

SGS

Switzerland

Ind. Holding Cos.

Hold

16-01-09

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CHF 1145 on 15-01-09

Equity Research  
Switzerland

**Solid FY08 results – growth will slow down in FY09**  
**New price target CHF 1,200 (old: CHF 1,050)**

Analysts

Michael Foeth PhD, CFA  
michael.foeth@vontobel.ch  
+41 (0)58 283 5223

Patrick Rafaisz

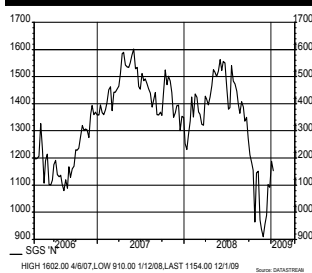
patrick.rafaiz@vontobel.ch  
+41 (0)58 283 63 46

Following solid FY08 results, we have fine-tuned our organic revenue growth estimates for FY08 to +7.3% and slightly upped our margin estimates to 16.6% to reflect the better-than-expected operating performance in FY08. We have increased our EPS estimates by 9.4% for FY09E and by 6.6% for FY10E as a result of our new margin assumptions, the higher base in FY08 as well as to account for the announced share buyback programme of CHF 250 mn. For FY09, management sees revenue growth in all divisions and has set a priority on margin protection, meaning that it firmly targets an operating margin of 16.8%. In our view, SGS is very optimistic but achieving a stable margin in the current environment will be challenging. Based on 9.4% higher EPS for FY09E, we raise our price target to CHF 1,200 (from CHF 1,050), which puts the stock at a premium of 20% to its two main peers. Currently, the shares trade at a P/E 09E of 13.7x. HOLD rating confirmed.

**Slowdown at several divisions:** We expect a slowdown at Mining Services due to lower exploration activity; at Automotive Services stemming from the commercial inspection side; at Government Services due to reduced import volumes; at Industrial Services due to delayed infrastructure projects; and at Oil, Gas & Chemicals Services due to declining demand for refined products from industrial end users.

**Multiple growth opportunities:** While some of SGS's activities are slowing down, there are multiple growth opportunities, for instance in statutory automobile inspection or quality control in Life Sciences. SGS is constantly inventing new services and broadening the offering portfolio, providing for additional growth.

PERFORMANCE



PER SHARE DATA

Price target (CHF)	1200.00
Price SGSN.VX on 15-01-09 CHF	1,145
No. of shares SGSN.VX in '000	7,255
Market cap. SGSN.VX (CHF mns)	8,307
Other market cap. (CHF mns)	0
Total market capitalization (CHF mns)	8,307
Free Float %	40
Von Finck Family (voting 25%)	25
IFIL (voting 15%)	15
Allianz SE (voting 7%)	7
Average daily trading volume (12 months)	28,133

SHARE VALUATION

CHF	2007	2008E	2009E	2010E
EPS	66.8	75.9	83.7	89.9
EPS growth %	19	14	10	7
P/E	20.0	14.5	13.7	12.7
CEPS	65.5	91.1	84.4	90.9
P/CE	17.5	12.6	13.6	12.6
Dividend	35.0	50.0	30.0	32.0
Dividend yield %	2.6	4.5	4.1	3.1
Book value	258	240	252	321
Price/Book	5.2	4.6	4.5	3.6
EV/EBITDA	11.0	7.9	7.5	6.7

HIGH 12-MONTH LOW

1,596	904.00
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BREAKDOWN

Sales 2008	CHF mns	% Change	Share
- by sector			
Agricultural Services	358	0.5	7.4
Mineral Services	663	18.4	13.8
Oil, Gas & Chemical	954	7.0	19.8
Life Science Services	204	2.0	4.2
Consumer Testing Service	734	12.1	15.2
Systems & Services	366	3.4	7.6
Industrial Services	739	18.2	15.3
Environmental Services	296	5.4	6.2
Automotive Services	293	17.4	6.1
Government & Institution:	212	5.7	4.4
Total	4818	10.2	100.0

KEY DATA

CHF mns	2008E	2009E	2010E
Sales	4,818	5,196	5,561
EBIT	937	862	913
EBIT margin %	19.4	16.6	16.4
Shareholders' net profit	692	622	659
Return on equity %	37.9	33.5	28.4
Total assets	3,581	3,865	4,423
Equity	1,862	1,855	2,325
Equity ratio %	52.0	48.9	53.4
Interest-bearing debt	411	411	411
Cash	583	561	894
Operating cash flow	838	936	920
Capex	462	340	370

EXCESS PERFORMANCE

	SPIX <sup>1</sup>	DJSFISV <sup>2</sup>
3M	9.0%	22.2%
6M	2.5%	20.4%
12M	27.2%	46.6%

<sup>1</sup>SPI ex Div.

<sup>2</sup>DJ STOXX Financial Services

## FY08 results review

SGS reported FY08 results 2% ahead of our forecast both in terms of revenues and earnings (1% ahead of consensus). Operating profit came in 4% better, ie at CHF 810 mn pre-exceptionals, reflecting a strong margin of 16.8% (VT est.: 16.2%). Cash flow of CHF 780 mn (pre-exceptionals) was broadly in line. The Board authorized another share buyback programme of CHF 250 mn and proposes a dividend of CHF 50 per share (enhanced by a CHF 15 per share gain from exceptionals) – producing a dividend yield of 4.4%

