

## Bureau Veritas SA

## CORE HOLDING\*

Recommended since 20.04.15

22.03.2024



Country FR	Market capitalization (bn) EUR 12.8	Perf. since reco. (%)
Sector Industrial Goods & Services	Free float 64.3%	Bureau Veritas SA 34.8
Factset BVI-FR	Closing price EUR 27.93	Sector 77.7
ISIN FR0006174348	ESG Risk score* 9.1 Negligible risk	

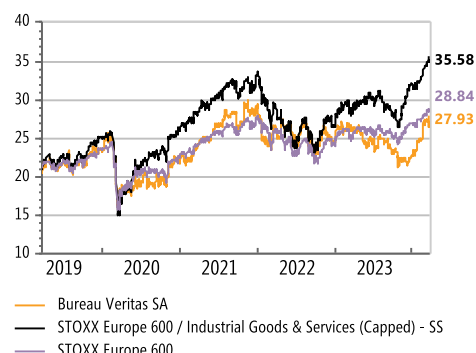
\*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

## Profile

Established in 1828, Bureau Veritas (BV) is the world number two in testing, inspection and certification (TIC). The group has more than 82,000 employees in c. 1,600 offices and laboratories spread across 140 countries.

## Market - competition - positions - barriers to entry

The TIC market is global and represents 169 billion €/year in 2022 according to Roland Berger. It aims to ensure that assets, products or processes comply with standards and regulations relating to quality, health or the environment. Its average growth is higher than the world GDP (constant increase of standards, localization, digitalization of the economy); the barriers are high: accreditations, network density, integrity and brand image. The three leaders (SGS, BV, Intertek) hold ~11% of the market.



Source: Factset

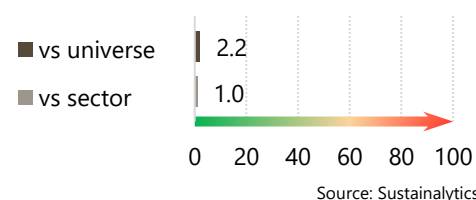
## Investment case

- The post-Covid period saw a return to high levels of organic growth for the TIC sector and BV in particular, as well as, in the case of BV, a marked improvement in cash generation from operating activities, confirming the strategy put in place by ex-CEO Mr. Michaud-Daniel and targeting clearly identified megatrends.
- The Capital Market Day in March 2023, which we attended, enabled the new CEO, Ms Gharbi, to deliver a clear vision and a convincing strategy to 2028. Looking beyond existing megatrends (digitization, reconfiguration of supply chains, urbanization) BV has thoroughly analyzed its competitive positions and end markets, especially "Building & Infrastructures" and "Sustainability". It will focus its growth on the most attractive segments, concentrating on remaining or joining the world's Top 3, and optimizing the value of the rest of its portfolio. In particular, this will mean stepping up M&A activity. The plan will be carried out with a view to improving operating performance and maintaining a high level of cash generation, necessary for an attractive shareholder policy (targeted payout ratio of 65% of adjusted EPS).
- Overall, we estimate that this strategic plan (LEAP2028) should result in average annual growth of 8-9% excluding currency effects, of which approx. 2/3 organic and 1/3 through acquisitions, and an improvement of approx. 90 bp in adjusted operating margin, resulting in annual EPS growth of approx. 10%. Cash generation after investments of 2.5-3.0% of sales will enable to self-finance acquisitions net of divestments, and to cover a steadily rising dividend, while maintaining net debt/Ebitda leverage at less than 2x - a guarantee of security - at all times over the duration of the plan.

## ESG - risks and key points

- Bureau Veritas presents negligible risk with regard to environmental, social and governance factors. This is the result of an average exposure to these risks and a management approach to these issues that is considered to be robust.
- The main risk is an ethical and reputational risk, inherent in the company's certification business.
- Data security comes next, for which the Group has a management and control system deemed adequate.

## ESG risk vs. universe &amp; sector (percentile)\*



Source: Sustainalytics

## Valuation\*\* in EUR

Current price	Value Bordier Scenario
27.9	31.2

Our fundamental valuation takes into account European long rates at 2.5%, the growth and operating margin trajectory described above, and an acceleration in the flow of recurring acquisitions to c. 2-3% of annual sales by 2026.

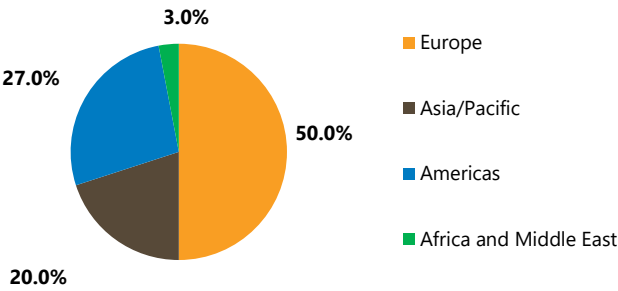
\*\* The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of EUR	2021	2022	2023	2024e	2025e
Sales revenue	4 981	5 651	5 868	6 337	6 876
Sales growth %	8.3%	13.4%	3.8%	8.0%	8.5%
o/w organic	9.4%	7.8%	8.5%	6.5%	6.0%
EBIT adjusted	726	903	930	1014	1114
% of sales	14.6%	16.0%	15.8%	16.0%	16.2%
Net income	421	467	504	611	686
Adjusted EPS	0.94	1.19	1.27	1.51	1.67
Adjusted EPS growth	203.9%	26.1%	7.3%	18.6%	11.0%
Free cash-flow	546	583	551	693	671
FCF/Sales	11.0%	10.3%	9.4%	10.9%	9.8%
Dividend per share	0.53	0.77	0.83	0.95	1.05
Dividend yield	1.9%	2.8%	3.0%	3.4%	3.8%
ROCE - WACC	6.7%	9.5%	10.0%	11.6%	13.0%
ROE (%)	26.0%	28.8%	29.7%	31.4%	31.2%
Net debt/Ebitda	147.5%	118.3%	111.7%	74.3%	52.2%

Source: Factset, Bordier estimates

Sales breakdown - 12/2022



Governance and ownership structure

Since 22.06.2023: CEO Mrs. Hinda Gharbi.

Key shareholders (if any):

Wendel holds 35.4% of the capital and 51.7% of the voting rights, and has no longer had a lock on the capital since March 2016.

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

BV says it has put mechanisms in place to prevent undue control of the company. Seven of its 12 directors are independent.

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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