SGS
Switzerland \ Testing and Services

New coverage

NR *(Prev. n.a.)*

Target: 1265 CHF *(Prev. n.a.)*

Risk: High

STOCK DATA		
Price CHF		1190
Bloomberg Code		SGSN VX
Market Cap. (bn)		8164
Free Float		50%
Shares Out. (mn)		7822
52-week range	Min.883	Max 1607
Daily volume (/000)		22

PERFORMANCE	1M	3M	12M
Absolute	5.3	9.6	-10.3
Rel. To SXXP Index	13.7	27.4	30.9

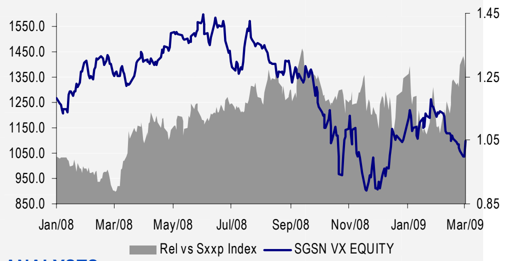
MAIN METRICS	2008	2009E	2010E
Revenues (mn)	4,818	4,678	4,796
EBITDA (mn)	1,024	978	1,036
Net Income (mn)	579	543	579
Adj. EPS	90.72	70.93	75.55
DPS	50.00	55.00	60.50

MULTIPLES	2008	2009E	2010E
PE	12.1 x	16.8 x	15.8 x
EV/EBITDA	8.4 x	9.2 x	8.6 x

REMUNERATION	2008	2009E	2010E
Dividend Yield	4.5%	4.6%	5.1%
FCF Yield	6.5%	6.1%	6.0%

INDEBTNESS	2008	2009E	2010E
NFP	-86	-206	-279
Net Debt/EBITDA	-0.1 x	-0.2 x	-0.3 x
Interests cov.	54.0 x	43.4 x	53.4 x

PRICE ORD. LAST 365 DAYS



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17 March 2009 # 26

EQUITA SIM SpA

TESTING THE DOWNTURN

We initiate the coverage of SGS with NR rating, since we believe: (i) momentum remain poor as clients reduce CAPEX (ii) valuation shows the stock is fairly valued. SGS could continue to out-perform a difficult market (+23% relative to European market last 12 months) due to: (i) net cash position (ii) circa 70% of business is unrelated to customers business volumes. Exor (BUY- see Italian research short note n.74 - 4th March 2009) owns a 15% stake in SGS.

SGS is the world's leading inspection, verification, testing and certification company; the Swiss Group employs over 55,000 people and operate a network of more than 1,000 offices and laboratories around the world. The business is focused on supplying services, on quality improvement and productivity, reducing risk, verifying compliance and increasing speed to market.

SGS could over-perform its peers (Bureau Veritas and Intertek) even in a severe downturn, despite similar exposure to cyclical activities in terms of percentage of EBIT. End-customer risk seems to be more favourable for SGS, since oil major have a less volatile earning profile over the cycle than shipping or construction companies. Operational deceleration seems to be inevitable, but SGS earning trend should stay stronger than average, despite imploding commodity market and highly challenged retail environment. Management expects organic growth in almost all the divisions for 2009; nonetheless, its net cash position, should create also interesting consolidation opportunities.

Inspection and testing business should be less impacted than in the previous downturns, since most of the business, especially in the commodity sector, has moved into outsourced and analytical works which has greater visibility; nonetheless consumer testing is continuing to be buoyed by the "toys testing" phenomenon and textile market, with less exposure to the pre-shipment inspection (highly dependant on volumes and value of transported goods). SGS is focused to help producers comply with the regulatory requirements governing their products as well as to ensure the integrity of the inputs received from their suppliers; the segment is mainly driven by changes in legislation.

Structural drivers leave still attractive potential growth: expected growth for the mid-long term could be achieved by the already cited increasingly strict regulation (in particular for the toys industry and container scanning); the increase in outsourcing, leading by the privatisation of inspection functions. Last, but not list, we believe that sector growth should be boosted also by the growing quality and safety concerns, as well as, by many sustainable development trends like Biofuel and carbon emissions. Excluding the structural industry driver, SGS business could be boosted by a lot of recurring business activities linked to regulation; SGS support is very important to help customers to find the minimum quality and safety standards.

Our assumptions for 2009 imply an organic growth rate of -2.8% for this year and +2.5% for 2010, not an aggressive assumption, considering the 15.3% reached in 2008 and the 2000-08 CAGR of 9.3%; business deterioration includes: (i) the portion of revenues CAPEX-RELATED; (ii) the exposure to the trade-flows (iii) order cancellation risk related long term contracts which should be renegotiated (especially for Industrial). On this number the stock is trading at 16.2 P/E 09 (adjusted for cash) and 9.2x EV/EBITDA. Our fair value of 1265 is based on DCF and COMPS.