In CHF mn FY to Dec. 31	FY08E	FY08A	delta %
<b>Revenues</b>	<b>4,725</b>	<b>4,818</b>	<b>2.0%</b>
Salaries and sub-contractor expenses	-2,578	-2,574	-0.1%
Other operating expenses	-1,162	-1,220	5.0%
Exceptional items	127	127	0.0%
<b>Total operating expenses</b>	<b>-3,613</b>	<b>-3,667</b>	<b>1.5%</b>
<b>EBITDA</b>	<b>985</b>	<b>1,024</b>	<b>3.9%</b>
Depreciation & amortization	-210	-214	1.9%
<b>Operating income (before exceptionals)</b>	<b>775</b>	<b>810</b>	<b>4.5%</b>
<b>EBIT</b>	<b>902</b>	<b>937</b>	<b>3.9%</b>
Interest income/expenses (net)	9	-4	-142.5%
<b>Pretax profit</b>	<b>912</b>	<b>933</b>	<b>2.3%</b>
Taxes	-210	-219	4.2%
<b>Net Group profit</b>	<b>701</b>	<b>714</b>	<b>1.8%</b>
Minority interests	-23	-22	-3.5%
<b>Net profit</b>	<b>679</b>	<b>692</b>	<b>2.0%</b>
Adjusted net profit	566	579	2.4%
<b>Basic EPS</b>	<b>89.88</b>	<b>91.09</b>	<b>1.3%</b>
Diluted EPS (adjusted)	74.24	75.90	2.2%
Basic number of shares ('000)	7551	7597	0.6%
Diluted number of shares ('000)	7619	7628	0.1%
<b>Growth</b>	<b>FY08E</b>	<b>FY08A</b>	<b>delta %</b>
Revenues (net)	8.1	10.2	26.3%
- Organic growth	12.2	14.3	16.5%
- FX impact	-5.5	-6.4	15.1%
- M&A impact	1.4	2.3	67.6%
EBITDA	8.5	12.8	50.3%
Operating income	9.0	13.9	54.3%
EBIT	30.8	35.8	16.4%
Net profit	35.7	38.4	7.5%
<b>Margin analysis</b>	<b>FY08E</b>	<b>FY08A</b>	<b>delta %</b>
Salaries & sub-contr. exp./revenues	54.6	53.4	-2.1%
Other op. expenses/revenues	24.6	25.3	2.9%
Unusual items/revenues	-2.7	-2.6	-1.9%
EBITDA margin	20.8	21.3	1.9%
Operating income margin	16.4	16.8	2.5%
EBIT margin	19.1	19.4	1.9%
Tax rate	25.0	23.5	-6.1%
Net profit margin	14.4	14.4	0.0%

SGS produced operating cash flow of CHF 838 mn, some 5% better than expected. Net working capital management remained very good with an increase of only CHF 22 mn despite strong revenue growth.

## Divisional Highlights

The **Agricultural Services** division delivered flat revenues as the 8.3% volume- and price-driven growth was offset by negative contributions from FX and disposals. The operating margin increased by 220 bps to 15.6% on the back of productivity measures and a shift to more profitable service offerings. The volatile influence of crop conditions, FX, trade restrictions and logistics costs is expected to be even more pronounced in 2009, which, combined with the tight credit market, is likely to result in a slowdown in growth in 2009, which we see at 6.5%, ie almost half the level seen in 2H08.

The **Minerals Services** division posted strong organic growth of 28% for the year but recorded a clear slowdown in growth in 2H08. Margins expanded by 140 bps to 18.9% due to better asset utilization. The sharp decline in commodity prices in the latter part of 2008 has put a break on exploration and project spending in the sector that inevitably affects SGS. The company has taken first steps to align its cost base. As mentioned in previous reports, we anticipate a marked slowdown in growth to 7% in FY09 on the back of unfavourable commodity prices, the tight credit market and more conservative cash protecting attitudes by miners.

The **Oil, Gas & Chemicals Services** division was able to accelerate organic growth in 2H08, increasing revenues by 11.7% organically for the full-year 2008. FY08 margins were down 30 bps to 14.7%, but increased to 15.4% in 2H08. The company expects volatile trading conditions in FY09 in the chemicals and refinery products sector due to lower industrial end user demand. We project growth to slow down to 6% in FY09.

The **Life Science Services** division grew by only 2% as 8% growth from volumes and prices was offset by FX and disposal effects. The margin improved by 150 bps to 13.5% in FY08. SGS reported stable developments in the pharma sector and a satisfactory performance in quality control testing. The statutory character of a large chunk of this business makes it resilient to the downturn.

We were surprised by the resilience of the **Consumer Testing** division, which posted 17% organic growth with improvements in all subsectors. The areas of mobile phone testing, restricted substance testing, textile and toys showed particularly strong demand. Acquisitions further enhanced growth by 2.8%. We nevertheless noted a slowdown in the growth momentum towards year-end, which we project to translate into a weaker growth rate of only 10% in FY09. Tightening regulations for consumer products following recall events should play in favour of SGS.

The **Systems & Services Certification** division saw an acceleration in organic growth of 11.1% in 2H08, up from 8.2% in 1H08. With the primary growth

driver being market share gain in the currently more difficult environment, we pencil in growth of only 6% in FY09.

The **Industrial Services** division reported 16.7% organic growth despite a difficult environment for construction and infrastructure services. SGS predicts similar dynamics for 2009. While we expect some resilience to the economic slowdown due to the geographic diversity and the long-term nature of some of the projects in this segment, we still believe that financing issues will result in infrastructure project delays and weaker demand. As such, we forecast growth of only 8% in FY09.

**COMPARISON OF DIVISIONAL PERFORMANCE AND VONTOBEL ESTIMATES**

**Divisional Revenues**

Division	2008E	2008A	delta %
Agricultural Services	352	358	1.8%
Mineral Services	646	663	2.6%
Oil, Gas & Chemical Services	943	954	1.2%
Life Science Services	204	204	0.3%
Consumer Testing Services	719	734	2.0%
Systems & Services Certification	362	366	1.0%
Industrial Services	713	739	3.5%
Environmental Services	297	296	-0.1%
Automotive Services	285	293	2.8%
Government & Institutions Services	205	212	3.5%
<b>Total</b>	<b>4725</b>	<b>4818</b>	<b>2.0%</b>

**Divisional Revenue Growth in %**

Division	2008E	2008A	delta %
Agricultural Services	-1.3	0.5	
Mineral Services	15.5	18.4	
Oil, Gas & Chemical Services	5.7	7.0	
Life Science Services	1.7	2.0	
Consumer Testing Services	9.9	12.1	
Systems & Services Certification	2.4	3.4	
Industrial Services	14.2	18.2	
Environmental Services	5.5	5.4	
Automotive Services	14.3	17.4	
Government & Institutions Services	2.2	5.7	
<b>Total</b>	<b>8.1</b>	<b>10.2</b>	<b>26.3%</b>

