).

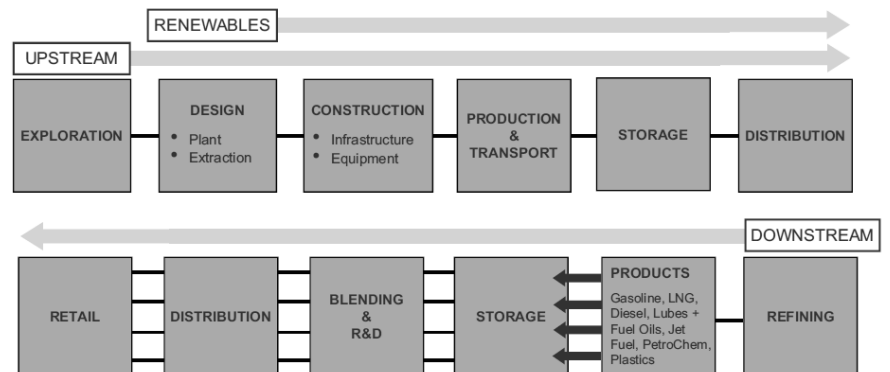
Fig. 43: Product supply chain coverage of VTIC services



Source: Intertek, NZB

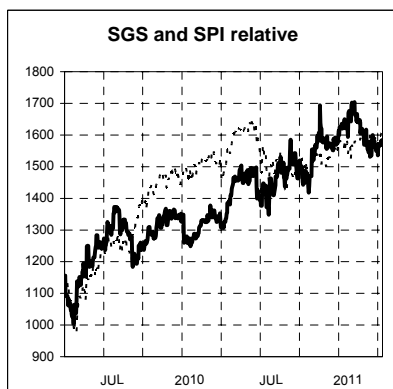
Testing services check whether products meet specific quality, technical, safety and performance regulatory standards. Tests can comprise toxicity of paints, sharpness of toy edges, flammability of textiles or electrical safety of appliances as well as colour fastness, shrinkage and sizing. Testing services are carried out in laboratories. They help manufacturers improving marketability of their products as well as lowering costs in the pre-production phase (R&D, selection of suppliers, etc.) as tests extend to design and conception of products.

Fig. 44: Upstream and downstream integration of VTIC services

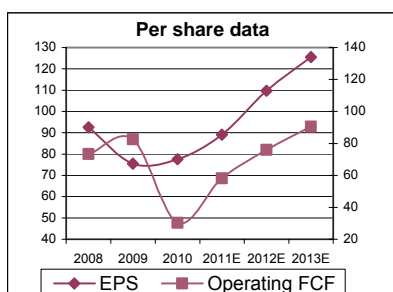


Source: Intertek, NZB

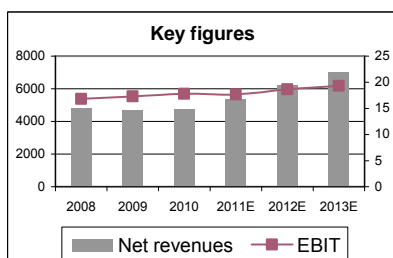
Certification services confirm the result of a test or inspection against a range of pre-specified standards set by governments, international standardisation or clients. Certification or safety marks are in general applied to the product. This is key for manufacturers in demonstrating the compliance of their products and improving their marketability. Certification services also encompass the certification of systems and processes (e.g., ISO 9000 Quality Management System, ISO 14000 Environmental Management System or Code of Conduct).



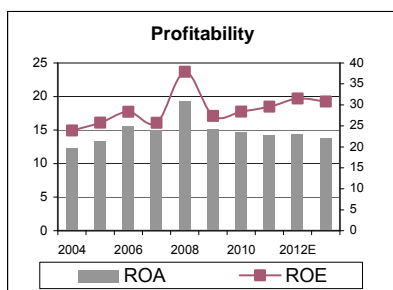
Stock price	CHF	1583	Market cap.	CHF m	11872
52 week high	CHF	1709	Div. rank. shares (equiv.)	m	7.6
52 week low	CHF	1302	Economic value / share	CHF	2177
Performance 2011 ytd	%	0.9	Soft factor deduction	%	0
EPS growth 05-10	%	9.3	Fair value NZZ / share	CHF	2177
EPS growth 10-13E	%	17.4	Price target / share		1900
Next company statement		17-Jan	Important shareholders (votes):		
What		FY results	Von Finck family	%	15.0
Accounting standard		IFRS	EXOR	%	15.0
Reuters Symbol		SGSN.VX	Free float	%	70.0
Bloomberg Symbol		SGSN VX	Daily average volume (CHF '000)		26392
Co's website		www.sgs.com	Last estimate change		6-Jan



