

# CHINA EXTERNAL GROWTH

Neil Rogers – Vice President – CORPORATE DEVELOPMENT

Investor Days, 25-26 October 2017

WHEN YOU NEED TO BE SURE





- Primarily focus on acquiring access to selected sectors in China to penetrate the domestic market
- Strategic considerations: licenses, accreditations, sector potential, feasibility of integration, sustainability
- Acquisition is not risk free
  - Business environment
  - Local practices versus international norms
  - Sustainability
- Acquisition is not the only way

- SGS is one of the most active international TIC companies in acquisition in China.
  - SGS tends to do less acquisitions in China proportionally
  - Most of the international players are not active in acquisitions
- Local business ethics are very relationship driven
- Local business practices may be challenging for MNCs
  - MNCs are more vulnerable
  - Multiple books to avoid tax
  - Facilitation payments
  - Health & Safety issues
  - Continuity of the important licenses and accreditations
  - Staff expectations

- Risk profiling
  - Be selective in sector
  - Financial and operations due diligence
  - Diversity
  - Manageable size
  - Integration
- Deal with successful foreign investing targets
  - Tend to be cleaner
  - Smaller gap against international practices
- JV incorporation with existing stakeholders
  - Government Institutions to be commercialized
  - Local influences and connections
  - Immediate access to the market
  - Management control

- EMC Laboratory specializing in IT and Automotive
- Taiwanese shareholders with headquarters in Taiwan with significant presence in China
- International management practices with local knowledge
- Perfect fit with the SGS China business portfolio in terms of sector and skill preferences
- Few issues in due diligence
- Integration much easier
- Performing above original projections

- JV partnership with the institution owned by Henan BQTS (government agency focusing on local product safety and quality)
- SGS being the major shareholder and manager of the JV
- The JV has the access to the unique accreditation for running fire safety related testing on construction materials and products in the Henan Province.
- The JV is the agent of the Henan BQTS in performing the fire safety surveillance on facilities and materials / products applied in the building and facilities
- The strong connection and recognition by the authorities will position the JV in the voluntary testing market giving stronger certainty and assurance to the clients

- Win Win Model
  - SGS gains immediate access to the market space
  - SGS replicates our product knowledges and lab practices without re-inventing them in the JV
  - Greater development for SGS staff
  - BQTS Institution can be commercialized efficiently in the TIC liberalization process
  - BQTS can offer to the community a more user friendly and convenient (combining mandatory and voluntary testing needs) solution
  
- Business model to be replicated in other provinces



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