**Divisional Revenue Growth in % (volume & prices)**

Division	2008E	2008A	delta %
Agricultural Services	5.7	8.3	
Mineral Services	21.0	25.3	
Oil, Gas & Chemical Services	10.2	10.8	
Life Science Services	7.0	8.6	
Consumer Testing Services	17.0	15.8	
Systems & Services Certification	8.0	9.2	
Industrial Services	13.0	15.7	
Environmental Services	8.0	9.8	
Automotive Services	20.0	22.3	
Government & Institutions Services	7.0	10.5	
<b>Total</b>	<b>12.2</b>	<b>14.3</b>	<b>16.5%</b>

**Divisional Operating Income (pre-exceptionals)**

Division	2008E	2008A	delta %
Agricultural Services	48	56	17.7%
Mineral Services	128	125	-2.1%
Oil, Gas & Chemical Services	132	140	6.3%
Life Science Services	25	28	9.7%
Consumer Testing Services	165	170	2.9%
Systems & Services Certification	67	70	4.5%
Industrial Services	106	106	0.0%
Environmental Services	28	31	11.4%
Automotive Services	44	48	8.1%
Government & Institutions Services	32	36	13.3%
<b>Total</b>	<b>774</b>	<b>810</b>	<b>4.6%</b>

**Divisional Operating Income Margin Breakdown**

Division	2008E	2008A	delta %
Agricultural Services	13.5	15.6	
Mineral Services	19.8	18.9	
Oil, Gas & Chemical Services	14.0	14.7	
Life Science Services	12.3	13.5	
Consumer Testing Services	23.0	23.2	
Systems & Services Certification	18.5	19.1	
Industrial Services	14.8	14.3	
Environmental Services	9.5	10.6	
Automotive Services	15.5	16.3	
Government & Institutions Services	15.5	16.9	
<b>Total</b>	<b>16.4</b>	<b>16.8</b>	<b>2.5%</b>

**Divisional Operating Profit Growth YoY**

Division	2008E	2008A	delta %
Agricultural Services	-0.2	17.4	
Mineral Services	30.3	27.6	
Oil, Gas & Chemical Services	-1.1	5.2	
Life Science Services	4.0	14.1	
Consumer Testing Services	8.9	12.1	
Systems & Services Certification	3.0	7.7	
Industrial Services	4.9	4.9	
Environmental Services	2.1	13.8	
Automotive Services	30.6	41.1	
Government & Institutions Services	10.1	24.7	
<b>Total</b>	<b>8.9</b>	<b>13.9</b>	<b>55.7%</b>

The **Environmental Services** division recorded 9.8% volume and price-driven growth and improved the operating margin by 80 bps to 10.6%. Increased laboratory sample volumes were seen in Germany, Spain, the Benelux, the US, UAE, South Africa, Peru, Chile and India.

The **Automotive Services** division grew 17% organically, with strong growth in statutory inspection business offsetting weakness in the commercial inspection business. SGS gained new contracts for statutory inspection in Massachusetts

and New Jersey and was able to meet increased demand for the provision of driver testing in Ireland. The difficulties in the Automotive industry is negatively affecting the commercial inspection market and SGS has developed contingency plans to respond to lower demand in this field. With commercial inspection accounting for only 26% of the division's revenues, we believe that 10% growth overall can be achieved in FY09.

The **Government and Institution Services** division grew comparable revenues by 11.1% and achieved a 250 bps margin increase to 16.9%. Market share gains were reported for Angola and Bangladesh, and mandates were renewed in all regions except for Ecuador. The business for scanning operations was successful and is expected to continue growing in FY09 with the deployment of further units. However, we expect the trade-related PSI business (pre-shipment inspection) to see a decline in FY09 due to lower import volumes. Hence we believe organic growth for the division will halve to 5%.

## Conclusion

Overall the company showed good resilience across its portfolio in a tough environment towards year-end and, while some headwind is appearing, we still pencil in growth in 2009.

It is difficult to forecast growth for SGS in FY09 (even management is not very specific) as the growth dynamics for the various divisions and regions differ in many ways and depend on a multitude of variables such as economic growth, commodity prices, demographics, credit availability, regulatory frameworks and changes in regulations, security requirements, outsourcing trends and new business opportunities often created by SGS itself. It is however certain that a portion of most of SGS's division is sensitive to global economic growth (we estimate roughly 1/3) and that growth will inevitably slow down. We project slowdowns at Mining Services due to lower exploration activity, at Automotive Services stemming from the commercial inspection side, at Government Services due to reduced import volumes, at Industrial Services due to delayed infrastructure projects and at Oil, Gas & Chemicals Services due to declining demand for refined products from industrial end users.

We now anticipate 7.3% organic growth (7.8% total growth) and an operating margin of 16.6% in FY09. As a result our EBIT estimate for FY09E is up 6.4% and our EPS estimate by 9.4% (enhanced by a lower number of shares resulting from the share buyback).

### SUMMARY OF CHANGES TO VONTOBEL ESTIMATES

	New			Old			Change %		
	2008A	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
<b>Revenues</b>	4,818.0	5,196.0	5,560.7	4,725.1	5,042.7	5,397.0	2.0%	3.0%	3.0%
<b>EBITDA</b>	1,024.0	1,094.0	1,167.0	985.2	1,042.4	1,145.1	3.9%	5.0%	1.9%
<b>Operating income</b>	810.0	862.0	913.0	775.2	810.4	891.1	4.5%	6.4%	2.5%
<b>EBIT</b>	937.0	862.0	913.0	902.2	810.4	891.1	3.9%	6.4%	2.5%
<b>Net profit</b>	692.0	621.6	659.2	678.7	583.0	642.8	2.0%	6.6%	2.5%
<b>Diluted EPS (adj.)</b>	75.9	83.7	89.9	74.2	76.5	84.4	2.2%	9.4%	6.6%

Management expects all divisions to post revenue growth and has set a priority on margin protection, meaning that it firmly targets an operating margin of 16.8%. In our view, the company is very optimistic but achieving a stable margin in the current environment will be challenging. Based on 9.4% higher EPS for FY09 we increase our price target to CHF 1,200 (from CHF 1,050), which puts the stock at premium of 20% to its two main peers. Currently the shares trade at a P/E 09 of 13.7x. HOLD rating confirmed.