MAIN FIGURES € mn	2006	2007	2008	2009E	2010E	2011E
Revenues	**3,821**	**4,372**	**4,818**	**4,678**	**4,796**	**5,065**
Growth	nm	14%	10%	-3%	3%	6%
Ebitda	**777**	**908**	**1,024**	**978**	**1,036**	**1,121**
Growth	nm	17%	13%	-5%	6%	8%
Ebit	**605**	**711**	**810**	**749**	**795**	**867**
Growth	nm	18%	14%	-7%	6%	9%
Profit before tax	**604**	**713**	**806**	**739**	**788**	**864**
Growth	nm	18%	13%	-8%	7%	10%
Net income Adjusted (*)	**431**	**521**	**579**	**543**	**579**	**635**
Growth	nm	21%	11%	-6%	7%	10%
MARGIN	**2006**	**2007**	**2008**	**2009E**	**2010E**	**2011E**
Ebitda margin	20.3%	20.8%	21.3%	20.9%	21.6%	22.1%
Ebit Margin	15.8%	16.3%	16.8%	16.0%	16.6%	17.1%
Profit before tax Margin	15.8%	16.3%	16.7%	15.8%	16.4%	17.1%
Net income Margin	11.3%	11.9%	12.0%	11.6%	12.1%	12.5%
SHARE DATA	**2006**	**2007**	**2008**	**2009E**	**2010E**	**2011E**
Eps - € Adjusted	57.89	64.88	90.72	70.93	75.55	82.88
Growth	nm	12.1%	39.8%	-21.8%	6.5%	9.7%
Dps ord - €	20.00	35.00	50.00	55.00	60.50	66.55
Bvps - €	206.53	258.13	243.11	262.22	280.66	300.71
VARIOUS	**2006**	**2007**	**2008**	**2009E**	**2010E**	**2011E**
Capital Employed	1,353	1,676	1,739	1,743	1,787	1,860
Fcf	304	421	548	549	542	565
Capex	-248	-285	-290	-281	-288	-304
Working Capital	-31	12	-22	26	-22	-50
INDEBTNESS	**2006**	**2007**	**2008**	**2009E**	**2010E**	**2011E**
Net Debt	-28	-265	-86	-206	-279	-333
D/E	0.13	0.08	0.27	0.10	0.10	0.09
Net Debt/Ebitda	0.0 x	-0.3 x	-0.1 x	-0.2 x	-0.3 x	-0.3 x
Interests cov.	46.5 x	71.1 x	54.0 x	43.4 x	53.4 x	85.4 x
MARKET RATIOS	**2006**	**2007**	**2008**	**2009E**	**2010E**	**2011E**
P/E	23.1 x	16.8 x	12.1 x	16.8 x	15.8 x	14.4 x
P/E Adjusted	23.1 x	16.8 x	12.1 x	16.2 x	15.1 x	13.7 x
P/Bv	6.5 x	4.2 x	4.5 x	4.5 x	4.2 x	4.0 x
P/Sales	2.68 x	1.93 x	1.74 x	1.93 x	1.88 x	1.78 x
P/FCf	33.7 x	20.0 x	15.3 x	16.4 x	16.7 x	16.0 x
EV FIGURES	**2006**	**2007**	**2008**	**2009E**	**2010E**	**2011E**
EV/Sales	2.72 x	1.89 x	1.73 x	1.92 x	1.86 x	1.74 x
EV/Ebitda	13.38 x	9.11 x	8.12 x	9.18 x	8.61 x	7.86 x
EV/Ebit	17.19 x	11.63 x	10.26 x	11.98 x	11.22 x	10.16 x
EV/NOPAT	22.88 x	15.48 x	13.41 x	15.65 x	14.66 x	13.28 x
EV/Ce	6.78 x	5.16 x	4.97 x	5.30 x	5.12 x	4.99 x
REMUNERATION	**2006**	**2007**	**2008**	**2009E**	**2010E**	**2011E**
Div. yield	1.5%	3.2%	4.5%	4.6%	5.1%	5.6%
Fcf yield	3.0%	5.0%	6.5%	6.1%	6.0%	6.3%
Roe	28.6%	25.1%	35.8%	29.8%	29.7%	30.7%
Roce	33.6%	31.9%	35.6%	32.9%	34.0%	35.7%

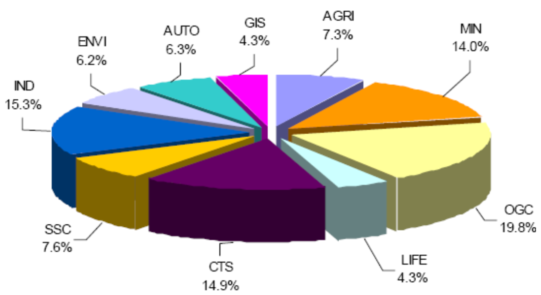
Source: EQUITA SIM estimates and company data

COMPANY DESCRIPTION

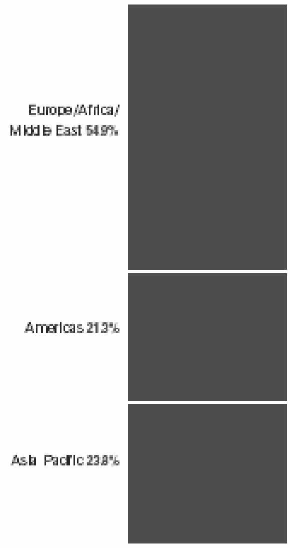
Established in 1878, SGS started by offering agricultural inspection services to grain traders in Europe. From those early beginnings, they grew in size and scope as their agricultural inspection services spread around the world. During the mid 20th century, SGS began to diversify and started offering 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 their beginnings in 1878 as a grain inspection house, they have steadily grown into the role as the industry leader. SGS has done this through continual improvement and innovation and through supporting their customers' operations by reducing risk and improving productivity.