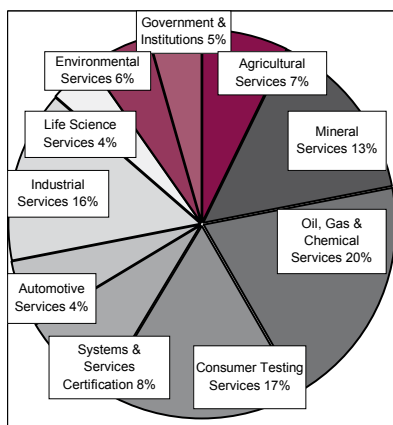
Valuation		<i>consensus P/E:</i>					
(x)		2008	2009	2010	2011E	2012E	2013E
P / E		13.4	16.2	19.4	17.9	14.5	12.7
P / Cash EPS		12.8	15.2	18.3	16.9	13.9	12.2
P / op. FCF		17.0	14.8	49.3	27.2	20.9	17.5
P / BV		5.1	4.4	5.5	5.3	4.6	3.9
EV / EBITDA		7.9	9.5	10.6	10.0	8.2	7.0
EV / EBITA		9.9	12.1	13.4	12.7	10.3	8.7
EV / EBIT		8.6	12.4	13.7	12.7	10.3	8.9
Dividend yield		4.0	4.9	4.3	3.7	3.9	4.2



Per share data		<i>consensus EPS estimates:</i>					CAGR	
CHF / as of 31.12.		2008	2009	2010	2011E	2012E	2013E	08-13E
EPS		92.6	75.5	77.6	89.1	109.8	125.5	6.3
Cash EPS		97.1	80.5	82.1	93.9	114.8	130.9	6.1
EBITA		108	109	111	124	153	178	10.5
EBIT		125	106	109	124	152	175	7.0
Operating FCF		73	83	30	58	76	91	4.3
Book value		244	276	272	300	347	405	10.7
Dividend		50.0	60.0	65.0	58.5	62.4	66.6	5.9



Key figures		<i>consensus EPS estimates:</i>					CAGR	
CHF m / as of 31.12.		2008	2009	2010	2011E	2012E	2013E	08-13E
Net revenues		4818	4712	4757	5344	6234	7025	7.8
EBITDA		1024	1037	1073	1193	1456	1688	10.5
EBITA		844	851	882	979	1200	1397	10.6
EBIT		810	814	848	943	1162	1357	10.9
Net profit		692	566	588	675	831	950	6.5
Operating FCF		548	619	231	442	578	689	4.7
Shareholders' equity		1825	2073	2069	2281	2640	3085	11.1
Net debt		-248	-476	-259	-158	-164	-242	-0.5



Margins, growth rates, profitability							
(%)		2008	2009	2010	2011E	2012E	2013E
Margins	EBITDA	21.3	22.0	22.5	22.3	23.4	24.0
	EBITA	16.8	17.3	17.8	17.7	18.6	19.3
	Net profit	14.4	12.0	12.3	12.6	13.3	13.5
Growth rates	Sales	10.2	-2.2	1.0	12.3	16.7	12.7
	EBITDA	12.8	1.3	3.4	11.2	22.0	15.9
	EBITA	14.0	0.5	4.1	11.3	23.2	16.7
	EBIT	14.0	0.5	4.1	11.3	23.2	16.7
	Net profit	38.5	-18.2	3.7	14.9	23.1	14.3
Profitability	EPS	41.4	-18.4	2.7	14.9	23.1	14.3
	ROA	19.3	15.2	14.8	14.2	14.4	13.7
	ROE	37.9	27.3	28.4	29.6	31.5	30.8
	ROIC	32.3	32.2	32.4	30.7	32.4	32.7