**INTERIM INCOME STATEMENT AND VONTOBEL ESTIMATES**

In CHF mn FY to Dec. 31	H1 07	H2 07	2007	H1 08	H2 08	2008	2009E	2010E
<b>Revenues</b>	<b>2,089</b>	<b>2,283</b>	<b>4,372</b>	<b>2,298</b>	<b>2,520</b>	<b>4,818</b>	<b>5,196</b>	<b>5,561</b>
Salaries and sub-contractor expenses	-1,155	-1,228	-2,383	-1,243	-1,331	-2,574	-2,819	-3,039
Other operating expenses	-516	-565	-1,081	-582	-638	-1,220	-1,283	-1,355
Exceptional items	0	-21	-21	127	0	127	0	0
<b>Total operating expenses</b>	<b>= -1,671</b>	<b>-1,814</b>	<b>-3,485</b>	<b>-1,698</b>	<b>-1,969</b>	<b>-3,667</b>	<b>-4,102</b>	<b>-4,394</b>
<b>EBITDA</b>	<b>= 418</b>	<b>490</b>	<b>908</b>	<b>473</b>	<b>551</b>	<b>1,024</b>	<b>1,094</b>	<b>1,167</b>
Depreciation & amortization	-94	-103	-197	-103	-111	-214	-232	-254
<b>Operating income (before exceptionals)</b>	<b>324</b>	<b>387</b>	<b>711</b>	<b>370</b>	<b>440</b>	<b>810</b>	<b>862</b>	<b>913</b>
<b>EBIT</b>	<b>= 324</b>	<b>366</b>	<b>690</b>	<b>497</b>	<b>440</b>	<b>937</b>	<b>862</b>	<b>913</b>
Interest income/expenses (net)	0	2	2	-1	-3	-4	1	4
<b>Pretax profit</b>	<b>= 324</b>	<b>368</b>	<b>692</b>	<b>496</b>	<b>437</b>	<b>933</b>	<b>863</b>	<b>917</b>
Taxes	-81	-91	-172	-108	-111	-219	-216	-229
<b>Net Group profit</b>	<b>= 243</b>	<b>277</b>	<b>520</b>	<b>388</b>	<b>326</b>	<b>714</b>	<b>647</b>	<b>688</b>
Minority interests	-9	-11	-20	-10	-12	-22	-26	-29
<b>Net profit</b>	<b>= 234</b>	<b>266</b>	<b>500</b>	<b>378</b>	<b>314</b>	<b>692</b>	<b>622</b>	<b>659</b>
Adjusted net profit	234	281	515	265	314	579	622	659
Basic EPS	30.64	34.83	65.47	49.53	41.56	91.09	84.40	90.85
Diluted EPS (adjusted)	30.34	36.47	66.81	34.44	41.46	75.90	83.72	89.94
Basic number of shares ('000)	7636	7637	7637	7631	7556	7597	7364	7255
Diluted number of shares ('000)	7711	7293	7708	7689	7573	7628	7424	7329

<b>Growth</b>		H1 07	H2 07	2007	H1 08	H2 08	2008	2009E	2010E
Revenues (net)	%	13.2	15.5	14.4	10.0	10.4	10.2	7.8	7.0
- Organic	%	11.5	12.4	12.0	15.1	15.6	15.3	7.3	7.0
- Volume and price	%	11.5	12.6	12.1	14.1	14.4	14.3	7.3	7.0
- FX impact	%	1.3	1.6	1.5	-6.0	-6.8	-6.4	0.0	0.0
- M&A impact	%	0.4	1.3	0.9	1.9	2.7	2.3	0.6	0.0
EBITDA	%	15.8	17.8	16.9	13.2	12.4	12.8	6.8	6.7
Operating income	%	15.3	19.4	17.5	14.2	13.7	13.9	6.4	5.9
EBIT	%	7.3	13.7	10.6	53.4	20.2	35.8	-8.0	5.9
Net profit	%	8.8	16.7	12.9	61.5	18.0	38.4	-10.2	6.0

<b>Margin analysis</b>		H1 07	H2 07	2007	H1 08	H2 08	2008	2009E	2010E
Salaries & sub-contr. exp./revenues	%	55.3	53.8	54.5	54.1	52.8	53.4	54.2	54.6
Other op. expenses/revenues	%	24.7	24.7	24.7	25.3	25.3	25.3	24.7	24.4
Unusual items/revenues	%	0.0	0.9	0.5	-5.5	0.0	-2.6	0.0	0.0
EBITDA margin	%	20.0	21.5	20.8	20.6	21.9	21.3	21.1	21.0
Operating income margin	%	15.5	17.0	16.3	16.1	17.5	16.8	16.6	16.4
EBIT margin	%	15.5	16.0	15.8	21.6	17.5	19.4	16.6	16.4
Tax rate	%	25.0	24.7	24.9	21.8	25.4	23.5	25.0	25.0
Net profit margin	%	11.2	11.7	11.4	16.4	12.5	14.4	12.0	11.9

### Divisional Revenue Breakdown

Division		H1 07	H2 07	2007	H1 08	H2 08	2008	H1 09E	H2 09E	2009E	2010E
Agricultural Services	CHF mn	168	189	357	167	191	358	177	204	382	404
Mineral Services	CHF mn	260	300	560	321	342	663	344	367	710	760
Oil, Gas & Chemical Services	CHF mn	434	457	891	456	498	954	488	533	1021	1092
Life Science Services	CHF mn	98	102	200	99	105	204	106	113	218	232
Consumer Testing Services	CHF mn	311	343	655	343	391	734	376	430	806	887
Systems & Services Certification	CHF mn	170	183	354	174	192	366	184	203	388	415
Industrial Services	CHF mn	298	326	625	352	386	739	389	425	814	871
Environmental Services	CHF mn	133	148	281	143	153	296	156	167	322	339
Automotive Services	CHF mn	122	128	249	145	148	293	154	158	313	328
Government & Institutions Services	CHF mn	94	106	200	98	114	212	103	119	222	233
<b>Total</b>	<b>CHF mn</b>	<b>2089</b>	<b>2283</b>	<b>4372</b>	<b>2298</b>	<b>2520</b>	<b>4818</b>	<b>2477</b>	<b>2719</b>	<b>5196</b>	<b>5561</b>