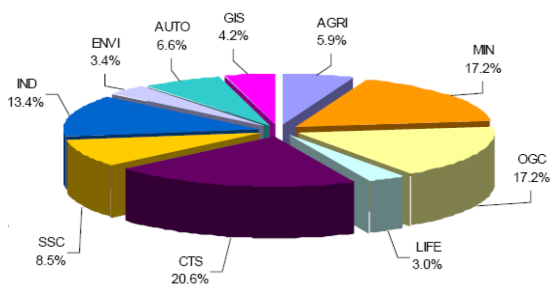
REVENUES BY SECTOR



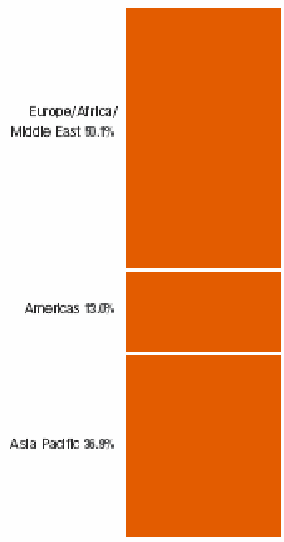
REVENUES BY REGION



OPERATING INCOME BY SECTOR



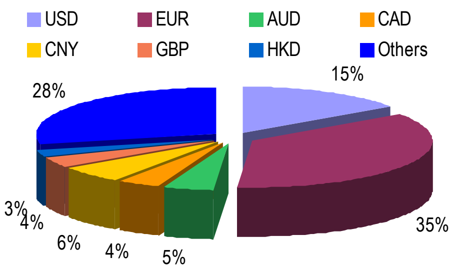
OPER. INCOME BY REGION



AGRI	*Agricultural*	*CTS*	*Consumer Testing*
MIN	*Minerals*	*SSC*	*Systems and Services certification*
OGC	*Oil Gas and Chemical*	*IND*	*Industrial*
LIFE	*Life Science*	*ENVI*	*Environmental*
AUTO	*Automotive*	*GIS*	*Governments and Institution*

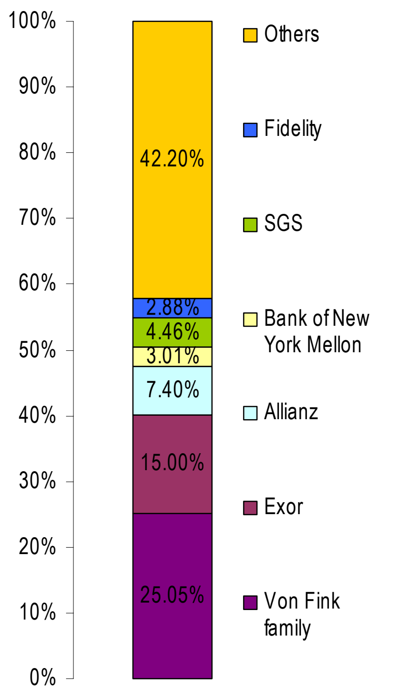
Source: SGS

CURRENCY SPLIT



Source: SGS

SHAREHOLDER STRUCTURE



Source: SGS

Considering the historical business structure, SGS is still recognised as a commodity and trade proxy, even if the company successfully diversified its service portfolio since the late 90s. SGS has benefited from the exceptional commodity cycle over the last few years (2003/08). The negative impact from the current downturn on the commodity division should be cushioned by (i) strong diversification as the group is present all along the supply chain of the industry through a wide range of services (ii) part of the business is supported by regulations (new environmental standards for fuel – for example) and by the increase in upstream and downstream trend of outsourcing within the oil and the mineral industry. Keep in mind that only 10% of group sales and EBIT is volume-related to commodities while another 10% is E&P project CAPEX driven.

OPERATIONAL ASSUMPTIONS BY DIVISION

Agricultural Services

In the agricultural business, SGS helps 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, their services reduce risk and ensure quality and improve productivity.

Outlook

- Markets conditions expected to remain volatile in 2009, since prices and logistics costs remain low relative to 2008 and export and trade financing condition remain uncertain
- Seed, soil testing, crop development and precision farming services expansion remains the focus for 2009
- Food safety and supply chain services to be integrated with CTS and SSC offering a single customer window for all food related services.