Income statement											CAGR
CHF m / as of 31.12.	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E	03-13E
Net revenues	2885	3308	3821	4372	4818	4712	4757	5344	6234	7025	11.1
Subcontractors' expenses	-181	-217	-263	-307	-331	-319	-313	-374	-436	-492	
Gross profit	2704	3091	3558	4065	4487	4393	4444	4969	5798	6533	11.0
Personnel expenses	-1435	-1615	-1818	-2076	-2243	-2214	-2228	-2511	-2930	-3292	
Other operating expenses	-761	-834	-963	-1081	-1220	-1142	-1144	-1265	-1412	-1554	
EBITDA	508	642	777	908	1024	1037	1073	1193	1456	1688	15.6
Depreciation	-98	-117	-141	-166	-180	-186	-191	-214	-256	-290	12.9
EBITA adjusted	377	502	605	711	810	814	848	943	1162	1357	16.7
Net financial expenses	0	2	2	3	-1	-2	-7	1	-4	-26	
Other income / expenses	6	3	-3	-1	-3	-1	-12	0	0	0	
EBT recurring	383	507	604	713	806	811	829	944	1158	1330	16.1
Nonrecurring items	3	0	19	-21	127	-20	0	0	0	0	
EBT	386	507	623	692	933	791	829	944	1158	1330	
Taxes	-93	-119	-155	-172	-219	-200	-215	-241	-295	-344	
Group profit	293	388	468	520	714	591	614	703	862	986	
Minority interests	-15	-17	-25	-20	-22	-25	-26	-29	-31	-36	16.2
Net profit	278	371	443	500	692	566	588	675	831	950	

Growth rates											AVG
in %	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E	04-13E
Net revenues	17.6	14.7	15.5	14.4	10.2	-2.2	1.0	12.3	16.7	12.7	11.3
Gross profit	17.6	14.3	15.1	14.2	10.4	-2.1	1.2	11.8	16.7	12.7	11.2
EBITDA	28.3	26.4	21.0	16.8	12.8	1.3	3.4	11.2	22.0	15.9	15.9
EBITA	30.0	33.1	20.5	17.5	14.0	0.5	4.1	11.3	23.2	16.7	17.1
Net profit	22.5	33.4	19.4	12.8	38.5	-18.2	3.7	14.9	23.1	14.3	16.5

Margin analysis											AVG
in % of total production value	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E	04-13E
Gross margin	93.7	93.4	93.1	93.0	93.1	93.2	93.4	93.0	93.0	93.0	93.2
EBITDA margin	17.6	19.4	20.3	20.8	21.3	22.0	22.5	22.3	23.4	24.0	21.4
EBITA margin	13.1	15.2	15.8	16.3	16.8	17.3	17.8	17.7	18.6	19.3	16.8
Tax rate	-23.1	-23.5	-24.9	-24.9	-23.5	-25.3	-26.0	-25.5	-25.5	-25.9	-24.8
Net profit margin	9.6	11.2	11.6	11.4	14.4	12.0	12.3	12.6	13.3	13.5	12.2
Pay out ratio	32.4	101.2	34.4	53.4	54.0	79.4	42.1	44.5	41.5	41.8	52.5

Cash flow statement											CAGR
CHF m / as of 31.12.	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E	03-13E
Cash flow	387	491	583	694	860	827	816	953	1156	1317	13.8
Change in working capital	38	-80	-31	12	-22	13	-33	-24	-36	-32	
Operating cash flow	425	411	552	706	838	840	783	930	1121	1285	
Capex tangible assets	-173	-170	-212	-248	-269	-204	-502	-435	-489	-540	
Capex intangible assets	-28	-35	-36	-37	-21	-17	-50	-52	-54	-56	
Operating free cash flow	224	206	304	421	548	619	231	442	578	689	
Financial investments	20	-25	0	0	-6	4	-4	0	0	0	
Goodwill	-148	-64	-176	-71	-184	0	0	-80	-100	-107	
Other investments	14	15	35	26	23	24	0	0	0	0	
Investing cash flow	-114	-74	-141	-45	-167	28	-4	-80	-100	-107	
Short term debt	-19	81	-85	20	295	-22	0	0	0	0	
Long term debt	-9	-3	-5	9	0	0	237	400	450	500	
Dividends	-68	-90	-236	-153	-267	-375	-455	-443	-472	-504	
Capital	-15	-1	-102	-8	-201	15	85	0	0	0	
Other financing	-21	-18	-24	-34	-29	-32	-39	0	0	0	
Financing cash flow	-132	-31	-452	-166	-202	-414	-172	-43	-22	-4	
Translation difference	10	-41	-3	-11	-34	-24	-32	-20	0	0	
Change in cash	-12	60	-292	199	145	209	23	299	455	578	