### Divisional Revenue Growth in %

Division		H1 07	H2 07	2007	H1 08	H2 08	2008	H1 09E	H2 09E	2009E	2010E
Agricultural Services	%	1.2	10.8	6.1	-0.2	1.1	0.5	6.0	6.9	6.5	6.0
Mineral Services	%	15.2	24.2	19.9	23.6	14.0	18.4	7.2	7.2	7.2	7.0
Oil, Gas & Chemical Services	%	16.0	11.8	13.8	5.0	8.9	7.0	7.1	7.0	7.0	7.0
Life Science Services	%	8.0	6.6	7.3	0.8	3.1	2.0	6.4	7.3	6.9	6.0
Consumer Testing Services	%	12.3	13.4	12.9	10.0	14.0	12.1	9.9	9.8	9.9	10.0
Systems & Services Certification	%	12.4	9.6	10.9	2.2	4.6	3.4	6.0	6.0	6.0	7.0
Industrial Services	%	24.2	20.8	22.4	18.1	18.3	18.2	10.3	10.1	10.2	7.0
Environmental Services	%	6.7	18.9	12.8	7.2	3.9	5.4	8.8	8.8	8.8	5.0
Automotive Services	%	9.1	17.2	13.1	18.7	16.2	17.4	6.9	6.9	6.9	5.0
Government & Institutions Services	%	12.8	24.2	18.6	4.5	6.9	5.7	4.8	5.0	4.9	5.0
<b>Total</b>	<b>%</b>	<b>13.2</b>	<b>15.5</b>	<b>14.4</b>	<b>10.0</b>	<b>10.4</b>	<b>10.2</b>	<b>7.8</b>	<b>7.9</b>	<b>7.8</b>	<b>7.0</b>

### Divisional Revenue Growth in % (volume & prices)

Division		H1 07	H2 07	2007	H1 08	H2 08	2008	H1 09E	H2 09E	2009E	2010E
Agricultural Services	%	2.3	6.2	4.3	5.4	10.8	8.3	6.0	6.9	6.5	6.0
Mineral Services	%	13.4	20.9	17.3	29.0	22.2	25.3	7.0	7.0	7.0	7.0
Oil, Gas & Chemical Services	%	13.7	11.4	12.5	9.9	11.6	10.8	6.0	6.0	6.0	7.0
Life Science Services	%	5.3	3.4	4.3	6.2	11.0	8.6	6.5	7.5	7.0	6.0
Consumer Testing Services	%	8.8	11.6	10.3	16.5	15.2	15.8	10.0	10.0	10.0	10.0
Systems & Services Certification	%	10.6	7.8	9.2	7.8	10.5	9.2	6.0	6.0	6.0	7.0
Industrial Services	%	19.0	13.2	16.0	16.1	15.4	15.7	8.0	8.0	8.0	7.0
Environmental Services	%	13.1	14.6	13.8	9.3	10.3	9.8	8.0	8.0	8.0	5.0
Automotive Services	%	7.5	13.2	10.3	22.2	22.4	22.3	7.0	7.0	7.0	5.0
Government & Institutions Services	%	13.8	25.6	19.8	9.5	11.5	10.5	5.0	5.0	5.0	5.0
<b>Total</b>	<b>%</b>	<b>11.5</b>	<b>12.6</b>	<b>12.1</b>	<b>14.1</b>	<b>14.4</b>	<b>14.3</b>	<b>7.2</b>	<b>7.3</b>	<b>7.3</b>	<b>7.0</b>

### Divisional Revenue Breakdown in % of Total Revenues

Division		H1 07	H2 07	2007	H1 08	H2 08	2008	H1 09E	H2 09E	2009E	2010E
Agricultural Services	%	8.0	8.3	8.2	7.3	7.6	7.4	7.2	7.5	7.3	7.3
Mineral Services	%	12.4	13.2	12.8	14.0	13.6	13.8	13.9	13.5	13.7	13.7
Oil, Gas & Chemical Services	%	20.8	20.0	20.4	19.8	19.7	19.8	19.7	19.6	19.6	19.6
Life Science Services	%	4.7	4.5	4.6	4.3	4.2	4.2	4.3	4.2	4.2	4.2
Consumer Testing Services	%	14.9	15.0	15.0	14.9	15.5	15.2	15.2	15.8	15.5	15.9
Systems & Services Certification	%	8.1	8.0	8.1	7.6	7.6	7.6	7.4	7.5	7.5	7.5
Industrial Services	%	14.3	14.3	14.3	15.3	15.3	15.3	15.7	15.6	15.7	15.7
Environmental Services	%	6.4	6.5	6.4	6.2	6.1	6.2	6.3	6.1	6.2	6.1
Automotive Services	%	5.8	5.6	5.7	6.3	5.9	6.1	6.2	5.8	6.0	5.9
Government & Institutions Services	%	4.5	4.7	4.6	4.3	4.5	4.4	4.2	4.4	4.3	4.2
<b>Total</b>	<b>%</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Divisional Operating Income (pre-exceptionals)**