AGRICULTURAL SERVICE ASSUMPTIONS

	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
Revenues	**336**	**357**	**358.3**	**340**	**347**	**364**	**386**	**398**
% Change yoy	*NA*	*6%*	*0.4%*	*-5%*	*2%*	*5%*	*6%*	*3%*
% Change Organic	***NA***	***4%***	***8.3%***	***-5%***	***2%***	***5%***	***6%***	***3%***
% Change Acquisitions	*NA*	*-1%*	*-2.4%*	*0%*	*0%*	*0%*	*0%*	*0%*
% Change FX	*NA*	*3%*	*-5.4%*	*-0.04%*	*0%*	*0%*	*0%*	*0%*

Source: EQUITA SIM estimates & company data

Minerals Services (Min)

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

Outlook

- More metals markets are expected to be weak through 1H due to the decrease demand and inventory de-stocking; in particular the ferrous market should be very weak, whilst Energy minerals and coal to be less impacted.
- Geochemistry lab performance stable unless market deteriorate further; mineralogy testing market outlook is uncertain, as mining sector sector re-trenches.

MINERAL SERVICE ASSUMPTIONS								
	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
Revenues	**467**	**560**	**662.9**	**629**	**642**	**680**	**753**	**829**
% Change yoy	*NA*	*20%*	*18.4%*	*-5%*	*2%*	*6%*	*11%*	*10%*
% Change Organic	***NA***	***17%***	***25.3%***	***-5%***	***2%***	***6%***	***11%***	***10%***
% Change Acquisitions	*NA*	*1%*	*1.3%*	*0%*	*0%*	*0%*	*0%*	*0%*
% Change FX	*NA*	*2%*	*-8.2%*	*-0.1%*	*0%*	*0%*	*0%*	*0%*

Source: EQUITA SIM estimates & company data

Oil, Gas & Chemicals Services

SGS helps our customers protect and secure their businesses by delivering independent and accurate information through its global network of laboratories and experts. From exploration and production through midstream to consumption, SGS provides 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 its customers.

Outlook

- Current market conditions should remain stable unless recession accelerates; Chemical markets remain under pressure, Gasoline and heating oil markets are substantially stable.
- Opportunistic outlook for consolidation of smaller service providers.

OIL, GAS AND CHEMICAL ASSUMPTIONS								
	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
Revenues	**783**	**891**	**954**	**810**	**793**	**809**	**891**	**945**
% Change yoy	*NA*	*14%*	*7%*	*-15%*	*-2%*	*2%*	*10%*	*6%*
% Change Organic	***NA***	***12%***	***11%***	***-15%***	***-2%***	***2%***	***10%***	***6%***
% Change Acquisitions	*NA*	*1%*	*4%*	*0%*	*0%*	*0%*	*0%*	*0%*
% Change FX	*NA*	*1%*	*-7%*	*-0.1%*	*0%*	*0%*	*0%*	*0%*

Source: EQUITA SIM estimates & company data

Life Science Services

SGS customers in the pharmaceutical and biopharmaceutical industry rely on the Swiss company 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 commercialisation of the finished product. SGS Clinical Trials services and Quality Control testing activities help improve efficiency, reduce costs and ensure the safety of pharmaceutical products.

Outlook

- Quality control services market more resilient in current economic conditions due to regulatory under-pinning
- Clinical research market will remain dependant upon studies awarded-H2 2008 performance held up well
- Asian labs to continue to benefit from increasing capacity utilization
- Laboratory capacity expansion in North America to become operational by end H1
- Cautiously optimistic about M&A environment as smaller providers struggle in difficult financing conditions

LIFE SCIENCE SERVICE ASSUMPTIONS								
	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
Revenues	**187**	**200**	**204**	**210**	**223**	**243**	**263**	**276**
% Change yoy	*NA*	*7%*	*2%*	*3%*	*6%*	*9%*	*8%*	*5%*
% Change Organic	***NA***	***4%***	***9%***	***3%***	***6%***	***9%***	***8%***	***5%***
% Change Acquisitions	*NA*	*0%*	*-2%*	*0%*	*0%*	*0%*	*0%*	*0%*
% Change FX	*NA*	*3%*	*-4%*	*-0.02%*	*0%*	*0%*	*0%*	*0%*

Source: EQUITA SIM estimates & company data

Consumer Testing Services

From textiles to appliances, furniture, food and electronics, their complete range of services ensure the quality and safety of every single kind of consumer product. SGS customers in these distinct manufacturing industries rely on their 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.

Outlook

- Consumer goods and retail markets to remain under pressure through, at least, H1: (i) Supplier base is contracting in emerging markets pressuring factory audit business
- Regulatory trends are expected to tighten despite weakened markets following market recall events in 2007/8: (i) REACH adoption progresses slowly (ii)“green” initiatives to accelerate due to government stimulus
- Capital consumption will reduce. Opportunities for sector consolidation of smaller service providers

CONSUMER TESTING SERVICES ASSUMPTIONS								
	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
Revenues	**580**	**655**	**734**	**777**	**810**	**875**	**943**	**988**
% Change yoy	*NA*	*13%*	*12%*	*6%*	*4%*	*8%*	*8%*	*5%*
% Change Organic	***NA***	***10%***	***16%***	***6%***	***4%***	***8%***	***8%***	***5%***
% Change Acquisitions	*NA*	*2%*	*3%*	*0%*	*0%*	*0%*	*0%*	*0%*
% Change FX	*NA*	*1%*	*-7%*	*-0.09%*	*0%*	*0%*	*0%*	*0%*

Source: EQUITA SIM estimates & company data

Systems & Services Certification

High performing business processes are at the heart of today’s economy. The audit and certification services SGS provides to a wide variety of customers allow them to enhance their business processes and get out in front of the issues affecting them. With their services they can deliver extra value, improve quality management and performance, minimise risk and gain a real advantage over the competition.