Balance sheet											CAGR
CHF m / as of 31.12.	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E	03-13E
Cash and marketable securities	456	531	239	438	583	792	815	1114	1570	2148	
Trade receivables	579	713	762	867	919	812	772	962	1144	1306	
Inventories	118	147	180	206	184	201	217	244	284	320	
Other current assets	133	134	182	184	194	174	202	132	132	132	
Current assets	1286	1525	1363	1695	1880	1979	2006	2452	3130	3906	11.3
Net fixed assets	493	586	656	738	721	751	756	978	1211	1460	
Intangible assets	304	429	644	716	759	777	982	1078	1194	1316	
Financial assets	169	225	189	189	221	229	237	237	237	237	
Other long-term assets	0	0	0	0	0	0	0	0	0	0	
Fixed assets	966	1240	1489	1643	1701	1757	1975	2293	2642	3013	16.0
Total assets	2252	2765	2852	3338	3581	3736	3981	4745	5772	6920	13.1
Trade payables	330	329	402	452	403	388	401	524	711	878	
Short-term debt	10	94	17	40	325	308	3	3	3	3	
Other current liabilities	361	442	502	574	649	596	599	599	599	599	
Current liabilities	701	865	921	1066	1377	1292	1003	1126	1313	1480	8.7
Long-term debt	8	7	7	20	10	8	553	953	1403	1903	
Provisions	290	367	286	211	267	249	254	262	262	262	
Deferred taxes	64	51	46	64	65	77	63	64	64	64	
Other long-term liabilities	0	0	0	0	0	0	0	-9	-9	-9	
Long-term liabilities	362	425	339	295	342	334	870	1270	1720	2220	22.5
Minority interest	26	36	30	36	37	37	39	68	99	135	
Shareholders' equity	1163	1439	1562	1941	1825	2073	2069	2281	2640	3085	11.2
Total liabilities and equity	2252	2765	2852	3338	3581	3736	3981	4745	5772	6920	13.1

Balance sheet analysis											CAGR
CHF m / as of 31.12.	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E	03-13E
Net working capital	139	223	220	231	245	203	191	215	250	282	3.7
Net debt	-438	-430	-215	-378	-248	-476	-259	-158	-164	-242	
Net invested capital (incl. goodwill)	751	1045	1377	1599	1614	1634	1849	2190	2575	2978	17.4
Total capital (debt and equity)	1207	1576	1616	2037	2197	2426	2664	3305	4145	5126	16.4
Inventory days	days	15	16	17	17	14	15	16	16	16	0.4
Receivable days	days	89	92	89	87	83	75	74	74	74	-3.3
Payable days	days	86	84	85	84	79	75	76	76	76	-1.8
Fixed assets depreciation	yrs	5	5	5	4	4	4	4	5	5	0.4
Goodwill depreciation	yrs	19									
Gearing	%	-37.7	-29.9	-13.8	-19.5	-13.6	-23.0	-12.5	-6.9	-6.2	-7.8
Equity / total assets	%	52.8	53.3	55.8	59.2	52.0	56.5	53.0	49.5	47.4	-1.5
Cost of debt	%	-38.9	-9.9	-20.8	-13.3	-3.0	-2.2	-1.6	-3.5	-3.6	-18.9
Return on financial assets	%	1.5	2.3	2.9	2.5	1.5	0.6	0.2	2.5	2.7	-5.2

Profitability analysis											CAGR	
CHF m / as of 31.12.	2004	2005	2006	2007	2008	2009	2010	2011E	2012E	2013E	03-13E	
Asset turnover	%	128	120	134	131	135	126	120	113	108	-1.8	
ROA	%	12.3	13.4	15.5	15.0	19.3	15.2	14.8	14.2	14.4	13.7	
ROE	%	23.9	25.8	28.4	25.7	37.9	27.3	28.4	29.6	31.5	30.8	
NOPAT		301	383	455	534	621	609	631	703	866	1,005	15.8
ROIC	%	30.4	30.3	29.4	30.9	32.3	32.2	32.4	30.7	32.4	32.7	1.0
WACC	%	7.7	7.7	7.7	7.7	7.6	7.6	7.6	7.6	7.6	7.6	-0.1
Economic value added (EVA)		240	308	358	415	489	462	487	555	692	802	16.3
Enterprise value (EV)		5661	7988	10466	10170	8048	9832	11332	11988	11928	11848	8.0

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