Division		H1 07	H2 07	2007	H1 08	H2 08	2008	H1 09E	H2 09E	2009E	2010E
Agricultural Services	CHF mn	19	29	48	22	34	56	27	33	59	53
Mineral Services	CHF mn	43	55	98	64	62	125	62	68	131	144
Oil, Gas & Chemical Services	CHF mn	65	68	133	64	77	140	69	78	147	156
Life Science Services	CHF mn	11	13	24	11	16	28	12	17	29	30
Consumer Testing Services	CHF mn	69	83	152	77	94	170	87	99	185	208
Systems & Services Certification	CHF mn	29	37	65	31	39	70	35	39	74	77
Industrial Services	CHF mn	47	54	101	50	56	106	54	61	116	126
Environmental Services	CHF mn	12	16	28	13	19	31	16	18	34	36
Automotive Services	CHF mn	16	17	34	24	23	48	25	25	50	48
Government & Institutions Services	CHF mn	13	16	29	15	21	36	16	20	37	35
<b>Total</b>	<b>CHF mn</b>	<b>324</b>	<b>387</b>	<b>711</b>	<b>370</b>	<b>440</b>	<b>810</b>	<b>403</b>	<b>459</b>	<b>862</b>	<b>913</b>

**Divisional Operating Income Margin Breakdown**

Division		H1 07	H2 07	2007	H1 08	H2 08	2008	H1 09E	H2 09E	2009E	2010E
Agricultural Services	%	11.3	15.1	13.4	13.0	17.9	15.6	15.0	15.9	15.5	13.2
Mineral Services	%	16.6	18.3	17.5	19.8	18.1	18.9	18.1	18.7	18.4	19.0
Oil, Gas & Chemical Services	%	15.0	14.9	15.0	14.0	15.4	14.7	14.2	14.6	14.4	14.3
Life Science Services	%	11.2	12.8	12.0	11.3	15.5	13.5	11.5	15.4	13.5	12.8
Consumer Testing Services	%	22.1	24.2	23.2	22.4	23.9	23.2	23.0	23.0	23.0	23.5
Systems & Services Certification	%	16.8	19.9	18.4	18.0	20.2	19.1	19.1	19.1	19.1	18.5
Industrial Services	%	15.7	16.5	16.1	14.1	14.5	14.3	14.0	14.4	14.2	14.5
Environmental Services	%	8.8	10.7	9.8	8.9	12.2	10.6	10.0	11.0	10.5	10.5
Automotive Services	%	13.5	13.6	13.6	16.8	15.8	16.3	16.0	16.0	16.0	14.5
Government & Institutions Services	%	14.0	14.7	14.4	15.7	18.0	16.9	16.0	16.9	16.5	15.0
<b>Total</b>	<b>%</b>	<b>15.5</b>	<b>17.0</b>	<b>16.3</b>	<b>16.1</b>	<b>17.4</b>	<b>16.8</b>	<b>16.3</b>	<b>16.9</b>	<b>16.6</b>	<b>16.4</b>

**Divisional Operating Profit Growth YoY**

Division		H1 07	H2 07	2007	H1 08	H2 08	2008	H1 09E	H2 09E	2009E	2010E
Agricultural Services	%	-3.6	30.0	14.1	14.2	19.6	17.4	22.7	-4.9	5.8	-9.7
Mineral Services	%	14.9	28.2	22.0	47.0	12.4	27.6	-2.0	10.8	4.3	10.5
Oil, Gas & Chemical Services	%	25.6	12.4	18.5	-2.1	12.2	5.2	8.6	1.5	4.8	6.3
Life Science Services	%	-0.9	4.0	1.7	1.8	24.4	14.1	8.4	6.4	7.2	0.5
Consumer Testing Services	%	7.5	16.4	12.2	11.6	12.5	12.1	12.9	5.6	8.9	12.4
Systems & Services Certification	%	2.9	17.0	10.4	9.8	6.0	7.7	12.4	0.3	5.7	3.8
Industrial Services	%	48.6	24.5	34.7	6.0	3.9	4.9	9.7	9.3	9.5	9.3
Environmental Services	%	4.4	23.4	14.5	7.6	18.4	13.8	22.5	-2.2	7.8	5.0
Automotive Services	%	7.2	20.0	13.4	48.2	34.5	41.1	1.7	8.2	4.9	-4.8
Government & Institutions Services	%	15.8	32.2	24.1	16.7	31.4	24.7	6.9	-1.4	2.2	-4.5
<b>Total</b>	<b>%</b>	<b>15.1</b>	<b>19.8</b>	<b>17.6</b>	<b>14.3</b>	<b>13.5</b>	<b>13.9</b>	<b>8.9</b>	<b>4.3</b>	<b>6.4</b>	<b>6.0</b>

**Divisional Operating Profit as % of total**

Division		H1 07	H2 07	2007	H1 08	H2 08	2008	H1 09E	H2 09E	2009E	2010E
Agricultural Services	%	5.9	7.4	6.7	5.9	7.8	6.9	6.6	7.1	6.9	5.8
Mineral Services	%	13.3	14.2	13.8	17.2	14.1	15.5	15.4	14.9	15.2	15.8
Oil, Gas & Chemical Services	%	20.1	17.6	18.8	17.2	17.4	17.3	17.2	16.9	17.1	17.1
Life Science Services	%	3.4	3.4	3.4	3.0	3.7	3.4	3.0	3.8	3.4	3.2
Consumer Testing Services	%	21.2	21.5	21.4	20.7	21.3	21.0	21.5	21.6	21.5	22.8
Systems & Services Certification	%	8.8	9.4	9.1	8.5	8.8	8.6	8.7	8.5	8.6	8.4
Industrial Services	%	14.5	13.9	14.1	13.4	12.7	13.0	13.5	13.3	13.4	13.8
Environmental Services	%	3.6	4.1	3.9	3.4	4.3	3.9	3.9	4.0	3.9	3.9
Automotive Services	%	5.1	4.5	4.8	6.6	5.3	5.9	6.1	5.5	5.8	5.2
Government & Institutions Services	%	4.1	4.0	4.1	4.2	4.7	4.4	4.1	4.4	4.3	3.8
<b>Total</b>	<b>%</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## Income Statement