Outlook

- Market share gains will be the primary driver of performance in a more difficult environment
- Business transition to customized audit solutions and industry specific standards continues
- Multi-national client and strategic sector focus retained. New sectors to be added•Productivity and standardization initiatives to continue in order to offset pricing pressure
- ‘Sustainable’solutions gaining recognition
- Sub-contractor labour cost inflation to stabilize

SYSTEMS AND SERVICES CERTIFICATION ASSUMPTIONS								
	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
Revenues	**319**	**354**	**366**	**380**	**395**	**427**	**461**	**484**
% Change yoy	*NA*	*11%*	*3%*	*4%*	*4%*	*8%*	*8%*	*5%*
% Change Organic	*NA*	*9%*	*9%*	***4%***	***4%***	***8%***	***8%***	***5%***
% Change Acquisitions	*NA*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
% Change FX	*NA*	*2%*	*-6%*	*-0.05%*	*0%*	*0%*	*0%*	*0%*

Source: EQUITA SIM estimates & company data

Industrial Services

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 goal is to help to improve integrity, quality and efficiency, ensure safe and healthy working conditions as well as to minimise the environmental impact of industrial activities.

Outlook

- Weakness in the European construction and infrastructure markets will remain without government stimulus (IND has no material position in this market outside Europe)
- Oil, gas and power generation sectors largely resilient in current economic conditions
- Service line and geographic expansion plans continue due to their capital intensity profile
- Full year benefit from 2008 acquisitions
- Cautiously optimistic about 2009 M&A environment

INDUSTRIAL SERVICES ASSUMPTIONS								
	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
Revenues	**511**	**625**	**739**	**701**	**722**	**744**	**833**	**916**
% Change yoy	*NA*	*22%*	*18%*	*-5%*	*3%*	*3%*	*12%*	*10%*
% Change Organic	***NA***	***16%***	***16%***	***-5%***	***3%***	***3%***	***12%***	***10%***
% Change Acquisitions	*NA*	*3%*	*8%*	*0%*	*0%*	*0%*	*0%*	*0%*
% Change FX	*NA*	*3%*	*-6%*	*-0.1%*	*0%*	*0%*	*0%*	*0%*

Source: EQUITA SIM estimates & company data

Environmental Services

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 a global and local level.

Outlook

- Revenue base is largely regulatory driven providing a measure of resilience
- Brown field re-development market is expected to be weak due difficulties in the construction sector
- Capacity expansions in South America and Europe to ramp up progressively over the year
- Greenhouse gas and climate change activities to continue to expand to achieve No 1 status

ENVIRONMENTAL SERVICES ASSUMPTIONS	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
Revenues	**249**	**281**	**296**	**308**	**324**	**336**	**363**	**389**
% Change yoy	*NA*	*13%*	*5%*	*4%*	*5%*	*4%*	*8%*	*7%*
% Change Organic	***NA***	***14%***	***10%***	***4%***	***5%***	***4%***	***8%***	***7%***
% Change Acquisitions	*NA*	*-5%*	*1%*	*0%*	*0%*	*0%*	*0%*	*0%*
% Change FX	*NA*	*3%*	*-5%*	*-0.04%*	*0%*	*0%*	*0%*	*0%*

Source: EQUITA SIM estimates & company data

Automotive Services

SGS provide expert support for every participant in the automotive industry to improve performance and reduce risk. Their 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 their independent, accurate and secure solutions to limit damages, improve remarketing of used cars and support road safety.

Outlook

- Difficult market conditions in the commercial automotive markets to continue. Restructuring plans in place
- Statutory volumes to remain largely stable due to compulsory nature of service
- Moroccan concession to accelerate contract ramp up as site delays are overcome. Continued cooperation with the government
- Massachusetts and New Jersey JV contracts to come on stream in 2009

AUTOMOTIVE SERVICES ASSUMPTIONS	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
Revenues	**220**	**249**	**293**	**301**	**310**	**333**	**365**	**385**
% Change yoy	*NA*	*13%*	*18%*	*3%*	*3%*	*7%*	*10%*	*5%*
% Change Organic	***NA***	***10%***	***22%***	***3%***	***3%***	***7%***	***10%***	***5%***
% Change Acquisitions	*NA*	*2%*	*1%*	*0%*	*0%*	*0%*	*0%*	*0%*
% Change FX	*NA*	*1%*	*-6%*	*-0.04%*	*0%*	*0%*	*0%*	*0%*

Source: EQUITA SIM estimates & company data

Governments & Institutions Services

SGS support governments, institutions and partner organisations by applying valuable 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. Their commitment is to sustain enforcement of regulations, economic growth, market visibility and accountability for their customers.

Outlook

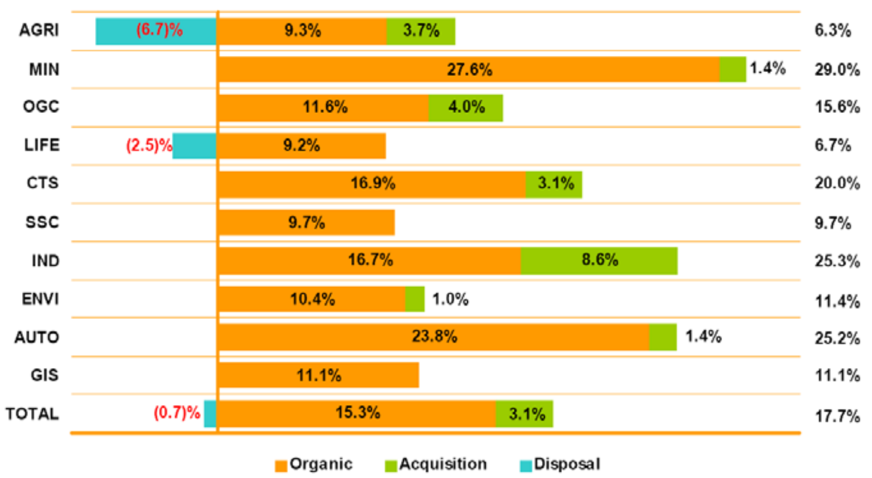
- No material contracts are due for termination in 2009
- Scanner business remain stable with new mandates in Bangladesh and Mauritania operational in the 2H
- Further market share gains in product conformity programs
- Contract share gains won in Bangladesh and Angola to be preserved

GOVERNEMENTS & INSTITUTION SERVICE SECTOR								
	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
Revenues	**169**	**200**	**212**	**221**	**229**	**253**	**287**	**307**
% Change yoy	*NA*	*18%*	*6%*	*3%*	*3%*	*3%*	*3%*	*3%*
% Change Organic	***NA***	***20%***	***11%***	***3%***	***3%***	***3%***	***3%***	***3%***
% Change Acquisitions	*NA*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
% Change FX	*NA*	*-2%*	*-5%*	*-0.03%*	*0%*	*0%*	*0%*	*0%*

Source: EQUITA SIM estimates & company data

After we spoke with the company, last February in Genève, we believe that SGS could really face the downturn without material impacts on the top-line; the company told us most of contraction we can see in the organic business growth (from double digit to mid single digit), is not only linked to a slowdown in demand but also to the attention the company wants to put on the quality of customers (avoiding issues related to bad-receivable).

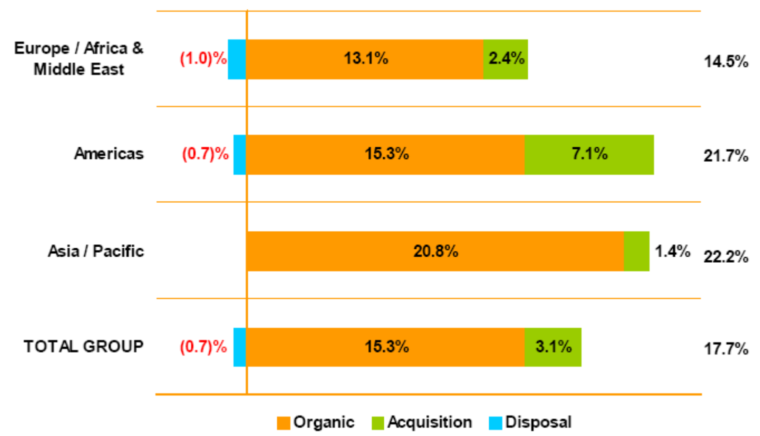
2008 ACTUAL LOCAL CURRENCY GROWTH BY BUSINESS



Source: SGS

Our assumptions for 2009 imply an organic growth rate of -2.8% for this year and +2.5% for 2010, not aggressive assumptions, considering the 15.3% reached in 2008 and the 2000-08 CAGR of 9.3%; business deterioration includes: (i) the portion of revenues CAPEX-RELATED; (ii) the exposure to the trade-flows (iii) order cancellation risk related to long term contracts which should be renegotiated (especially for Industrial); in terms of margins, the company seems to be well positioned to avoid a material dilution, even with a strong slow down in terms of top line growth rate; we expect SGS to reach 16% operating margin in 2009 (16.8% in 2008) and 16.6% in 2010.