In CHF mn FY to Dec. 31	2006	2007	2008	2009E	2010E	CAGR 2007-2010
<b>Revenues (gross)</b>	<b>3,821</b>	<b>4,372</b>	<b>4,818</b>	<b>5,196</b>	<b>5,561</b>	<b>8.3%</b>
Salaries and wages	-1,818	-2,076	-2,249	-2,462	-2,656	8.6%
Subcontractors' expenses	-263	-307	-325	-357	-382	7.6%
Other operating expenses	-963	-1,081	-1,220	-1,283	-1,355	7.8%
Exceptional items	19	-21	127	0	0	n.m.
<b>Total operating expenses</b>	<b>-3,025</b>	<b>-3,485</b>	<b>-3,667</b>	<b>-4,102</b>	<b>-4,394</b>	<b>8.0%</b>
<b>EBITDA</b>	<b>777</b>	<b>908</b>	<b>1,024</b>	<b>1,094</b>	<b>1,167</b>	<b>8.7%</b>
Depreciation of fixed assets	-141	-166	-168	-189	-206	7.4%
Depr./impairm. of intangible assets	-31	-31	-38	-43	-48	16.1%
<b>Op. Inc. (pre-exceptionals)</b>	<b>605</b>	<b>711</b>	<b>810</b>	<b>862</b>	<b>913</b>	<b>8.7%</b>
<b>EBIT</b>	<b>624</b>	<b>690</b>	<b>937</b>	<b>862</b>	<b>913</b>	<b>9.8%</b>
Interest income/expenses (net)	-1	2	-4	1	4	26.0%
<b>Pretax profit</b>	<b>623</b>	<b>692</b>	<b>933</b>	<b>863</b>	<b>917</b>	<b>9.8%</b>
Taxes	-155	-172	-219	-216	-229	10.1%
<b>Net group profit</b>	<b>468</b>	<b>520</b>	<b>714</b>	<b>647</b>	<b>688</b>	<b>9.8%</b>
Minority interests	-25	-20	-22	-26	-29	12.7%
<b>Net profit</b>	<b>443</b>	<b>500</b>	<b>692</b>	<b>622</b>	<b>659</b>	<b>9.6%</b>
Net profit adjusted	431	515	579	622	659	8.6%

<b>Growth</b>		2006	2007	2008	2009E	2010E
Revenues (net)	%	15.5	14.4	10.2	7.8	7.0
EBITDA	%	21.0	16.9	12.8	6.8	6.7
Operating income (pre-excep.)	%	20.5	17.5	13.9	6.4	5.9
EBIT	%	24.3	10.6	35.8	-8.0	5.9
Net profit	%	19.4	12.9	38.4	-10.2	6.0

<b>Margins analysis</b>		2006	2007	2008	2009E	2010E	CAGR 2007-2010
EBITDA margin	%	20.3	20.8	21.3	21.1	21.0	0.3%
Op. Inc. margin (pre-exception)	%	15.8	16.3	16.8	16.6	16.4	0.3%
EBIT margin	%	16.3	15.8	19.4	16.6	16.4	1.3%
Tax rate	%	24.9	24.9	23.5	25.0	25.0	0.2%
Net profit margin	%	11.6	11.4	14.4	12.0	11.9	1.2%
Operational cash flow margin	%	14.4	16.1	17.4	18.0	16.6	0.8%

## Cash flow Statement

In CHF mn FY to Dec. 31	2006	2007	2008	2009E	2010E	CAGR 2007-2010
<b>Cash flow</b>	<b>727</b>	<b>871</b>	<b>860</b>	<b>934</b>	<b>942</b>	<b>2.6%</b>
Inc. (-)/dec. (+) in NWC	-175	-165	-22	2	-21	-49.5%
<b>Operating cash flow</b>	<b>552</b>	<b>706</b>	<b>838</b>	<b>936</b>	<b>920</b>	<b>9.2%</b>
Total capex	428	341	462	340	370	9.1%
<b>Operating free cash flow</b>	<b>304</b>	<b>421</b>	<b>528</b>	<b>596</b>	<b>550</b>	<b>9.4%</b>
<b>Investing cash flow</b>	<b>-141</b>	<b>-45</b>	<b>-147</b>	<b>0</b>	<b>0</b>	<b>n.m.</b>
<b>Financing cash flow</b>	<b>-452</b>	<b>-166</b>	<b>-202</b>	<b>-618</b>	<b>-218</b>	<b>9.5%</b>
<b>Inc. (+)/dec. (-) in cash</b>	<b>-292</b>	<b>200</b>	<b>145</b>	<b>-22</b>	<b>333</b>	<b>18.5%</b>

## Balance Sheet

In CHF mn FY to Dec. 31	2006	2007	2008	2009E	2010E	CAGR 2007-2010
Cash & marketable securities	239	438	583	561	894	26.8%
Inventories	180	206	194	219	235	4.4%
Trade and other receivables	762	867	919	1,092	1,185	11.0%
Other receivables and prepayments	182	184	184	184	184	0.0%
<b>Current assets</b>	<b>1,363</b>	<b>1,695</b>	<b>1,880</b>	<b>2,056</b>	<b>2,498</b>	<b>13.8%</b>
Net fixed assets	656	738	721	801	887	6.3%
Intangibles	141	153	166	160	152	-0.2%
Goodwill	503	563	593	627	664	5.7%
Other long-term assets	151	145	182	182	182	7.9%
<b>Long-term assets</b>	<b>1,489</b>	<b>1,638</b>	<b>1,701</b>	<b>1,809</b>	<b>1,925</b>	<b>5.5%</b>
<b>Total assets</b>	<b>2,852</b>	<b>3,333</b>	<b>3,581</b>	<b>3,865</b>	<b>4,423</b>	<b>9.9%</b>