2008 ACTUAL REVENUES GROWTH BY REGION



Source: SGS

EQUITA ASSUMPTIONS VS AVERAGE CONSENSUS						
	EQUITA SIM		Consensus		EQUITA / Consensus	
	2009	2010	2009	2010	2009	2010
Sales	*4678*	*4796*	5003	5267	-6%	-9%
EBITDA	978	1036	1041	1087	-6%	-5%
margin	**20.9%**	**21.6%**	**20.8%**	**20.6%**		
EBIT	749	795	840	898	-11%	-11%
margin	**16.0%**	**16.6%**	**16.8%**	**17.0%**		
Net Income	543	579	587	610	-7%	-5%
EPS	70.9	75.5	78.9	82.724	-10%	-9%

Source: EQUITA SIM & Bloomberg

COMMODITY-RELATED DIVISION: LIMITED RISK FROM RAW MATERIAL PRICE VOLATILITY, RISK ON CAPEX CUTS STILL HIGH

Organic growth was particularly strong since 2003, driven by rising oil price and expanding production capacity in Asia and Middle east; the increase in exploration activity, boosted new demand in testing and inspection; nonetheless, the trend was accelerated by the increase in outsourcing activities.
On this basis, the market considered SGS and its peers like commodities proxies, but we believe there are a couple of things we mustn't forget:

1. SGS's activity is present all along the supply chain of the industry thanks to its diversified service offer.
2. Part of SGS business is supported by change in regulation (new environmental standards regarding fuel) and also by the increase in upstream and downstream trends of outsourcing between oil and mineral industry.

SGS underlined many times that direct impact of commodity price decline should be rather limited since revenues did not depend on the value of the shipment; in fact, **circa 30-40% of total commodity related activity depend on volumes**; **60-70% is related to testing and long term outsourcing activities** (3-7 years contracts) which are less tied to the number of products shipped, but are more dependent on long term exploration decision; this is the reason why we believe that the first thing of concern is the likely significant cuts in CAPEX in the energy/mining and chemical sectors.

At this stage, the company underlined during the meeting, they do not see the end of the expansion phase for this business, and they still expect a solid growth in 2009, help by the non-capex related business and the solid backlog.

CONSUMER TESTING: STILL STRONG SUPPORT FROM REGULATION

Consumer-testing business accounts circa 22% of SGS revenues and the major three players (Bureau Veritas, Intertek and SGS) represent all together 30% of global market share (equally split) in the toys sub-segment, but they have a material position also in textile testing, as well as electrical and electronic products control.

The growth rate in consumer-testing business (double-digit in the past years) should slightly decelerate moving through this year, but remaining in the mid/high single digit level, boosted by a lot of repeatable business which is indeed not enough to provide material visibility, since most of repeatable business is off set by the portion done on a spot basis. Apart from the global trade activity, the segment's key drivers are:

- New regulations/laws – on this point we want to remind that US "*Consumer Product Safety Improvement Act"* strengthened testing requirements for soft-line products, especially for toys; the EU Directive "REACH" (*Registration, Evaluation and Authorization of chemicals*) aims to protect European consumers from excessive use of any harmful substances in product sold in EU and related to different sectors like chemicals, petroleum, textiles, toys etc, etc.

- Increase in consumer awareness of quality/safety issues: in a downturn, manufacturers and retailers require a greater level of testing in order to protect their brands, avoiding recall of unsafe products, which is costly, especially in terms of reputation.

Keep also in mind that in the past downturn (1990-92 and 2001-2003) the consumer testing business remained strong with and average growth rate in the mid double digit range.

Analysing the mix, the pure testing activity, based on prototypes, is predominant and accounts more than 70% of SGS divisional sales; the remaining 30% is related to the inspection business, which is more cyclical and more dependant by volumes: this activity is named “shipment control” testing.

In reality, volumes are not the only driver for the business and the correlation between testing business demand and economic downturn is not so obvious:

- First of all, keep in mind that fear on Chinese export decline could be less justified the slow-down in the Chinese export could be partially offset by an increase in internal demand (the major player are expecting around 9% growth in 2009) which is increasing fast, thanks to the increase in safety and quality requirements.
- While final product sales volumes are the key for the inspection business, the bulk of the business, generally speaking, is prototype testing, for which the key driver is the range and the complexity of products. In case a company is testing a new cellular phone, for example, its revenues streams do not depend on the future expected unit sold when the product will be launched; therefore, as long as the range of products increase for each single brand and the average life for a single product become shorter, demand for testing activity will remain strong.

VALUATION

DCF ASSUMPTIONS

Enterprise Value	**9,445**	Risk free rate	4.0%
Net Debt	-206	Risk premium	4.5%
Treasury shares	284	Beta	1.1
Minorities	380	Kd	5.0%
Equity	9555	cost of Debt (net of tax)	3.8%
Share - out	7.5830	cost of Equity	9.0%
Per share	**1260.1**	**WACC**	**8.4%**
Capital structure assumptions		**LT growth**	**2.0%**
DebtEquity	10%		
Equity	90%		

Source: EQUITA SIM estimates

SENSITIVITY

		WACC		
		7.9%	8.4%	8.9%
GROWTH RATE	2.0%	1371.0	**1260.0**	1165.2
	1.5%	1286.1	1189.0	1105.2
	0.0%	1213.4	1127.5	1052.7

Source: EQUITA SIM estimates

SENSITIVITY

		WACC		
		7.9%	8.4%	8.9%
Terminal Ebit margin	17.5%	1508.3	1383.7	1277.4
	16.5%	1439.6	1321.9	1221.3
	15.5%	1371.0	**1260.0**	1165.2
	14.5%	1302.4	1198.2	1109.1
	13.5%	1233.7	1136.3	1053.0

Source: EQUITA SIM estimates

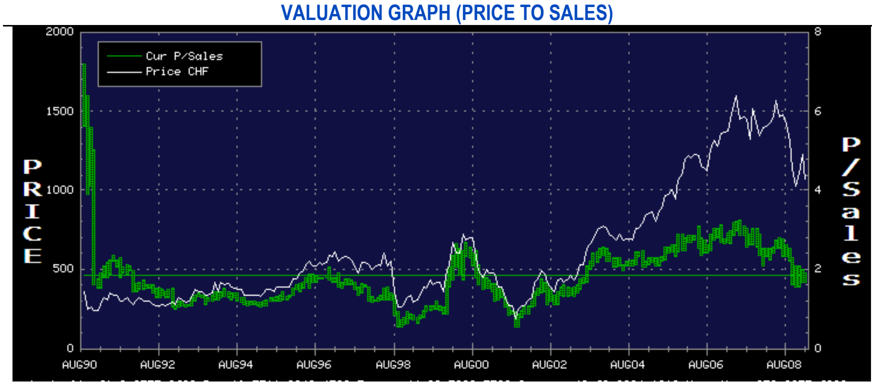
COMPS VALUATION							
	EV/SALES		EV/EBITDA		P/E		Net debt/
	2009	2010	2009	2010	2009	2010	EBITDA
Interteck	1.4	1.3	7.5	7.1	12.3	11.7	1.1
Bureau Veritas	2.4	2.3	14.0	13.6	11.1	10.2	2.0
AVERAGE	**1.9**	**1.8**	**10.7**	**10.3**	**11.7**	**11.0**	**1.5**
MEDIAN	**1.9**	**1.8**	**10.7**	**10.3**	**11.7**	**11.0**	**1.5**
SGS	1.92	1.86	9.2	8.6	16.2	15.1	-0.2
DISCOUNT/PREMIUM	3.6%	6.6%	-11.9%	-14.0%	38.7%	37.8%	
SGS CURRENT PRICE	1,190						
DISCOUNT/PREMIUM	8.3%						

Source: EQUITA SIM estimates and Bloomberg Consensus

COMPS VALUATION				
	EBITDA mrg		ROCE	
	2009	2010	2009	2010
Interteck	19.1%	19.0%	27.2%	26.3%
Bureau Veritas	17.1%	16.6%	23.3%	24.5%
AVERAGE	**18.1%**	**17.8%**	**25.3%**	**25.4%**
MEDIAN	**18.1%**	**17.8%**	**25.3%**	**25.4%**
SGS	20.9%	21.6%	32.9%	34.0%
(DISCOUNT)/PREMIUM	15.6%	21.4%	30.3%	34.0%
Average return premium	*25%*			
Average Valuation premium	*8%*			
Applied premium for higher return and lower leveraging	**15.0%**			
Current price	1,190			
Target price	***1269.9***			

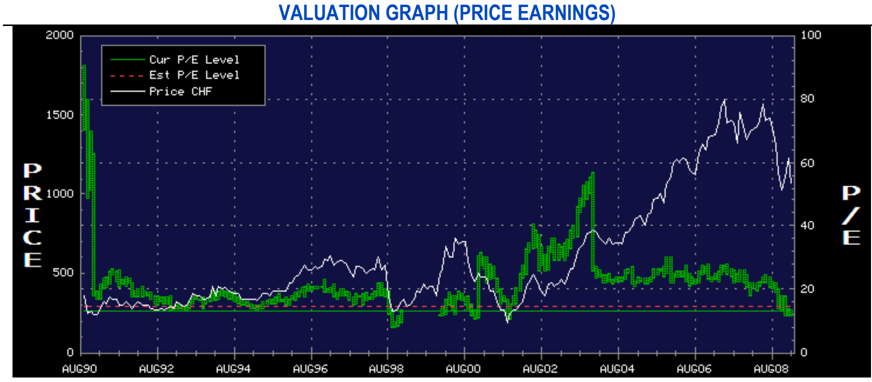
Source: EQUITA SIM estimates and Bloomberg Consensus

VALUATION GRAPH (PRICE TO SALES)



Source: Bloomberg

VALUATION GRAPH (PRICE EARNINGS)



Source: Bloomberg

YTD PERFORMANCE

Source: Bloomberg

INFORMATION PURSUANT TO ARTICLE 69 ET SEQ. OF CONSOB (Italian securities & exchange commission) REGULATION no. 11971/1999

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Recommendation/Rating	
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SELL	ETR <= 20%
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Date	Rec.	Target Price (€)	Risk	Comment

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BUY	11	0
SELL	7	0