In CHF mn FY to Dec. 31	2006	2007	2008	2009E	2010E	CAGR 2007-2010
Trade and other payables	402	452	403	537	574	8.3%
Short-term interest-bearing debt	17	40	333	333	333	102.7%
Other current liabilities	502	574	641	708	757	9.7%
<b>Current liabilities</b>	<b>921</b>	<b>1,066</b>	<b>1,377</b>	<b>1,577</b>	<b>1,665</b>	<b>16.0%</b>
Long-term interest-bearing debt	7	20	10	10	10	-20.6%
Pension provisions	187	78	78	78	78	0.0%
Deferred taxes	46	64	64	64	64	0.0%
Other provisions	99	98	190	245	245	35.7%
<b>Long-term liabilities</b>	<b>339</b>	<b>260</b>	<b>342</b>	<b>397</b>	<b>397</b>	<b>15.2%</b>
<b>Shareholders' equity</b>	<b>1,562</b>	<b>1,971</b>	<b>1,826</b>	<b>1,855</b>	<b>2,325</b>	<b>5.7%</b>
Minority interests	30	36	36	36	36	0.0%
<b>Equity &amp; l.t. liabilities</b>	<b>1,931</b>	<b>2,267</b>	<b>2,204</b>	<b>2,288</b>	<b>2,758</b>	<b>6.8%</b>
<b>Total liabilities &amp; sh. equity</b>	<b>2,852</b>	<b>3,333</b>	<b>3,581</b>	<b>3,865</b>	<b>4,423</b>	<b>9.9%</b>

## Balance Sheet Analysis

Working capital analysis		2006	2007	2008	2009E	2010E	CAGR 2007-2010
Net work. cap. (NWC)	CHF mn	220.0	231.0	253.0	251.2	272.5	5.7%
NWC/turnover	%	5.8	5.3	5.3	4.8	4.9	-2.5%
Working capital	days	21.0	19.3	19.2	17.6	17.9	-2.5%
Inventory	days	17	17	15	15	15	-3.6%
Receivables	days	73	72	70	77	78	2.4%
Payables	days	38	38	31	38	38	0.0%

Capital structure		2006	2007	2008	2009E	2010E	CAGR 2007-2010
Average equity	CHF mn	1,500.5	1,766.5	1,898.5	1,840.5	2,090.1	5.8%
Net fin. pos. (year-end)	CHF mn	215.0	378.0	240.0	217.8	550.7	13.4%
Capital employed	CHF mn	1,564.0	1,707.0	1,700.0	1,751.2	1,888.5	3.4%
Equity/total assets	%	55.8	60.2	52.0	48.9	53.4	-3.9%
Gearing (year-end)	%	-13.8	-19.2	-13.1	-11.7	-23.7	7.3%

Breakdown of ROE		2006	2007	2008	2009E	2010E
Net profit margin	%	11.6	11.4	14.4	12.0	11.9
Asset turnover	%	134.0	131.2	134.5	134.4	125.7
Return on assets (ROA)	%	15.5	15.0	19.3	16.1	14.9
Leverage (assets/equity)	x	1.9	1.9	1.9	2.1	2.1
Return on equity (ROE)	%	29.5	28.3	36.4	33.8	31.5

## Summary & Valuation

<b>Price (registered)</b>		<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	
Price (year-end)	CHF	1,348	1,339	1,100	1,145	1,145	
High	CHF	1,384	1,595	1,607	1,239	n.a.	
Low	CHF	1,049	1,286	884	1,094	n.a.	

<b>Shares outstanding</b>		<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	
Average shares outstanding	('000)	7,595	7,637	7,597	7,364	7,255	
Year-end shares outstanding	('000)	7,619	7,629	7,473	7,255	7,255	
Market capitalization	CHF mn	10,270	10,214	8,221	8,307	8,307	

<b>Aggregate data</b>		<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>CAGR 2007-2010</b>
Revenues (net)	CHF mn	3,821.0	4,372.0	4,818.0	5,196.0	5,560.7	8.3%
EBITDA	CHF mn	777.0	908.0	1,024.0	1,094.0	1,167.0	8.7%
EBIT	CHF mn	624.0	690.0	937.0	862.0	913.0	9.8%
Net profit	CHF mn	443.0	500.0	692.0	621.6	659.2	9.6%
Enterprise value	CHF mn	10,272	9,950	8,095	8,203	7,870	-7.5%

<b>Growth (CHF)</b>		<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	
Revenues (net)	%	15.5	14.4	10.2	7.8	7.0	
EBITDA	%	21.0	16.9	12.8	6.8	6.7	
EBIT	%	24.3	10.6	35.8	-8.0	5.9	
Net profit	%	19.4	12.9	38.4	-10.2	6.0	
Book value	%	8.5	26.2	-7.4	1.6	25.3	

<b>Per-share data</b>		<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	<b>CAGR 2007-2010</b>
EPS (reported)	CHF	58.3	65.5	91.1	84.4	90.9	11.5%
EPS (adjusted)	CHF	56.3	66.8	75.9	83.7	89.9	10.4%
EBITDA	CHF	102.3	118.9	134.8	148.6	160.9	10.6%
EBIT	CHF	82.2	90.3	123.3	117.1	125.8	11.7%
Cash flow	CHF	95.7	114.1	113.2	126.9	129.8	4.4%
Op. cash flow	CHF	72.7	92.4	110.3	127.1	126.9	11.1%
BVPS (reported)	CHF	205.7	258.1	240.4	251.9	320.5	7.5%
BVPS (adjusted)	CHF	189.4	241.8	245.3	280.2	372.5	15.5%
Dividend	CHF	20.0	35.0	50.0	30.0	32.0	-2.9%

<b>Valuation (CHF)</b>		<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>	
P/E (reported)	x	23.1	20.5	12.1	13.6	12.6	
P/E (adjusted)	x	24.0	20.0	14.5	13.7	12.7	
P/Cash flow	x	14.1	11.7	9.7	9.0	8.8	
P/Op. cash flow	x	18.5	14.5	10.0	9.0	9.0	
P/Book (reported)	x	6.6	5.2	4.6	4.5	3.6	
P/Book (adjusted)	x	7.1	5.5	4.5	4.1	3.1	
Dividend yield	%	1.5	2.6	4.5	2.6	2.8	
EV/Revenues	x	2.7	2.3	1.7	1.6	1.4	
EV/EBITDA	x	13.2	11.0	7.9	7.5	6.7	
EV/EBIT	x	16.5	14.4	8.6	9.5	8.6	

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## Vontobel Research

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	No.	As %	As %
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Hold	104	62	18
Reduce	16	10	6

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